

# COMPLIANCE AUDIT

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## Doylestown Township Non-Uniformed Defined Contribution Pension Plan Bucks County, Pennsylvania For the Period January 1, 2017 to December 31, 2019

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October 2020



Commonwealth of Pennsylvania  
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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**EUGENE A. DePASQUALE  
AUDITOR GENERAL**

Board of Township Supervisors  
Doylestown Township  
Bucks County  
Doylestown, PA 18901

We have conducted a compliance audit of the Doylestown Township Non-Uniformed Defined Contribution Pension Plan for the period January 1, 2017 to December 31, 2019. 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 objective. We believe that the evidence obtained provides a reasonable basis for our finding 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, 2014 to December 31, 2019, 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 21 active employees employed during the audit period amounting to \$31,568, \$38,919, and \$40,777, for the years 2017, 2018, and 2019, respectively, made during the audit period.
- We determined whether retirement benefits calculated for plan members who 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 to the recipients.
- We determined whether the January 1, 2017 and January 1, 2019 actuarial valuation reports were prepared and submitted by March 31, 2018 and 2020, 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.

Doylestown Township contracted with an independent certified public accounting firm for annual audits of its basic financial statements, 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 Doylestown Township Non-Uniformed 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 objective.

The results of our procedures indicated that, in all significant respects, the Doylestown Township Non-Uniformed Defined Contribution 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 – Failure To Properly Fund Member Accounts

The contents of this report were discussed with officials of Doylestown Township and, where appropriate, their responses have been included in the report.

September 30, 2020



EUGENE A. DEPASQUALE  
Auditor General

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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 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 Doylestown Township Non-Uniformed 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 Doylestown Township Non-Uniformed Defined Contribution Pension Plan is a single-employer defined contribution pension plan locally controlled by the provisions of Ordinance No. 368, as amended. The plan was established January 1, 2012. Active members are required to contribute 5 percent of compensation to the plan. The municipality is required to contribute 5 percent of compensation. As of December 31, 2019, the plan had 13 active members and 4 terminated members eligible for vested benefits in the future.

DOYLESTOWN TOWNSHIP NON-UNIFORMED DEFINED CONTRIBUTION  
PENSION PLAN  
FINDING AND RECOMMENDATION

**Finding – Failure To Properly Fund Member Accounts**

Condition: The township did not fully fund the accounts of two plan members in 2018. The employees became plan members in 2018 after completing six months of employment, and the employer contributions made to their accounts for that year were based on their compensation after plan entry rather than the full year’s earnings. The contributions due total \$1,384, as illustrated below:

<u>2018 Employees</u>	<u>Required Employer Contributions</u>	<u>Actual Employer Contributions</u>	<u>Employer Contributions Due</u>
1	\$ 2,113	\$ 1,942	\$ 171
2	1,767	554	1,213
		Total	<u>\$ 1,384</u>

Criteria: The plan’s governing document, Ordinance No. 368, as amended, sets the municipal contribution rate at 5 percent of earnings for the plan year for participants remaining employed by the township on December 31 of each plan year.

Cause: The failure to fully fund the accounts of the two referenced employees is attributable to an oversight. Municipal officials made contributions correctly for other employees who were hired during the audit period.

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 deposit the contributions due to the members’ accounts for the year 2018, with interest. A copy of the interest calculations should be maintained by the township for examination during our next audit of the plan.

We also recommend that, in the future, township officials properly fund the accounts of all eligible plan members.

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.

DOYLESTOWN TOWNSHIP NON-UNIFORMED DEFINED CONTRIBUTION  
PENSION PLAN  
SUMMARY OF DEPOSITED STATE AID AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid	Employer Contributions
2014	None	\$ 19,618
2015	None	25,140
2016	None	27,639
2017	None	27,408
2018	None	18,116
2019	None	39,126

Note: In 2017, the township met the plan's \$34,553 funding requirement through the deposit of \$27,408 in employer contributions and the allocation of \$7,145 in terminated employee forfeitures. In 2018, the township partially met the plan's \$38,436 funding requirement through the deposit of \$18,116 in employer contributions and the allocation of \$18,935 in terminated employee forfeitures. See the finding contained in this audit report.



DOYLESTOWN TOWNSHIP NON-UNIFORMED DEFINED CONTRIBUTION  
PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

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