

COMPLIANCE AUDIT

Sadsbury Township Non-Uniformed Pension Plan Lancaster County, Pennsylvania For the Period January 1, 2018 to December 31, 2022

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
Sadsbury Township
Lancaster County
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We have conducted a compliance audit of the Sadsbury Township Non-Uniformed Pension Plan for the period January 1, 2018 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. 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 that there were no employee contributions required by the plan's governing document and applicable laws and regulations for the years covered by our audit period.
- We determined whether retirement benefits calculated for plan members who retired, elected to vest, or separated employment and received a lump-sum distribution 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 recalculating the amount of the pension benefits due to the retired individuals and comparing these amounts to supporting documentation evidencing amounts determined and actually paid or payable to the recipients.
- We determined whether the January 1, 2017, January 1, 2019, and January 1, 2021 actuarial valuation reports were prepared and submitted by March 31, 2018, 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.
- We determined whether the terms of the plan's unallocated insurance contract, including ownership and any restrictions, were in compliance with plan provisions, investment policies, and state regulations by comparing the terms of the contract with the plan's provisions, investment policies, and state regulations.
- We determined whether the terms of all three of the plan's allocated insurance contracts, including ownership and any restrictions, were in compliance with plan provisions, investment policies, and state regulations by comparing the terms of the contracts with the plan's provisions, investment policies, and state regulations.

During prior audit periods, the township elected to purchase allocated insurance contracts to fund a portion of the benefits provided by the pension plan at retirement. Under an allocated funding arrangement, the insurer receives and retains consideration in exchange for a legally enforceable obligation to pay future benefits. In accordance with Statement No. 67 of the Governmental Accounting Standards Board, allocated insurance contracts are excluded from the pension plan's assets.

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

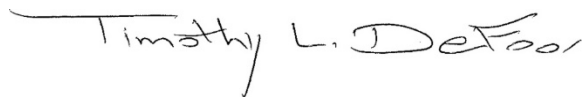
The results of our procedures indicated that, in all significant respects, the Sadsbury Township Non-Uniformed Pension Plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies, except as noted in the following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

Finding No. 1 – Receipt Of State Aid In Excess Of Entitlement

Finding No. 2 – Failure To Deposit The Full Amount Of State Aid Into The Pension Plan

Finding No. 3 – Failure To Properly Fund Member Accounts

The contents of this report were discussed with officials of Sadsbury 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
November 30, 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 Sadsbury Township Non-Uniformed 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 including but not limited to, the following:

Act 69 - The Second Class Township Code, Act of May 1, 1933 (P.L. 103, No. 69), as reenacted and amended, 53 P.S. § 65101 et seq.

The Sadsbury Township Non-Uniformed Pension Plan is a single-employer defined contribution pension plan locally controlled by the provisions of Ordinance No. 1-2019 and a separately executed plan agreement with Pennsylvania State Association of Township Supervisors (PSATS) effective April 1, 2019. Prior to April 1, 2019, the plan was locally controlled by the provisions of Resolution No. 2011-2. The plan was established April 15, 1966. Active members are not required to contribute to the plan. The municipality is required to contribute five percent of each participant's plan compensation plus a matching contribution up to three percent of each employee's elective deferrals under the municipality's deferred compensation plan. Prior to April 1, 2019, the municipality was required to contribute quarterly 10 percent of each previous quarter's gross wages for each eligible employee. As of December 31, 2022, the plan had one active member and two terminated members eligible for vested benefits in the future.

SADSBURY TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Receipt Of State Aid In Excess Of Entitlement

Condition: The township received state aid in excess of the non-uniformed pension plan’s defined contribution pension costs in the years 2021 and 2022, as illustrated below:

	<u>2021</u>	<u>2022</u>
State aid allocation	\$ 14,392	\$ 11,354
Actual municipal pension costs	<u>(10,243)</u>	<u>(3,599)</u>
Excess state aid	<u>\$ 4,149</u>	<u>\$ 7,755</u>

Criteria: Section 402(f)(2) of Act 205 states:

No municipality shall be entitled to receive an allocation of general municipal pension system State aid in an amount which exceeds the aggregate actual financial requirements of any municipal pension plans for police officers, paid firefighters or employees other than police officers or paid firefighters maintained by the municipality, less the amount of any aggregate annual member or employee contributions during the next succeeding plan year, as reported in the most recent complete actuarial report filed with the commission.

Cause: Plan officials failed to establish adequate internal control procedures to reconcile the township’s state aid allocation with the plan’s actual defined contribution pension costs.

Effect: It is this department’s opinion that because the entire proceeds of the insurance premium tax on foreign casualty insurance companies are distributed annually to each eligible recipient municipality, it is inappropriate to use state aid in one year to offset pension costs in other years. Consequently, the overpayment of state aid in the years 2021 and 2022 must be returned to the Commonwealth for redistribution.

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

Recommendation: We recommend that the municipality return the \$11,904 of excess state aid received in the years 2021 and 2022 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 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 evidence of payment.

SADSBURY TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Furthermore, we recommend that, in the future, plan officials reconcile the township’s annual state aid allocation and municipal contributions made to the pension plan and any available employee forfeitures with the plan’s annual defined contribution pension costs and reimburse any excess state aid received to the Commonwealth.

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.

