

COMPLIANCE AUDIT

London Britain Township Non-Uniformed Pension Plan Chester County, Pennsylvania For the Period January 1, 2018 to December 31, 2022

April 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
London Britain Township
Chester County
Kemblesville, PA 19347

We have conducted a compliance audit of the London Britain 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 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.
- 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 active employees employed during the audit period amounting to \$8,811, \$9,074, \$8,949, \$10,080, and \$10,594, for the years 2018, 2019, 2020, 2021, and 2022, respectively, made during the audit period.
- We determined whether retirement benefits calculated for the plan member who retired during the current audit period represent payments to 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 benefit 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, 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.

The London Britain Township Non-Uniformed Pension Plan participates in the Pennsylvania Municipal Retirement System (PMRS), which is an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for participating municipal pension plans. PMRS issues a separate Annual Comprehensive Financial Report, copies of which are available from the PMRS accounting office. PMRS's financial statements were not audited by us and, accordingly, we express no opinion or other form of assurance on them.

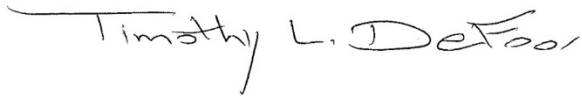
Township officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the London Britain Township Non-Uniformed Pension Plan is administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and 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 London Britain 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 finding further discussed later in this report:

Finding – Receipt Of State Aid In Excess Of Entitlement

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 London Britain 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.

A handwritten signature in black ink that reads "Timothy L. DeFoor". The signature is written in a cursive style with a long horizontal line extending to the left of the first letter.

Timothy L. DeFoor
Auditor General
April 22, 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 London Britain 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.

The London Britain Township Non-Uniformed Pension Plan is a single-employer cash balance pension plan locally controlled by the provisions of Ordinance No. 20-01, and a separately executed plan agreement with the plan's custodian effective September 1, 2020, adopted pursuant to Act 15. Prior to September 1, 2020, the plan was locally controlled by the provisions of Ordinance No. 11-2 and an agreement adopted pursuant to Act 15. The plan was established January 1, 2017. Active members are required to contribute three percent of their compensation to the plan. The municipality is required to contribute three percent of each member's compensation to the plan. As of December 31, 2022, the plan had five active members, three terminated members eligible for vested benefits in the future, and two retirees receiving pension benefits.

LONDON BRITAIN TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDING AND RECOMMENDATION

Finding – Receipt Of State Aid In Excess Of Entitlement

Condition: The township received state aid in excess of the pension plan’s pension costs for full-time plan members in the year 2018, as illustrated below:

State aid allocation	\$	3,623
Forfeitures available		5,768
Actual municipal pension costs for full time plan Members		<u>(7,897)</u>
Excess state aid	\$	<u>1,494</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.

In addition, Section 402(e)(2) of Act 205 states, in part:

The applicable number of units shall be attributable to each active employee who was employed on a full-time basis for a minimum of six consecutive months....

Therefore, Act 205 state aid funding may only be used to fund the pension costs attributable to full-time employees.

Cause: Plan officials failed to reconcile the township’s state aid allocation and employee forfeitures available to reduce municipal contributions with the plan’s actual pension costs attributable to full-time plan members during 2018.

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 year 2018 must be returned to the Commonwealth for redistribution.

LONDON BRITAIN TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

Recommendation: We recommend that the municipality return the excess state aid received in the year 2018 to the Commonwealth from the pension plan. A check in the amount of \$1,494, 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.

Furthermore, we recommend that, in the future, plan officials reconcile the township's annual state aid allocation 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: Township official provided the following response:

The Township calculated and refunded, in good faith, the amount of excess state aid for 2018. The audit clarified the process, and the Township is in agreement with the finding that additional funds should have been refunded to the state. The failure to return all excess of state aid was not intentional on the part of the Township.

Auditor's Conclusion: Compliance will be monitored subsequent to the release of the audit report and through our next audit of the pension plan.

LONDON BRITAIN TOWNSHIP NON-UNIFORMED PENSION PLAN
 SUPPLEMENTARY INFORMATION
 (UNAUDITED)

SCHEDULE OF CONTRIBUTIONS

Year Ended December 31	Statutorily Required Contribution (SRC)*	Contributions in Relation to the SRC*	Contribution Deficiency (Excess)**	Covered- Employee Payroll	Contributions as a Percentage of Covered- Employee Payroll
2014	\$ 8,868	\$ 8,674	\$ 194	\$ 290,282	2.99%
2015	8,942	8,942	-	292,734	3.05%
2016	8,879	7,679	1,200	290,599	2.64%
2017	8,868	20	8,848	289,590	0.01%
2018	8,991	7,919	1,072	293,708	2.70%
2019	9,295	16,053	(6,758)	302,474	5.31%
2020	9,149	(4,913)	14,062	298,297	(1.65%)
2021	10,280	10,280	-	335,985	3.06%
2022	10,775	9,898	1	353,152	3.05%

* The Statutorily Required Contribution (SRC) is a contribution amount based upon the payroll and the contribution rate as outlined under the terms of the cash balance pension plan.

** The SRC and the actual Contribution in Relation to the SRC were provided by the custodian. Deviation between these amounts may be due to contributions to or transfers from the municipal reserve account.

In 2014, the township met the plan's \$8,708 funding requirement through the deposit of \$7,188 in state aid and \$1,520 in employer contributions.

In 2015, the township met the plan's \$8,782 funding requirement through the deposit of \$7,463 in state aid and \$1,319 in employer contributions.

In 2016, the township met the plan's \$8,718 funding requirement through the deposit of \$6,476 in state aid and \$879 in employer contributions and the allocation of \$1,363 in terminated employee forfeitures.

In 2017, the township met the plan's \$8,688 funding requirement through the allocation of \$8,688 in terminated employee forfeitures.

LONDON BRITAIN TOWNSHIP NON-UNIFORMED PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

In 2018, the township met the plan's \$7,897 funding requirement through the deposit of \$3,623 in state aid (*which included \$1,494 of excess state aid as noted in the finding contained in this report*) and the allocation of \$5,768 in terminated employee forfeitures.

In 2019, the township met the plan's \$8,024 funding requirement through the deposit of \$7,401 in state aid and the allocation of \$643 in employer contributions.

In 2020, the township met the plan's \$6,257 funding requirement through the deposit of \$4,581 in state aid and the allocation of \$1,676 in terminated employee forfeitures.

In 2021, the township met the plan's \$9,141 funding requirement through the deposit of \$5,537 in state aid and \$3,604 in employer contributions.

In 2022, the township met the plan's \$9,642 funding requirement through the deposit of \$9,020 in state aid and \$622 in employer contributions.

LONDON BRITAIN 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. Brian Sachs
Chair, Board of Township Supervisors

Ms. Annette Stejskal
Chief Administrative Officer

Mr. Richard Cardamone, CPA, CGMA
Pennsylvania Municipal Retirement System

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.