

COMPLIANCE AUDIT

East Penn Township Non-Uniformed Pension Plan Carbon County, Pennsylvania

July 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
East Penn Township
Carbon County
Lehighon, PA 18235

We have conducted a compliance audit of the East Penn Township Non-Uniformed 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 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 whether 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 area 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:

- 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.

- For the period January 1, 2019 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.
- For the period January 1, 2023 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, 2023 to December 31, 2023, we determined whether retirement benefits calculated for the plan member who retired 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 recalculating the amount of the monthly pension benefits due to the retired individual and comparing these amounts 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.
- For the period January 1, 2023 to December 31, 2023, 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.

Township officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the East Penn 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.

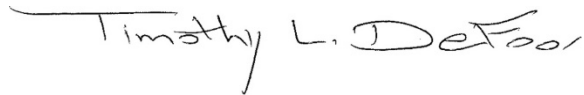
The results of our procedures indicated that, in all significant respects, the East Penn Township Non-Uniformed Pension Plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies for the periods noted above, except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

Finding No. 1 – Failure To Deposit State Aid Into The Pension Plan

Finding No. 2 – Failure To Fully Pay The Minimum Municipal Obligation Of
The Plan

The accompanying supplementary information is presented for purposes of additional analysis. We did not audit the information or conclude on it and, accordingly, express no form of assurance on it.

The contents of this report were discussed with officials of East Penn 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
June 14, 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 East Penn 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 East Penn Township Non-Uniformed Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Resolution No. 99-3, as amended. The plan was established January 1, 1999. Active members are not required to contribute to the plan. As of December 31, 2023, the plan had four active members, no terminated members eligible for vested benefits in the future, and four retirees receiving pension benefits from the plan.

EAST PENN TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Failure To Deposit State Aid Into The Pension Plan

Condition: The municipality did not deposit its 2021 state aid allocation into the pension plan. The municipality received its 2021 state aid allocation in the amount of \$23,986 on September 28, 2021, but, as of the audit completion date, none of the state aid allocation had been deposited into the pension plan.

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 prior chief administrative officer (CAO) incorrectly considered the 2020 deposit of a lump sum into the non-uniformed pension plan representing previous years' unused state aid funds from the closed-out police pension plan to have satisfied the township's 2020 minimum municipal obligation for the non-uniformed plan and also did not consider the fact that state aid must be deposited to the plan within 30 days of receipt. The 2020 state aid was deposited to the plan in 2021 and improperly applied towards the 2021 MMO, and 2021 state aid was never deposited to the plan.

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

Recommendation: We recommend that the municipality deposit the township's 2021 state aid allocation of \$23,986 into the pension plan. This deposit should be used towards the outstanding 2021 MMO due, discussed in Finding No. 2, and any interest due on the late deposit of state aid will be incorporated into the interest due for the late MMO payment.

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.

EAST PENN TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Failure To Fully Pay The Minimum Municipal Obligation Of The Plan

Condition: The municipality did not fully pay the minimum municipal obligation (MMO) that was due to the non-uniformed pension plan for the years 2020 and 2021, as required by Act 205. The township paid \$24,619 of the 2020 MMO late, on May 25, 2021, and has an unpaid MMO balance of \$17,067 for the year 2020. The township also has an unpaid MMO balance of \$24,619 for the year 2021.

Criteria: With regard to the MMO, Section 302(c) of Act 205 states, in part:

Annually, the chief administrative officer of the pension plan shall determine the minimum obligation of the municipality with respect to the pension plan for the following plan year.

Section 302(d) of Act 205 states, in part:

The minimum obligation of the municipality shall be payable to the pension plan from the revenue of the municipality.

Furthermore, Section 302(e) of Act 205 states:

Any amount of the minimum obligation of the municipality which remains unpaid as of December 31 of the year in which the minimum obligation is due shall be added to the minimum obligation of the municipality for the following year, with interest from January 1 of the year in which the minimum obligation was first due until the date the payment is paid at a rate equal to the interest assumption used for the actuarial valuation report or the discount rate applicable to treasury bills issued by the Department of Treasury of the United States with a six-month maturity as of the last business day in December of the plan year in which the obligation was due, whichever is greater, expressed as a monthly rate and compounded monthly.

Cause: The prior CAO incorrectly considered the 2020 deposit of a lump sum into the non-uniformed pension plan representing previous years' unused state aid funds from the closed-out police pension plan to have satisfied the township's 2020 minimum municipal obligation for the non-uniformed pension plan. The 2020 state aid was deposited to the plan in 2021 and improperly applied towards the 2021 MMO, and the 2021 state aid allocation was never deposited, causing the 2021 MMO to be underpaid.

EAST PENN TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Effect: The failure to fully pay the MMO could result in the plan not having adequate resources to meet current and future benefit obligations to its members.

Due to the municipality's failure to fully pay the 2020 and 2021 MMOs by the December 31, 2020 and December 31, 2021, deadlines, the municipality must add the 2020 and 2021 MMO balances to the current year's MMO and include interest, as required by Act 205.

Recommendation: We recommend that the municipality pay the MMOs due to the non-uniformed pension plan for the years 2020 and 2021, with interest from January 1 of the respective year in which the minimum obligation was first due until the date the payment is made, in accordance with Section 302(e) of Act 205. We also recommend that the municipality pay the outstanding interest due on the late partial payment (\$24,619) of the plan's 2020 MMO, from January 1 of the year in which the minimum obligation was first due (*January 1, 2020*) until the date the payment was made (*May 25, 2021*), in accordance with Section 302(e) of Act 205. A copy of the interest calculations must be maintained by the township for examination during our next audit of the plan.

