

# COMPLIANCE AUDIT

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## Hatfield Township Municipal Employees Money Purchase Pension Plan

Montgomery County, Pennsylvania  
For the Period  
January 1, 2015 to December 31, 2018

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September 2019



Commonwealth of Pennsylvania  
Department of the Auditor General

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AUDITOR GENERAL

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Hatfield Township  
Montgomery County  
Hatfield, PA 19440

We have conducted a compliance audit of the Hatfield Township Municipal Employees Money Purchase Pension Plan for the period January 1, 2015 to December 31, 2018. We also evaluated compliance with some requirements subsequent to that period when possible. The audit was conducted pursuant to authority derived from Section 402(j) of Act 205 and in accordance with the standards applicable to performance audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform 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, 2013 to December 31, 2018, 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 20 active employees employed during the audit period amounting to \$3,744, \$5,044, \$9,449, and \$14,776, for the years 2015, 2016, 2017, and 2018, respectively, made during the audit period.
- We determined whether retirement benefits calculated for the two plan members who terminated employment and received a lump-sum form of pension benefit 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 comparing the distributed amounts to supporting documentation evidencing amounts determined and actually paid to recipients.
- We determined whether the January 1, 2013, January 1, 2015, and January 1, 2017 actuarial valuation reports were prepared and submitted by March 31, 2014, 2016, and 2018, 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 transfers were properly authorized, timely, and appropriately recorded by plan officials by examining supporting documentation for all of the transfers made during the audit period.

Township officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Hatfield Township Municipal Employees Money Purchase Pension Plan is administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies. In conducting our audit, we obtained an understanding of the township's internal controls as they relate to the township's compliance with those requirements and that we considered to be significant within the context of our audit objective, and assessed whether those significant controls were properly designed and implemented. Additionally and as previously described, we tested transactions, assessed official actions, performed analytical procedures, and interviewed selected officials 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 Hatfield Township Municipal Employees 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 finding further discussed later in this report:

Finding – Failure To Properly Allocate Forfeitures

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

August 29, 2019



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. Section 402(j) of Act 205 specifically requires the Auditor General, as deemed necessary, to make an audit of every municipality which receives general municipal pension system state aid and of every municipal pension plan and fund in which general municipal pension system state aid is deposited.

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 Hatfield Township Municipal Employees Money Purchase Pension Plan is also governed by implementing regulations adopted by the former Public Employee Retirement Commission published at Title 16, Part IV of the Pennsylvania Code and applicable provisions of various other state statutes.

The Hatfield Township Municipal Employees Money Purchase Pension Plan is a single-employer defined contribution pension plan locally controlled by the provisions of Ordinance No. 638, for employees hired on or after January 1, 2013. The plan was established January 1, 2013. Active members are required to contribute 1.5 percent of compensation to the plan. The municipality is required to contribute 6 percent of compensation for 0-14 years of service, 7 percent of compensation for 15-19 years of service, 8 percent for 20-24 years of service and 3 percent of compensation for 25 or more years of service. As of December 31, 2018, the plan had 15 active members and 1 terminated member eligible for vested benefits in the future.

HATFIELD TOWNSHIP MUNICIPAL EMPLOYEES MONEY PURCHASE PENSION PLAN  
FINDING AND RECOMMENDATION

**Finding – 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 the provisions of the retirement plan administered by Fidelity Investments.

Criteria: Article 3, Section 3.2(c) of the retirement plan document states:

Forfeitures for the plan year shall be used to reduce employer contributions for the plan year in which such forfeitures occur.

Cause: Municipal officials were unaware of the procedure for disposing of the forfeited assets in the account.

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. As of December 31, 2018, funds amounting to \$11,735 were available for use in the unallocated forfeiture account.

Recommendation: We recommend that the township contact the plan administrator to arrange for the unallocated account balance to be applied against the township's future obligations to the plan. We also recommend that the municipality review the forfeiture policy with the plan administrator to ensure that, in the future, all available unused assets are properly used to meet plan obligations.

Management's Response: Municipal officials agreed with the finding without exception.

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

HATFIELD TOWNSHIP MUNICIPAL EMPLOYEES MONEY PURCHASE PENSION PLAN  
SUMMARY OF DEPOSITED STATE AID AND EMPLOYER CONTRIBUTIONS

| Year Ended December 31 | State Aid | Employer Contributions |
|------------------------|-----------|------------------------|
| 2013                   | None      | \$ 8,168               |
| 2014                   | None      | 12,662                 |
| 2015                   | None      | 15,093                 |
| 2016                   | None      | 20,909                 |
| 2017                   | None      | 27,159                 |
| 2018                   | None      | 40,902                 |



HATFIELD TOWNSHIP MUNICIPAL EMPLOYEES MONEY PURCHASE PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

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