

COMPLIANCE AUDIT

Hatfield Township Municipal Employees Money Purchase Pension Plan

Montgomery County, Pennsylvania
For the Period
January 1, 2019 to December 31, 2022

July 2023



Commonwealth of Pennsylvania
Department of the Auditor General

Timothy L. DeFoor • Auditor General



**Commonwealth of Pennsylvania
Department of the Auditor General
Harrisburg, PA 17120-0018
Facebook: Pennsylvania Auditor General
Twitter: @PAAuditorGen
www.PaAuditor.gov**

**TIMOTHY L. DEFOOR
AUDITOR GENERAL**

Board of Township Commissioners
Hatfield Township
Montgomery County
Hatfield, PA 19440

We have conducted a compliance audit of the Hatfield Township Municipal Employees Money Purchase Pension Plan for the period January 1, 2019 to December 31, 2022. We also evaluated compliance with some requirements subsequent to that period when possible. The audit was conducted pursuant to authority derived from the Municipal Pension Plan Funding Standard and Recovery Act (Act 205 of 1984, as amended, 53 P.S. § 895.402(j)), which requires the Auditor General, as deemed necessary, to audit every municipality which receives general municipal pension system state aid and every municipal pension plan and fund in which general municipal pension system state aid is deposited. The audit was not conducted, nor was it required to be, in accordance with Government Auditing Standards issued by the Comptroller General of the United States. We planned and performed the 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 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 finding contained in our prior 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. State aid allocations that were deposited into the pension plan for the years ended December 31, 2017 to December 31, 2022, are presented on the Summary of Deposited State Aid and Employer Contributions.
- 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, 2017 to December 31, 2022, 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 active employees employed during the audit period amounting to \$22,669, \$17,883, \$18,854 and \$24,289, for the years 2019, 2020, 2021 and 2022, respectively, made during the audit period.
- We determined that there were no benefit calculations prepared for the years covered by our audit period.
- We determined whether the January 1, 2019, and January 1, 2021 actuarial valuation reports were prepared and submitted by March 31, 2020, and 2022, 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.

Hatfield Township contracted with an independent certified public accounting firm for annual audits of its basic financial statements for the years ending December 31, 2019, 2020, and 2021 which are available at the township's offices. Those financial statements were not audited by us and, accordingly, we express no opinion or other form of assurance on them.

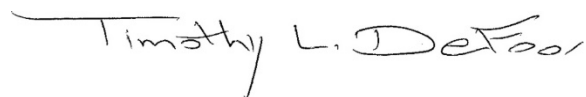
Township officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Hatfield Township Municipal Employees Money Purchase Pension Plan is administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies. As previously described, we tested transactions, interviewed selected officials, and performed procedures to the extent necessary 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 Hatfield Township Municipal Employees Money Purchase 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 Recommendation – Failure To Properly Allocate Forfeitures

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

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



Timothy L. DeFoor
Auditor General
July 14, 2023

CONTENTS

	<u>Page</u>
Background.....	1
Status of Prior Finding.....	2
Finding and Recommendation:	
Finding – Partial Compliance With Prior Recommendation – Failure To Properly Allocate Forfeitures.....	3
Summary of Deposited State Aid and Employer Contributions.....	4
Report Distribution List.....	5

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.

Annual state aid allocations are provided from a two (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 Hatfield Township Municipal Employees Money Purchase Pension Plan is also governed by implementing regulations published at Title 16, Part IV of the Pennsylvania Code and applicable provisions of various other state statutes.

The Hatfield Township Municipal Employees Money Purchase Pension Plan is a single-employer defined contribution pension plan locally controlled by the provisions of Ordinance No. 638, for employees hired on or after January 1, 2013. The plan was established January 1, 2013. Active members are required to contribute one and one-half (1.5) percent of compensation to the plan. The municipality is required to contribute six (6.0) percent of compensation for 0-14 years of service, seven (7.0) percent of compensation for 15-19 years of service, eight (8.0) percent for 20-24 years of service, and three (3.0) percent of compensation for 25 or more years of service. As of December 31, 2022, the plan had 19 active members and 4 terminated members eligible for vested benefits in the future.

