

# COMPLIANCE AUDIT

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## Lansdale Borough Non-Uniformed Primary Union Pension Plan

Montgomery County, Pennsylvania  
For the Period  
January 1, 2015 to December 31, 2018

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December 2019



Commonwealth of Pennsylvania  
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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EUGENE A. DePASQUALE  
AUDITOR GENERAL

The Honorable Mayor and Borough Council  
Lansdale Borough  
Montgomery County  
Lansdale, PA 19446

We have conducted a compliance audit of the Lansdale Borough Non-Uniformed Primary Union Pension Plan for the period January 1, 2015 to December 31, 2018. We also evaluated compliance with some requirements subsequent to that period when possible. The audit was conducted pursuant to authority derived from Section 402(j) of Act 205 and in accordance with the standards applicable to performance audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform our audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our finding and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our finding and conclusions based on our audit objectives.

The objectives of the audit were:

1. To determine if municipal officials took appropriate corrective action to address the finding contained in our prior audit report; and
2. To determine if the pension plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies.

Our audit was limited to the areas related to the objectives identified above. To determine if municipal officials took appropriate corrective action to address the findings contained in our prior audit report, we inquired of plan officials and evaluated supporting documentation provided by officials evidencing that the suggested corrective action has been appropriately taken. To determine whether the pension plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies, our methodology included the following:

- We determined whether state aid was properly determined and deposited in accordance with Act 205 requirements by verifying the annual deposit date of state aid and determining whether deposits were made within 30 days of receipt for all years within the period under audit.

- We determined whether annual employer contributions were calculated and deposited in accordance with the plan's governing document and applicable laws and regulations by examining the municipality's calculation of the plan's annual financial requirements and minimum municipal obligation (MMO) and comparing these calculated amounts to amounts actually budgeted and deposited into the pension plan as evidenced by supporting documentation. Employer contributions that were deposited into the pension plan for the years ended December 31, 2013 to December 31, 2018, are presented on the Summary of Deposited State Aid and Employer Contributions.
- We determined whether annual employee contributions were calculated, deducted, and deposited into the pension plan in accordance with the plan's governing document and applicable laws and regulations by testing total members' contributions on an annual basis using the rates obtained from the plan's governing document in effect for all years within the period under audit and examining documents evidencing the deposit of these employee contributions into the pension plan. We also tested individual employee contributions for all 45 active employees employed during the audit period amounting to \$33,405, \$35,660, \$37,702, and \$43,251, for the years 2015, 2016, 2017, and 2018, respectively, made during the audit period.
- We determined whether retirement benefits calculated for the 5 plan members who terminated employment and/or retired and elected a lump-sum form of pension benefit during the current audit period, represent payments to all (and only) those entitled to receive them and were properly determined and disbursed in accordance with the plan's governing document, applicable laws and regulations by comparing the distributed amounts to supporting documentation evidencing amounts determined and actually paid to recipients.
- We determined whether the January 1, 2015 and January 1, 2017 actuarial valuation reports were prepared and submitted by March 31, 2016 and 2018, respectively, in accordance with Act 205 and whether selected information provided on these reports is accurate, complete, and in accordance with plan provisions to ensure compliance for participation in the state aid program by comparing selected information to supporting source documentation.
- We determined whether transfers were properly authorized, timely, and appropriately recorded by plan officials by examining supporting documentation for the 3 significant transfers made during the audit period.

Borough officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Lansdale Borough Non-Uniformed Primary Union Pension Plan is administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies. In conducting our audit, we obtained an understanding of the borough's internal controls as they relate to the borough's compliance

with those requirements and that we considered to be significant within the context of our audit objectives, and assessed whether those significant controls were properly designed and implemented. Additionally and as previously described, we tested transactions, assessed official actions, performed analytical procedures, and interviewed selected officials to provide reasonable assurance of detecting instances of noncompliance with legal and regulatory requirements or noncompliance with provisions of contracts, administrative procedures, and local ordinances and policies that are significant within the context of the audit objectives.

The results of our procedures indicated that, in all significant respects, the Lansdale Borough Non-Uniformed Primary Union Pension Plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies, except as noted in the following finding further discussed later in this report:

Finding – Partial Compliance With Prior Audit Recommendation –  
Incorrect Data On Certification Form AG 385 Resulting In A  
Net Overpayment Of State Aid

The finding contained in this audit report repeats a condition that was cited in our previous audit report that has not been corrected by borough officials. We are concerned by the borough's failure to correct this previously reported audit finding and strongly encourage timely implementation of the recommendation noted in this audit report.

The contents of this report were discussed with officials of Lansdale Borough and, where appropriate, their responses have been included in the report. We would like to thank borough officials for the cooperation extended to us during the conduct of the audit.

