

# COMPLIANCE AUDIT

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## Northampton Township Non-Uniformed Money Purchase Pension Plan

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

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December 2023



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  
Northampton Township  
Bucks County  
Richboro, PA 18954

We have conducted a compliance audit of the Northampton Township Non-Uniformed 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 findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

The objective of the audit was 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 objective identified above. 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.

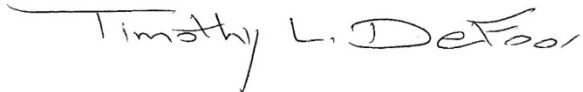
- We determined whether annual employer contributions were calculated and deposited in accordance with the plan's governing document and applicable laws and regulations by examining the municipality's calculation of the plan's annual financial requirements and minimum municipal obligation (MMO) and comparing 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, 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 \$75,206, \$103,468, \$125,507, and \$161,435, for the years 2019, 2020, 2021, and 2022, respectively, made during the 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.

Township officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Northampton Township Non-Uniformed 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 objective.

The results of our procedures indicated that, in all significant respects, the Northampton Township Non-Uniformed 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 findings further discussed later in this report:

- Finding No. 1 – Incorrect Data On Certification Form AG 385 Resulting In An Underpayment Of State Aid
- Finding No. 2 – Failure To Properly Allocate Forfeitures

The contents of this report were discussed with officials of Northampton 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 long horizontal line extending to the left of the first letter.

Timothy L. DeFoor  
Auditor General  
November 22, 2023

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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 Northampton Township Non-Uniformed 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 Northampton Township Non-Uniformed Money Purchase Pension Plan is a single-employer defined contribution pension plan locally controlled by the provisions of Ordinance No. 580 and a separately executed plan agreement with the plan's custodian for non-uniformed employees hired on or after January 1, 2015. The plan is also affected by the provisions of collective bargaining agreements between the township and its non-uniformed employees. The plan was established January 1, 2015. Active members are required to contribute five percent of compensation to the plan. The municipality is required to contribute five percent of compensation. As of December 31, 2022, the plan had 50 active members and 14 terminated members eligible for vested benefits in the future.

NORTHAMPTON TOWNSHIP NON-UNIFORMED MONEY PURCHASE PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – Incorrect Data On Certification AG 385 Resulting In An Underpayment Of State Aid**

Condition: The township failed to certify an eligible police officer and understated payroll by \$109,175 on the Certification Form AG 385 filed in 2020. In addition, the township failed to certify an eligible non-uniformed employee and understated payroll by \$50,164, two eligible non-uniformed employees and understated payroll by \$79,076, and an eligible non-uniformed employee and understated payroll by \$13,708 on the Certification Form AG 385 filed in 2021, 2022, and 2023, respectively. The data contained on these certification forms is based on prior calendar year information.

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

Cause: The failure to certify these eligible employees was an oversight by municipal officials and the township lacked adequate procedures to timely identify the oversight prior to submission.

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 township received a total underpayment of state aid as identified below:

<u>Year</u>	<u>Type Of Plan</u>	<u>Units Understated</u>	<u>Unit Value</u>	<u>State Aid Underpayment</u>
2020	Police	2	\$ 4,924	\$ 9,848
2021	Non-Uniformed	1	4,797	4,797
2022	Non-Uniformed	1	5,180	5,180
2022	Non-Uniformed - Money Purchase	1	5,180	5,180
2023	Non-Uniformed	1	5,828	5,828
Total Underpayment of State Aid				<u>\$ 30,833</u>

Although the township will be reimbursed for the underpayment of state aid due to the township’s certification errors, the full amount of the 2020, 2021, 2022, and 2023 state aid allocations were not available to be deposited timely and therefore were not available to fund benefits, pay operating expenses or for investment.

NORTHAMPTON TOWNSHIP NON-UNIFORMED MONEY PURCHASE PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – (Continued)**

Recommendation: We 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 without exception.

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



NORTHAMPTON TOWNSHIP NON-UNIFORMED MONEY PURCHASE PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 2 – Failure To Properly Allocate Forfeitures**

Condition: The township has not properly applied plan forfeitures resulting from the non-vested portion of terminated employees' accounts in accordance with provisions of the plan's governing document.

Criteria: Sections A-8.03 and 8.04 of Article A-VIII of Ordinance No. 580 state, the following:

**Forfeiture of Non-Vested Accounts.** Accounts of non-vested Participants shall be forfeited upon termination of employment and shall not be subject to reinstatement.

**Allocation of Forfeitures.** Any forfeitures arising under the Plan shall be used to reduce the Employer contributions as required to be made pursuant to Sec. A-3.01.

Cause: The township lacked adequate procedures for properly disposing of the assets maintained in the forfeiture account in accordance with plan provisions.

Effect: As a result of not properly applying forfeitures in accordance with the governing document, the township was required to contribute additional funds from the general fund to satisfy the plan's annual pension obligation that could have been better utilized for other general municipal purposes. As of December 31, 2022, funds amounting to \$116,216 were available for use in the unallocated forfeiture account.

Recommendation: We recommend that the township contact the plan administrator and review the plan's forfeiture policy, arrange for the unallocated forfeiture account balance to be applied against the township's subsequent obligations to the plan in accordance with the plan's governing document and ensure, going forward, that all available non-vested pension assets are properly used towards future plan obligations prior to using additional resources from the township and its taxpayers.

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.

NORTHAMPTON TOWNSHIP NON-UNIFORMED MONEY PURCHASE PENSION PLAN  
SUMMARY OF DEPOSITED STATE AID AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid	Employer Contributions
2017	None	\$ 18,894
2018	None	34,396
2019	None	75,207
2020	None	103,468
2021	None	125,507
2022	None	161,434

NORTHAMPTON TOWNSHIP NON-UNIFORMED 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. Adam Selisker**  
Chairman, Board of Township Supervisors

**Mr. Barry Moore**  
Vice Chairman, Board of Township Supervisors

**Ms. Paula Gasper**  
Township Secretary

**Dr. Kim Rose**  
Township Treasurer

**Mr. Robert Salzer**  
Township Supervisor

**Mr. Robert Pellegrino**  
Township Manager

**Mr. William Wert**  
Assistant Township Manager

**Ms. Julie Narisi**  
Finance Director

**Ms. Stacey Schwengels**  
Human Resources Director

This report is a matter of public record and is available online at [www.PaAuditor.gov](http://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](mailto:news@PaAuditor.gov).