HATFIELD TOWNSHIP MUNICIPAL EMPLOYEES MONEY PURCHASE PENSION PLAN
STATUS OF PRIOR FINDING

Partial Compliance With Prior Recommendation

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

· Failure To Properly Allocate Forfeitures

During 2019 and 2022, the township utilized forfeitures totaling \$10,000 and \$75 towards its 2019 and 2022 annual minimum municipal obligations (MMOs), respectively. However, a similar condition existed during the current period as further disclosed in the Finding and Recommendation of this report.

HATFIELD TOWNSHIP MUNICIPAL EMPLOYEES MONEY PURCHASE PENSION PLAN
FINDING AND RECOMMENDATION

Finding – Partial Compliance With Prior Recommendation – Failure To Properly Allocate Forfeitures

Condition: As disclosed in the Status of Prior Finding section of this report, the township partially complied with the prior recommendation by liquidating some of the plan forfeitures towards its overall 2019 and 2022 MMOs. However, a similar condition existed during the current audit period. The township again, did not properly apply plan forfeitures resulting from the non-vested portion of terminated employees' accounts, in accordance with the provisions of the retirement plan administered by the custodian.

Criteria: As previously disclosed, Section 3.2 (c) of Article 3 of the retirement plan document states, in part:

Forfeitures for the plan year shall be used to reduce employer contributions for the plan year in which such forfeitures occur.

Cause: The township again failed to develop and implement procedures to ensure the proper disposal of assets maintained in the forfeiture account in accordance with the plan document and compliance with the prior recommendation.

Effect: As a result of not applying forfeitures in accordance with the plan's governing document, the township was required to contribute additional funds from the general fund that could have been utilized for other general municipal purposes. As of December 31, 2022, funds amounting to \$5,717 were available for use in the unallocated forfeiture/holding account.

Recommendation: We recommend that the township contact the plan administrator to arrange for the unallocated account balance to be applied against the township's future obligations to the plan. We also again recommend that the municipality review the forfeiture policy with the plan administrator to ensure that, in the future, all available unused assets are properly used to meet plan obligations.

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

Auditor's Conclusion: Compliance will be evaluated during our next audit of the plan.

HATFIELD TOWNSHIP MUNICIPAL EMPLOYEES MONEY PURCHASE PENSION PLAN
SUMMARY OF DEPOSITED STATE AID AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid	Employer Contributions
2017	None	\$ 27,159
2018	None	40,902
2019	None	48,763
2020	None	51,034
2021	None	55,885
2022	\$ 46,049	18,519

Note: In 2019, the township met the plan's \$48,763 funding requirement through the deposit of \$38,763 in employer contributions and the allocation of \$10,000 in terminated employee forfeitures. In 2022, Hatfield Township met the plan's \$64,568 funding requirement through the deposit of \$46,049 in state aid, \$18,444 in employer contributions and the allocation of \$75 in terminated employee forfeitures.

HATFIELD TOWNSHIP MUNICIPAL EMPLOYEES MONEY PURCHASE PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Joshua D. Shapiro
Governor
Commonwealth of Pennsylvania

Mr. Tom Zipfel
President, Board of Township Commissioners

Mr. Bob Rodgers
Vice President, Board of Township Commissioners

Mr. Greg Lees
Commissioner

Ms. Deborah Zimmerman
Commissioner

Mr. Gerald Andris
Commissioner

Mr. Aaron Bibro
Township Manager

Mr. David Bernhauser
Finance Director

This report is a matter of public record and is available online at www.PaAuditor.gov. Media questions about the report can be directed to the Pennsylvania Department of the Auditor General, Office of Communications, 229 Finance Building, Harrisburg, PA 17120; via email to: news@PaAuditor.gov.