November 14, 2019



EUGENE A. DEPASQUALE  
Auditor General

## CONTENTS

|   | <u>Page</u> |
|---|-------------|
| Background.....   | 1           |
| Status Of Prior Finding.....  | 2           |
| Finding And Recommendation:   |             |
| Finding – Partial Compliance With Prior Audit Recommendation –<br>Incorrect Data On Certification Form AG 385 Resulting In A Net<br>Overpayment Of State Aid..... | 3           |
| Potential Withhold Of State Aid.....  | 6           |
| Summary Of Deposited State Aid And Employer Contributions.....  | 7           |
| Report Distribution List.....   | 8           |

## **BACKGROUND**

On December 18, 1984, the Pennsylvania Legislature adopted the Municipal Pension Plan Funding Standard and Recovery Act (P.L. 1005, No. 205, as amended, 53 P.S. § 895.101 et seq.). The Act established mandatory actuarial reporting and funding requirements and a uniform basis for the distribution of state aid to Pennsylvania's public pension plans. Section 402(j) of Act 205 specifically requires the Auditor General, as deemed necessary, to make an audit of every municipality which receives general municipal pension system state aid and of every municipal pension plan and fund in which general municipal pension system state aid is deposited.

Annual state aid allocations are provided from a 2 percent foreign (out-of-state) casualty insurance premium tax, a portion of the foreign (out-of-state) fire insurance tax designated for paid firefighters and any investment income earned on the collection of these taxes. Generally, municipal pension plans established prior to December 18, 1984, are eligible for state aid. For municipal pension plans established after that date, the sponsoring municipality must fund the plan for three plan years before it becomes eligible for state aid. In accordance with Act 205, a municipality's annual state aid allocation cannot exceed its actual pension costs.

In addition to Act 205, the Lansdale Borough Non-Uniformed Primary Union Pension Plan is also governed by implementing regulations adopted by the former Public Employee Retirement Commission published at Title 16, Part IV of the Pennsylvania Code and applicable provisions of various other state statutes.

The Lansdale Borough Non-Uniformed Primary Union Pension Plan is a single-employer defined contribution pension plan locally controlled by the provisions of Ordinance No. 1587. The plan is also affected by the provisions of a collective bargaining agreement between the borough and its non-uniformed employees. The plan was established January 1, 1983. Active members are required to contribute 1 percent of wages to the plan. The municipality is required to contribute between 4 percent and 10.5 percent of each member's wages based on the member's age. As of December 31, 2018, the plan had 36 active members and 8 terminated members eligible for vested benefits in the future.

LANSDALE BOROUGH NON-UNIFORMED PRIMARY UNION PENSION PLAN  
STATUS OF PRIOR FINDING

Partial Compliance With Prior Audit Recommendation

Lansdale Borough has partially complied with the prior audit recommendation concerning the following as further discussed in the Finding and Recommendation section of this report:

· Incorrect Data On Certification Form AG 385 Resulting In An Overpayment Of State Aid

During the current audit period, the borough reimbursed \$23,986 to the Commonwealth for the overpayment of state aid in 2014; however, plan officials again failed to comply with the instructions that accompany Certification Form AG 385 to assist them in accurately reporting the required pension data in the years 2016, 2017 and 2018 as further discussed in the Finding and Recommendation section of this report.

LANSDALE BOROUGH NON-UNIFORMED PRIMARY UNION PENSION PLAN  
FINDING AND RECOMMENDATION

**Finding – Partial Compliance With Prior Audit Recommendation – Incorrect Data On Certification Form AG 385 Resulting In A Net Overpayment Of State Aid**

Condition: As disclosed in the Status of Prior Finding section of this report, the borough partially complied with the prior audit recommendation by reimbursing \$23,986 to the Commonwealth for the overpayment of state aid received during 2014. However, plan officials again failed to comply with the instructions that accompany Certification Form AG 385 to assist them in accurately reporting the required pension data in the years 2016, 2017 and 2018. During the current audit period, the borough failed to certify an eligible non-uniformed employee (1 unit) and understated payroll by \$26,039 on the Certification Form AG 385 filed in 2016. In addition, the borough certified 2 ineligible police officers (4 units), 2 ineligible non-uniformed employees (2 units) and overstated total eligible payroll by \$321,445 on the Certification Form AG 385 filed in 2017. The borough also certified 3 ineligible police officers (6 units), an ineligible non-uniformed employee (1 unit) and overstated total eligible payroll by \$318,322 on the Certification Form AG 385 filed in 2018. The 2 ineligible police officers certified in 2017 retired effective July 23, 2015 and March 1, 2016, respectively, and the 3 additional ineligible police officers certified in 2018 retired effective July 23, 2015, March 1, 2017, and October 31, 2016, respectively, and entered the borough's Deferred Retirement Option Program (DROP). The data contained on these certification forms is based on prior calendar year information.

