

COMPLIANCE AUDIT

Lower Salford Township Defined Contribution Pension Plan Montgomery County, Pennsylvania

June 2024



Commonwealth of Pennsylvania
Department of the Auditor General

Timothy L. DeFoor • Auditor General



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**TIMOTHY L. DEFOOR
AUDITOR GENERAL**

Board of Township Supervisors
Lower Salford Township
Montgomery County
Harleysville, PA 19438

We have conducted a compliance audit of the Lower Salford Township Defined Contribution Pension Plan 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:

- For the period January 1, 2019, to December 31, 2023, 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. State aid allocations that were deposited into the pension plan for the years ended December 31, 2018, to December 31, 2023, are presented on the Summary of Deposited State Aid and Employer Contributions.
- For the period January 1, 2022, to December 31, 2023, 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, 2018, to December 31, 2023, are presented on the Summary of Deposited State Aid and Employer Contributions.
- For the period January 1, 2022, to December 31, 2023, we determined that there were no employee contributions required by the plan's governing document and applicable laws and regulations.
- For the period January 1, 2022 to December 31, 2023, we determined whether retirement benefits calculated for the plan member who separated employment and received a lump-sum distribution during the period noted 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 distribution amount to supporting documentation evidencing amounts determined and actually paid to the recipient.
- We determined whether the January 1, 2023, actuarial valuation report was prepared and submitted by March 31, 2024, in accordance with Act 205 and whether selected information provided on this report 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.

Township officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Lower Salford Township Defined Contribution 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 Lower Salford Township Defined Contribution Pension Plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies for the periods noted above, except as noted in the following finding further discussed later in this report:

Finding – Incorrect Data On Certification AG 385 Resulting In A Net Overpayment Of State Aid

The contents of this report were discussed with officials of Lower Salford 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.

A handwritten signature in black ink that reads "Timothy L. DeFoor". The signature is written in a cursive style with a horizontal line above the first name.

Timothy L. DeFoor
Auditor General
May 13, 2024

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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 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 Lower Salford Township Defined Contribution 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 Lower Salford Township Defined Contribution Pension Plan is a single-employer defined contribution pension plan locally controlled by the provisions of Resolution 2020-02 and a separately executed plan agreement with the plan's custodian. The plan was established January 1, 2016. Active members are not required to contribute to the plan. The municipality is required to contribute five percent of compensation. As of December 31, 2023, the plan had 14 active members.

LOWER SALFORD TOWNSHIP NON-UNIFORMED DEFINED CONTRIBUTION
PENSION PLAN
STATUS OF PRIOR FINDING

Compliance With Prior Recommendation

Lower Salford Township has complied with the prior recommendations concerning the following:

· Municipal Contributions Made In Excess Of Contributions Required To Fund The Plan

Township officials withdrew the excess municipal contributions made in the prior years by transferring the assets to the township's general fund.

LOWER SALFORD TOWNSHIP NON-UNIFORMED DEFINED CONTRIBUTION
PENSION PLAN
FINDING AND RECOMMENDATION

**Finding – Incorrect Data On Certification Form AG 385 Resulting In A Net Overpayment
Of State Aid**

Condition: The township certified four ineligible police officers and overstated payroll by \$453,750, \$473,878, and \$480,825 on the Certification Form AG 385 filed in 2019, 2020 and 2021. In addition, the township certified three ineligible police officers and overstated payroll by \$314,472 on the Certification Form AG 385 filed in 2022. Further, the township certified an ineligible police officer and overstated payroll by \$225,836 but also failed to include an eligible non-uniformed employee and understated payroll by \$37,125 on the Certification Form AG 385 filed in 2023. The four ineligible members retired during 2018 (*three effective January 31, 2018, and another effective June 10, 2018*), and entered the township’s Deferred Retirement Option Program (DROP) and therefore, did not meet the requirements for certification on the AG-385. 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. The applicable number of units attributable to each eligible recipient city, borough, incorporated town and township shall be...*(i) Police officer - two units... (iii) Employee other than police officer or firefighter - one unit.*

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: Municipal officials were unaware of certification limitations pertaining to DROP participants but also indicated that the directions for processing DROP participants on the AG 385 were vague with no option for DROP offered when entering data electronically. Additionally, when uploading data for the AG 385, information was rejected causing individuals not to be certified properly.

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 township’s state aid allocations were based on unit value, the incorrect certification of pension data affected the township’s state aid allocations, as identified below:

LOWER SALFORD TOWNSHIP NON-UNIFORMED DEFINED CONTRIBUTION
PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

| <u>Year</u> | <u>Type Of Plan</u> | <u>Units Overstated (Understated)</u> | <u>Unit Value</u> | <u>State Aid Overpayment (Underpayment)</u> |
|-------------|------------------------------------|---------------------------------------|------------------------------|---|
| 2019 | Police | 8 | \$ 5,121 | \$ 40,968 |
| 2020 | Police | 8 | 4,924 | 39,392 |
| 2021 | Police | 8 | 4,797 | 38,376 |
| 2022 | Police | 4 | 5,180 | 20,720 |
| 2023 | Police | 2 | 5,828 | 11,656 |
| | Non-Uniformed Defined Contribution | (1) | 5,828 | <u>(5,828)</u> |
| | | | Net Overpayment of State Aid | <u>\$ 145,284</u> |

Recommendation: We recommend that the total excess overpayment of state aid, in the amount of \$145,284, 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.

We also recommend that in the future, plan officials establish adequate internal control procedures, such as having at least two 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.

Management’s Response: Municipal officials agreed with the finding except as noted below:

Please exclude interest from the overpayment since the audit was not conducted in a timely manner. Additionally, please conduct pension audits every two years.

Auditor’s Conclusion: Compliance will be evaluated during our next engagement of the plan.

LOWER SALFORD TOWNSHIP NON-UNIFORMED DEFINED CONTRIBUTION
PENSION PLAN
POTENTIAL WITHHOLD OF STATE AID

The finding contained in this audit report cites an overpayment of state aid to the township in the amount of \$145,284, plus interest. A condition of a repeat finding 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.

LOWER SALFORD TOWNSHIP NON-UNIFORMED DEFINED CONTRIBUTION
 PENSION PLAN
 SUMMARY OF DEPOSITED STATE AID AND EMPLOYER CONTRIBUTIONS
 (UNAUDITED)

| Year Ended December 31 | State Aid | Employer Contributions |
|------------------------|-----------|------------------------|
| 2018 | None | \$ 25,353 |
| 2019 | None | 23,256 |
| 2020 | None | 27,626 |
| 2021 | None | 37,064 |
| 2022 | None | 46,101 |
| 2023 | None | 50,590 |

LOWER SALFORD TOWNSHIP NON-UNIFORMED DEFINED CONTRIBUTION
PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Joshua D. Shapiro
Governor
Commonwealth of Pennsylvania

Mr. Keith Bergman
Chairman, Board of Township Supervisors

Mr. Christopher Canavan
Vice Chairman, Board of Township Supervisors

Mr. Kevin Shelly
Township Supervisors

Mr. David Scheuren
Township Supervisors

Mr. Kent Krauss
Township Supervisors

Mr. Joseph Czajkowski
Township Manager

Ms. Cecilia Parent
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.