

COMPLIANCE AUDIT

Londonderry Township Non-Uniformed Pension Plan Dauphin County, Pennsylvania For the Period January 1, 2015 to December 31, 2018

January 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
Londonderry Township
Dauphin County
Middletown, PA 17057

We have conducted a compliance audit of the Londonderry Township Non-Uniformed 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 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 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. State aid allocations 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 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 that there were no employee contributions required by the plan's governing document and applicable laws and regulations for the years covered by our audit period.
- We determined whether retirement benefits calculated for all seven plan members who terminated employment and/or retired and elected 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, 2015 and January 1, 2017 actuarial valuation reports were prepared and submitted by March 31, 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.


Township officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Londonderry Township Non-Uniformed 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 Londonderry 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 findings further discussed later in this report:

- Finding No. 1 – Incorrect Data On Certification Form AG 385 Resulting In An Overpayment Of State Aid
- Finding No. 2 – Receipt Of State Aid In Excess Of Entitlement
- Finding No. 3 – Untimely Deposit Of State Aid
- Finding No. 4 – Failure To Properly Fund Members' Accounts
- Finding No. 5 – Failure To Appoint A Chief Administrative Officer
- Finding No. 6 – Failure To Maintain An Adequate Record-Keeping System

The contents of this report were discussed with officials of Londonderry 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.

January 2, 2020


EUGENE A. DEPASQUALE
Auditor General

CONTENTS

	<u>Page</u>
Background.....	1
Findings And Recommendations:	
Finding No. 1 – Incorrect Data On Certification Form AG 385 Resulting In An Overpayment Of State Aid.....	2
Finding No. 2 – Receipt of State Aid In Excess of Entitlement.....	3
Finding No. 3 – Untimely Deposit of State Aid.....	4
Finding No. 4 – Failure To Properly Fund Members’ Accounts	6
Finding No. 5 – Failure To Appoint A Chief Administrative Officer	7
Finding No. 6 – Failure To Maintain An Adequate Record-Keeping System.....	8
Summary Of Deposited State Aid And Employer Contributions.....	10
Report Distribution List	11

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 Londonderry Township Non-Uniformed 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 Londonderry Township Non-Uniformed Pension Plan is a single-employer defined contribution pension plan locally controlled by the provisions of Resolution No. 2016-7. The plan was established January 1, 2012. Active members are not required to contribute to the plan. The municipality is required to contribute 5 percent of each participant's compensation. As of December 31, 2018, the plan had 8 active members, and 6 terminated members eligible for vested benefits in the future.

LONDONDERRY TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Incorrect Data On Certification Form AG 385 Resulting In An Overpayment Of State Aid

Condition: The township certified an ineligible non-uniformed employee (1 unit) and overstated payroll by \$55,234, \$37,217, and \$18,259 on the Certification Form AG 385s filed in 2015, 2017 and 2018, respectively. The data contained on these certification forms is based on prior calendar year information.

Criteria: Pursuant to Act 205, at Section 402(e)(2), in order to be eligible for certification, an employee must have been employed on a full-time basis for at least six consecutive months and must have been participating in a pension plan during the certification year. In addition, the plan’s separately executed money purchase plan adoption agreement with the plan’s custodian contains a more stringent one-year service requirement prior to an employee’s eligibility to participate in the township’s pension plan.

Cause: Plan officials failed to establish adequate internal control procedures to ensure the accuracy of the data certified.

Effect: The data submitted on these certification forms is used, in part, to calculate the state aid due to the municipality for distribution to its pension plan. Because the township’s state aid allocations were based on pension costs, the incorrect certification of pension data affected the township’s state aid allocations, as identified below:

<u>Year</u>	<u>Normal Cost</u>	<u>Payroll Overstated</u>	<u>State Aid Overpayment</u>
2015	5.0%	\$ 55,234	\$ 2,762
2017	5.0%	\$ 37,217	1,861
2018	5.0%	\$ 18,259	913
Total Overpayment of State Aid			<u>\$ 5,536</u>

Recommendation: We recommend that the total excess state aid, in the amount of \$5,536, plus interest, be returned to the Commonwealth. A check in this amount, with interest compounded annually from date of receipt to date of repayment, at a rate earned by the pension 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 the check.

LONDONDERRY TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

We also recommend that in the future, plan officials establish adequate internal control procedures, such as having at least two people review the data certified, to ensure compliance with the instructions that accompany Certification Form AG 385 and the plan’s governing document to assist them in accurately reporting the required pension data.

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.