Criteria: Pursuant to Act 205, at Section 402(e)(2), in order to be eligible for certification, an employee must have been employed on a full-time basis for at least six consecutive months and must have been participating in a pension plan during the certification year.

Furthermore, Act 205 at Section 402(e)(2) states, in part:

For the purpose of computing and reporting the applicable number of units, a DROP participant shall not be reported to the Auditor General as an active employee.

Cause: Plan officials were unaware that DROP participants along with their compensation are not eligible for certification and failed to establish adequate internal control procedures to ensure the accuracy of the data certified.



LANSDALE BOROUGH NON-UNIFORMED PRIMARY UNION PENSION PLAN  
FINDING AND RECOMMENDATION

**Finding – (Continued)**

Effect: The data submitted on these certification forms is used, in part, to calculate the state aid due to the municipality for distribution to its pension plans. Because the borough’s state aid allocations were based on unit value, the incorrect certification of pension data affected the borough’s state aid allocations, as identified below:

| <u>Year</u> | <u>Type<br/>Of<br/>Plan</u> | <u>Units<br/>Overstated<br/>(Understated)</u> | <u>Unit<br/>Value</u>        | <u>State Aid<br/>Overpayment</u> |
|-------------|-----------------------------|---|------------------------------|----------------------------------|
| 2016        | Non-Uniformed               | (1)   | \$ 4,375                     | <u>\$ (4,375)</u>                |
| 2017        | Police                      | 4   | 4,588                        | 18,352                           |
|             | Non-Uniformed               | 2   | 4,588                        | <u>9,176</u>                     |
|             |                             |   | Total                        | <u>\$ 27,528</u>                 |
| 2018        | Police                      | 6   | 4,684                        | \$ 28,104                        |
|             | Non-Uniformed               | 1   | 4,684                        | <u>4,684</u>                     |
|             |                             |   | Total                        | <u>\$ 32,788</u>                 |
|             |                             |   | Net Overpayment of State Aid | <u>\$ 55,941</u>                 |

Furthermore, the borough’s future state aid allocations may be withheld until the finding recommendation is complied with.

In addition, the borough used the overpayments of state aid to pay the minimum municipal obligations (MMOs) due to the police pension plan; therefore, if the reimbursement to the Commonwealth is made from the pension plan, the plan’s MMOs will not be fully paid.

Recommendation: We recommend that the net overpayment of state aid, in the amount of \$55,941, plus interest, be returned to the Commonwealth. A check in this amount, with interest compounded annually from date of receipt to date of repayment, at a rate earned by the pension plan, should be made payable to: Commonwealth of Pennsylvania and mailed to: Department of the Auditor General, Municipal Pension & Fire Relief Programs Unit, 321 Finance Building, Harrisburg, PA 17120. A copy of the interest calculation must be submitted along with the check.

LANSDALE BOROUGH NON-UNIFORMED PRIMARY UNION PENSION PLAN  
FINDING AND RECOMMENDATION

**Finding – (Continued)**

We also recommend that in the future, plan officials establish adequate internal control procedures, such as having at least 2 people review the data certified, to ensure compliance with the instructions that accompany Certification Form AG 385 to assist them in accurately reporting the required pension data.

In addition, if the reimbursement to the Commonwealth is made from police pension plan funds, we recommend that any resulting MMO deficiencies be paid to the pension plan with interest, at a rate earned by the pension plan.

Management's Response: Municipal officials agreed with the finding without exception.

Auditor's Conclusion: Due to the potential withhold of state aid, the borough's compliance with the finding recommendation will be monitored subsequent to the release of the audit report and through our next audit of the plan.

LANSDALE BOROUGH NON-UNIFORMED PRIMARY UNION PENSION PLAN  
POTENTIAL WITHHOLD OF STATE AID

The finding contained in this audit report cites overpayments of state aid to the borough in the amount of \$55,941, plus interest. A condition of this nature may lead to a total withholding of state aid in the future unless that finding is corrected. A check in this amount with interest, at a rate earned by the pension plan, should be made payable to: Commonwealth of Pennsylvania, and mailed to: Department of the Auditor General, Municipal Pension & Fire Relief Programs Unit, 321 Finance Building, Harrisburg, PA 17120.

LANSDALE BOROUGH NON-UNIFORMED PRIMARY UNION PENSION PLAN  
SUMMARY OF DEPOSITED STATE AID AND EMPLOYER CONTRIBUTIONS

| Year Ended December 31 | State Aid | Employer Contributions |
|------------------------|-----------|------------------------|
| 2013                   | None      | \$ 191,664             |
| 2014                   | None      | 193,624                |
| 2015                   | None      | 199,266                |
| 2016                   | None      | 219,251                |
| 2017                   | None      | 223,219                |
| 2018                   | None      | 241,746                |

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This report was initially distributed to the following:

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