

COMPLIANCE AUDIT

Lansdale Borough Non-Uniformed Primary Union Pension Plan Montgomery County, Pennsylvania For the Period January 1, 2019 to December 31, 2022

May 2024



Commonwealth of Pennsylvania
Department of the Auditor General

Timothy L. DeFoor • Auditor General



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**TIMOTHY L. DEFOOR
AUDITOR GENERAL**

The Honorable Mayor and Borough Council
Lansdale Borough
Montgomery County
Lansdale, PA 19446

We have conducted a compliance audit of the Lansdale Borough Non-Uniformed Primary Union 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 finding and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our finding and conclusions based on our audit objectives.

The objectives of the audit were:

1. To determine if municipal officials took appropriate corrective action to address the finding contained in our prior report; and
2. 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 objectives identified above. To determine if municipal officials took appropriate corrective action to address the finding contained in our prior report, we inquired of plan officials and evaluated supporting documentation provided by officials evidencing that the suggested corrective action has been appropriately taken. 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:

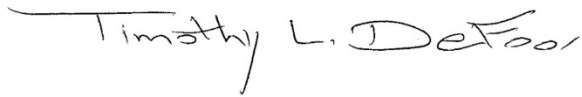
- We determined whether state aid was properly determined and deposited in accordance with Act 205 requirements by verifying the annual deposit date of state aid and determining whether deposits were made within 30 days of receipt for all years within the period under audit.
- We determined whether annual 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 39 active employees employed during the audit period amounting to \$49,045, \$49,525, \$51,107, and \$55,228, for the years 2019, 2020, 2021, and 2022, 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 comparing these amounts to supporting documentation evidencing amounts determined and actually paid to the recipients.
- 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.

Borough officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Lansdale Borough Non-Uniformed Primary Union 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 objectives.

The results of our procedures indicated that, in all significant respects, the Lansdale Borough Non-Uniformed Primary Union 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 Forfeiture

The contents of this report were discussed with officials of Lansdale Borough and, where appropriate, their responses have been included in the report. We would like to thank borough 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 horizontal line above the first few letters.

Timothy L. DeFoor
Auditor General
March 15, 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 Lansdale Borough Non-Uniformed Primary Union 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 Lansdale Borough Non-Uniformed Primary Union Pension Plan is a single-employer defined contribution pension plan locally controlled by the provisions of Ordinance No. 1587. The plan is also affected by the provisions of collective bargaining agreements between the borough and its non-uniformed employees. The plan was established January 1, 1983. Active members are required to contribute 1 or 2.5 percent of wages to the plan, based on their age. The municipality is required to contribute between 4 and 10.5 percent of each member's wages based on the member's age. As of December 31, 2022, the plan had 38 active members, 1 terminated member eligible for vested benefits in the future, and 5 retirees receiving pension benefits.

LANSDALE BOROUGH NON-UNIFORMED PRIMARY UNION PENSION PLAN
STATUS OF PRIOR FINDING

Compliance With Prior Recommendation

Lansdale Borough has complied with the prior recommendation concerning the following:

- Incorrect Data On Certification Form AG 385 Resulting In A Net Overpayment Of State Aid

During the current audit period, the borough reimbursed \$66,699 to the Commonwealth for the net overpayment of state aid received in 2016, 2017, and 2018.

LANSDALE BOROUGH NON-UNIFORMED PRIMARY UNION PENSION PLAN
FINDING AND RECOMMENDATION

Finding – Failure To Properly Allocate Forfeitures

Condition: The borough 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 Mission Square Retirement Investments.

Criteria: Article IX, Section 9.3 of the retirement plan document states:

Any Forfeiture shall be credited to the Forfeiture account upon the occurrence of a 1-Year Break in Service following the Participant's Termination of Employment.

Any amount in the Forfeiture account shall be used by the Employer to reduce and in lieu of the Employer Contribution next due under Section 4.1 at the earliest opportunity after such Forfeiture becomes available.

Cause: Municipal officials were unaware of the existence of the unallocated account which holds the previously forfeited amounts. Municipal officials were also unaware of the procedure for disposing of the assets in the account.

Effect: As a result of not properly applying forfeitures in accordance with the governing document, the borough was required to contribute additional funds from the general fund. As of December 31, 2022, funds amounting to \$11,815 were available for use in the unallocated forfeiture account.

Recommendation: We recommend that the borough contact the plan administrator to arrange for the unallocated account balance to be applied against the borough'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's Conclusion: Compliance will be evaluated during our next audit of the plan.

LANSDALE BOROUGH NON-UNIFORMED PRIMARY UNION PENSION PLAN
SUMMARY OF DEPOSITED STATE AID AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid	Employer Contributions
2017	None	\$ 223,219
2018	None	241,746
2019	None	281,513
2020	None	277,089
2021	None	277,477
2022	None	281,994

LANSDALE BOROUGH NON-UNIFORMED PRIMARY UNION PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Joshua D. Shapiro
Governor
Commonwealth of Pennsylvania

The Honorable Garry Herbert
Mayor

Ms. Mary Fuller
Borough Council President

Mr. John J. Ernst
Borough Manager

Mr. Glenn Dickerson
Finance Director

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.