Finding No. 2 – Receipt Of State Aid In Excess Of Entitlement

Condition: The township received state aid in excess of the pension plan’s defined contribution pension costs in the years 2016 and 2017, as illustrated below:

	<u>2016</u>	<u>2017</u>
Actual municipal pension costs	\$ 34,260	\$ 29,166
Available Forfeitures	(11,471)	(949)
Adjusted actual municipal pension costs	22,789	28,217
State aid allocation <i>(net of \$1,861 excess state aid for 2017 as disclosed in Finding No. 1)</i>	23,188	30,408
Excess state aid	\$ 399	\$ 2,191

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.

Cause: Plan officials failed to establish adequate internal control procedures to reconcile the township’s state aid allocation and available plan forfeitures to reduce required municipal contributions, with the plan’s actual defined contribution pension costs.

LONDONDERRY TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

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 years 2016 and 2017 in the total amount of \$2,590 must be returned to the Commonwealth for redistribution.

Recommendation: We recommend that the municipality return the total excess state aid received in the years 2016 and 2017 amounting to \$2,590 to the Commonwealth. A check in this amount, 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: Municipal officials agreed with the finding without exception.

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

Finding No. 3 – Untimely Deposit Of State Aid

Condition: The municipality did not deposit its 2016, 2017 and 2018 state aid allocations into the pension plan within the 30 day grace period allowed by Act 205. The municipality received its 2016, 2017, and 2018 state aid in the amounts of \$23,188, \$32,269 and \$27,133, respectively, on September 27, 2016, September 27, 2017 and September 20, 2018, respectively, but did not deposit these funds into its pension plan until December 12, 2016, February 14, 2018, and April 15, 2019, respectively. In addition, subsequent to the current audit period, the municipality received its 2019 state aid in the amount of \$28,345 on September 21, 2019; however, as of the date of this report, we were unable to verify that the township deposited these funds into its 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 the pension plan.

LONDONDERRY TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

Cause: The township recently established its pension plan and began receiving state aid for the first time during 2015. Plan officials were unaware of the specific requirements of Act 205 and failed to establish adequate internal control procedures to ensure the timely deposit of such state aid.

Effect: Although the state aid for 2016, 2017 and 2018 was eventually deposited into the plan, the interest earned beyond the 30 day grace period prescribed by Act 205 was not deposited into the plan. When state aid is not deposited into a pension plan account in a timely manner, 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 ensure that the township's 2019 state aid allocation was appropriately into the pension plan. In addition, we also recommend that the municipality pay the pension plan the interest earned during the period beyond the 30 day grace period afforded by Act 205, compounded annually, for all of the years impacted. A copy of the interest calculation must be maintained by the township for examination during our next audit of the plan.

We also recommend that plan officials develop and implement adequate internal control procedures to ensure that future state aid allocations are deposited timely in accordance with Act 205 requirements.

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.

LONDONDERRY TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 4 – Failure To Properly Fund Members’ Accounts

Condition: The township failed to properly fund members’ accounts in accordance with the plan’s governing document. The township allocated excess contributions into the accounts of two members and did not fully fund the accounts of nine other members during 2015 as illustrated below:

<u>Employee Hire Date</u>	<u>Actual Contributions</u>	<u>Required Contributions</u>	<u>Contributions In Excess (Due)</u>
04/04/76	\$ 3,266	\$ 3,299	\$ (33)
01/13/03	2,139	2,458	(319)
03/22/04	1,894	2,007	(113)
07/01/04	3,284	3,297	(13)
07/12/04	1,514	1,738	(224)
07/05/05	4,686	4,794	(108)
10/05/09	1,534	1,673	(139)
04/08/13	1,248	624	624
05/12/14	1,144	538	606
12/01/14	1,040	1,322	(282)
06/22/15	2,500	2,600	(100)
		Total	<u>\$ (101)</u>

Criteria: The plan’s adoption agreement effective January 1, 2012, Section 27, states:

The employer shall contribute five percent (5%) of the each Participant’s Compensation.

Cause: Plan officials failed to establish adequate internal control procedures to ensure that the plan members’ accounts were properly funded in accordance with the plan document.

Effect: The failure to properly allocate contributions to members’ accounts has resulted in certain plan members receiving benefits in excess of those to which they are entitled and other members being denied benefits to which they are entitled in accordance with the plan’s governing document.

Recommendation: We recommend that the township review the applicable members’ accounts and make the adjustments deemed necessary to ensure that they are funded in accordance with the provisions contained in the plan’s governing document.

We also recommend that plan officials implement adequate internal control procedures to ensure that the members’ accounts are properly funded in accordance with the provisions contained in the plan’s governing document.

LONDONDERRY TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 4 – (Continued)

Management’s Response: Municipal officials agreed with the finding without exception and indicated that they will take appropriate action to comply with the recommendation upon receipt of the audit report.