Furthermore, we recommend that, in the future, plan officials pay the full MMO due to the plan.

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.

EAST PENN TOWNSHIP NON-UNIFORMED PENSION PLAN
 SUPPLEMENTARY INFORMATION
 (UNAUDITED)

SCHEDULE OF FUNDING PROGRESS

Historical trend information about the plan is presented herewith as supplementary information. It is intended to help users assess the plan’s funding status on a going-concern basis, assess progress made in accumulating assets to pay benefits when due, and make comparisons with other state and local government retirement systems.

The actuarial information is required by Act 205 biennially. The historical information, beginning as of January 1, 2019, is as follows:

	(1)	(2)	(3)	(4)
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded (Assets in Excess of) Actuarial Accrued Liability (b) - (a)	Funded Ratio (a)/(b)
01-01-19	\$ 351,453	\$ 339,651	\$ (11,802)	103.5%
01-01-21	463,528	410,979	(52,549)	112.8%
01-01-23	543,640	532,378	(11,262)	102.1%

Note: The market value of the plan’s assets at 01-01-23 have been adjusted to reflect the smoothing of gains and/or losses subject to a corridor between 80 to 120 percent of the market value of assets. This method will lower contributions in years of less than expected returns and increase contributions in years of greater than expected returns. The net effect over long periods of time is to have less variance in contribution levels from year to year.

EAST PENN TOWNSHIP NON-UNIFORMED PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

The comparability of trend information is affected by changes in actuarial assumptions, benefit provisions, actuarial funding methods, accounting policies, and other changes. Those changes usually affect trends in contribution requirements and in ratios that use the actuarial accrued liability as a factor.

Analysis of the dollar amount of the actuarial value of assets, actuarial accrued liability, and unfunded (assets in excess of) actuarial accrued liability in isolation can be misleading. Expressing the actuarial value of assets as a percentage of the actuarial accrued liability (Column 4) provides one indication of the plan's funding status on a going-concern basis. Analysis of this percentage, over time, indicates whether the system is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the plan.

EAST PENN TOWNSHIP NON-UNIFORMED PENSION PLAN
 SUPPLEMENTARY INFORMATION
 (UNAUDITED)

SCHEDULE OF CONTRIBUTIONS

Year Ended December 31	Actuarially Determined Contribution	Actual Contributions	Contribution Deficiency (Excess)	Covered- Employee Payroll	Contributions as a Percentage of Covered- Employee Payroll
2014	\$ 18,857	\$ 19,101	\$ (244)	\$ 204,393	9.35%
2015	24,683	25,658	(975)	208,900	12.28%
2016	38,099	41,866	(3,767)	156,537	26.75%
2017	26,665	26,665	-	200,401	13.31%
2018	29,994	29,994	-	234,667	12.78%
2019	41,049	41,049	-	237,675	17.27%
2020	41,686	80,968*	(39,282)*	225,000	35.99%
2021	40,957	40,957**	-	260,097	15.75%
2022	44,975	44,975	-	271,851	16.54%
2023	45,335	45,335	-	***	

* This schedule was provided by the municipality. The 2020 actual contributions of \$80,968 reported in this schedule reflect the deposit of previous years' unused state aid from the township's police pension plan following the close out of that plan. The township improperly used these monies to satisfy the 2020 MMO for the non-uniformed pension plan. This resulted in a sequence of errors in 2020 and 2021 which included the late deposit of 2020 state aid, the failure to deposit 2021 state aid to the plan (refer to Finding No. 1) and the failure to fully pay the 2020 and 2021 MMOs (refer to Finding No. 2). In 2020, the actuarially determined contribution of \$41,686 was only partially paid by the late deposit of 2020 state aid in the amount of \$24,619, with a contribution deficiency of \$17,067.

** This schedule was provided by the municipality. The 2021 actual contributions of \$40,957 reported in this schedule reflect the deposit of 2020 state aid of \$24,619 and a 2021 municipal contribution of \$16,338. It is not proper to utilize 2020 state aid to satisfy the 2021 MMO. In 2021, the actuarially determined contribution of \$40,957 was only partially paid by a municipal contribution of \$16,338, with a contribution deficiency of \$24,619.

*** Due to the timing of this audit, covered-employee payroll for 2023 was not provided in this schedule.

EAST PENN TOWNSHIP NON-UNIFORMED PENSION PLAN
SUPPLEMENTARY INFORMATION
NOTES TO SUPPLEMENTARY SCHEDULES
(UNAUDITED)

The information presented in the supplementary schedules was determined as part of the actuarial valuation at the date indicated. Additional information as of the latest actuarial valuation date follows:

Actuarial valuation date	January 1, 2023
Actuarial cost method	Entry age normal
Amortization method	Not applicable
Remaining amortization period	None
Asset valuation method	Plan assets are valued using the method described in Section 210 of Act 205, as amended, subject to a corridor between 80-120% of the market value of assets.
Actuarial assumptions:	
Investment rate of return	4.0%
Projected salary increases	3.5%

EAST PENN 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. John M. Strockoz
Chairman, Board of Township Supervisors

Ms. Jillyan A. Sterling
Manager/Secretary/Treasurer

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.