Finding No. 2 – Failure To Deposit The Full Amount Of State Aid Into The Pension Plan

Condition: The municipality did not deposit the full amount of its 2021 and 2022 state aid allocations into the pension plan. The municipality received its 2021 and 2022 state aid allocations in the amounts of \$14,392 and \$11,354, respectively, on September 28, 2021 and September 28, 2022, respectively, but only state aid totaling \$3,441 was deposited into the pension plan. As of the date of this report, state aid amounting to \$22,305 (*which includes excess state aid of \$11,904 as disclosed in Finding No. 1*) remained in the general fund.

Criteria: Section 402(g) of Act 205 states, in part:

. . . the total amount of the general municipal pension system State aid received by the municipality shall, within 30 days of receipt by the treasurer of the municipality, be deposited in the pension fund or the alternate funding mechanism applicable to the pension plan.

Cause: The full amounts of the 2021 and 2022 state aid were not deposited into the pension plan because internal control procedures were not effective to ensure the full and timely deposit of state aid in accordance with Act 205 for 2021 and 2022.

Effect: When state aid is not deposited into a pension plan account, the funds are not available to pay benefits and operating expenses or for investment and the risk of misapplication is increased.

Recommendation: We recommend that the municipality (*after returning excess State Aid of \$11,904 as recommended by Finding No. 1*), deposit the outstanding 2021 and 2022 state aid allocations, \$10,401 (*which represents the funding shortage noted in members’ accounts for 2021 and 2022 as disclosed in Finding No. 3*), plus interest earned during the period beyond the 30 day grace period allowed by Act 205, compounded annually into the pension plan. A copy of the interest calculation must be maintained by the township for examination during our next audit of the plan.

SADSBURY TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

We also recommend that plan officials implement adequate procedures to ensure that future state aid is consistently deposited into the pension plan within 30 days of receipt in accordance with Act 205.

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.

Finding No. 3 – Failure To Properly Fund Member Accounts

Condition: The township did not properly fund the accounts of two members in 2019, 2020 and 2022, and three members in 2021, in accordance with the plan’s governing document, as illustrated below:

<u>2019 Employees</u>	<u>Required Contributions</u>	<u>Actual Contributions</u>	<u>Contributions (Excess)/Due</u>
1	\$ 1,444	\$ 2,310	\$ (866)
2	2,912	4,659	(1,747)
		Total	<u>\$ (2,613)</u>
<u>2020 Employees</u>	<u>Required Contributions</u>	<u>Actual Contributions</u>	<u>Contributions (Excess)/Due</u>
1	\$ -	\$ (498)	\$ (498)
2	1,691	1,392	299
		Total	<u>\$ (199)</u>
<u>2021 Employees</u>	<u>Required Contributions</u>	<u>Actual Contributions</u>	<u>Contributions Due</u>
1	\$ 4,471	\$ 1,220	\$ 3,251
2	5,104	1,413	3,691
3	667	512	155
		Total	<u>\$ 7,097</u>

SADSBURY TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

2022 Employees	Required Contributions	Actual Contributions	Contributions Due
1	\$ 1,639	\$ 146	\$ 1,493
2	1,961	150	1,811
		Total	\$ 3,304

Criteria: In 2019, the plan’s governing document, a separately executed plan agreement with the plan’s administrator adopted through Ordinance No. 1 of 2019, established the municipal contribution rate at five percent of each participant’s plan compensation plus an employer matching contribution of up to three percent of plan compensation for employee elective deferrals made under the township’s 457(b) plan. Prior to April 1, 2019, the municipality was required to contribute, quarterly, 10 percent of the previous quarter’s gross wages for each eligible employee.

Cause: The township failed to establish adequate internal control procedures, such as reconciling expected contributions to contributions allocated to each individual members’ accounts, to ensure that eligible plan members’ accounts were properly funded in accordance with the provisions contained in the plan’s governing documents. Additionally, for 2021 and 2022, the township failed to fully deposit its state aid allocations which contributed to the deficiency (*refer to Finding No. 2*).

Effect: The failure to properly fund the members’ accounts could result in plan members being denied benefits to which they are entitled in accordance with the plan’s governing document.

Furthermore, due to the township’s failure to properly fund the accounts of several members, the township must now pay interest on the delinquent contributions.

Recommendation: We recommend that the township review the applicable members’ accounts and make the adjustments deemed necessary to ensure they are funded in accordance with the provisions contained in the plan’s governing document.

We also recommend that plan officials implement adequate internal control procedures to ensure that the members’ accounts are properly funded in accordance with the provisions contained in the plan’s governing document.

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.

SADSBURY TOWNSHIP NON-UNIFORMED PENSION PLAN
POTENTIAL WITHHOLD OF STATE AID

Finding No. 1 contained in this audit report cites an overpayment of state aid to the township in the amount of \$11,904, 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.

SADSBURY TOWNSHIP NON-UNIFORMED PENSION PLAN
SUMMARY OF DEPOSITED STATE AID AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid	Employer Contributions
2017	\$ 13,348	\$ 825
2018	4,316	None
2019	None	8,207
2020	11,188	965
2021	3,145	None
2022	296	None

SADSBURY TOWNSHIP NON-UNIFORMED PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Joshua D. Shapiro
Governor
Commonwealth of Pennsylvania

Mr. Jeffrey Priddy
Chairman, Board of Township Supervisors

Ms. Wendy Dettrey
Chief Administrative Officer

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.