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

Finding No. 5 – Failure To Appoint A Chief Administrative Officer

Condition: Municipal officials did not appoint a chief administrative officer (CAO) for the pension plan by ordinance, resolution or by a motion recorded in the minutes of a council meeting.

Criteria: Section 102 of Act 205 defines the CAO as “The person who has primary responsibility for the execution of the administrative affairs of the municipality in the case of the municipality, or of the pension plan in the case of the pension plan, or the designee of that person.”

Municipal officials may appoint two CAOs - one for the pension plan and one for the municipality or appoint one person to fill both positions. Act 205 identifies specific duties for each position, as follows:

CAO Of The Municipality

- Supervise and direct the preparation of actuarial reports (Section 201(d));
- Certify and file actuarial valuation reports with the Public Employee Retirement Commission (Section 201(b)); and
- Make actuarial report information available to plan members (Section 201(e)).

CAO Of The Pension Plan

- Annually, determine and submit to the governing body of the municipality the financial requirements of the pension plan and minimum municipal obligation (Section 302(b), Section 302(c), Section 303(b), Section 303(c) and Section 304); and
- Provide the governing body of the municipality with a cost estimate of the effect of any proposed benefit plan modification (Section 305(a)).

LONDONDERRY TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 5 – (Continued)

Cause: Plan officials were unaware of the need to appoint a CAO for the pension plan in accordance with Act 205 provisions.

Effect: The failure to formally appoint a CAO could result in important filing deadlines being overlooked, state aid being adversely affected and delayed and investment opportunities being lost.

Recommendation: Because of the significance of the CAO's responsibilities to the municipality and pension plan, we recommend that the CAO be formally appointed by ordinance, resolution or motion recorded in the minutes of a council meeting. Such ordinance, resolution or motion should detail the CAO's responsibilities and be filed with other plan documents.

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.

Finding No. 6 – Failure To Maintain An Adequate Record-Keeping System

Condition: The municipality did not maintain adequate financial records or statements of the brokerage account of the pension plan sufficient to effectively monitor the activity in this account. In addition, the municipality did not maintain adequate records evidencing the establishment of the plan or personnel records to support important plan information relative to its employees participating in the pension plan.

Criteria: Assets held in a brokerage account for the purpose of plan management are to be governed by the terms and provisions of the account contract, provided that the terms and provisions of the contract are within the parameters of all prevailing pension legislation. Although the municipality may contract with a trustee to administer the financial management of the plan, the fiduciary responsibility for the plan remains with the municipality. Additionally, maintaining adequate, supportive documentation over the activity and transactions relative to a pension plan (including the establishment of the plan via properly executed local ordinance, resolution or documented motion in an organization's minutes and maintenance of personnel records evidencing the eligibility of individual employees' participation in the plan) is a prerequisite for the sound administration of a pension plan.

Cause: Plan officials were unaware of their various record-keeping responsibilities and the importance of establishing adequate internal control procedures over the monitoring and safeguarding of pension plan assets held through custodial accounts and maintenance of plan documentation.

LONDONDERRY TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 6 – (Continued)

Effect: Inadequate monitoring of the pension plan account could lead to undetected errors or improprieties in account transactions as well as deficiencies in authorizing and implementing pension plan policies and procedures. Although we were able to obtain copies from a third-party source in order to complete our audit procedures, the failure of plan officials to maintain adequate records prohibits municipal officials from effectively monitoring the plan’s financial operations.

Recommendation: We recommend that plan officials establish accounting and record-keeping procedures which meet the minimum record-keeping requirements of this department. Plan officials should refer to the Auditor General’s Bulletin No. 2-88 entitled “Preparation, Maintenance and Auditability of Financial Records,” for further guidance in establishing adequate accounting procedures.

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.

LONDONDERRY TOWNSHIP NON-UNIFORMED PENSION PLAN
SUMMARY OF DEPOSITED STATE AID AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid	Employer Contributions
2013	None	\$ 21,207
2014	None	27,932
2015	\$ 25,860	546
2016	23,188	None
2017	27,818	None
2018	27,133	\$ 3,745

Note: In 2015, the township met the plan's \$26,151 funding requirement through the deposit of \$25,860 in state aid, \$546 in employer contributions and \$2,508 in terminated employee forfeitures. In 2016, the township met the plan's \$34,260 funding requirement through the deposit of \$23,188 in state aid and \$11,472 in terminated employee forfeitures. In 2017, the township met the plan's \$29,166 funding requirement through the deposit of \$27,818 in state aid and \$949 in terminated employee forfeitures.

LONDONDERRY TOWNSHIP NON-UNIFORMED PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

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