

COMPLIANCE AUDIT

New Hanover Township Non-Uniformed Defined Contribution Pension Plan Montgomery County, Pennsylvania For the Period January 1, 2019 to December 31, 2022

November 2023



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
New Hanover Township
Montgomery County
Gilbertsville, PA 19525

We have conducted a compliance audit of the New Hanover Township Non-Uniformed Defined Contribution 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 findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings 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. State aid allocations 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 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 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 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 the distributed amounts to supporting documentation evidencing amounts determined and actually paid to the recipient.
- 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.

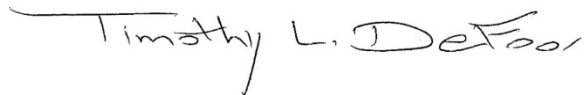
Township officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the New Hanover Township Non-Uniformed Defined Contribution Pension Plan is administered in compliance with applicable state laws, regulations, contracts, administrative 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 New Hanover Township Non-Uniformed Defined Contribution 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 – Partial Compliance With Prior Finding – Failure To Properly Fund Member Accounts

The finding contained in this audit report repeats a condition that was cited in our previous report that has not been corrected by township officials. We are concerned by the township's failure to correct this previously reported finding and strongly encourage timely implementation of the recommendations noted in this audit report.

The contents of this report were discussed with officials of New Hanover 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 from the start of the name.

Timothy L. DeFoor
Auditor General
October 30, 2023

CONTENTS

	<u>Page</u>
Background.....	1
Status of Prior Finding.....	2
Finding and Recommendation:	
Finding – Partial Compliance With Prior Finding – Failure To Properly Fund Member Accounts.....	3
Summary of Deposited State Aid and Employer Contributions.....	5
Report Distribution List.....	6

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 New Hanover Township Non-Uniformed Defined Contribution 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 New Hanover Township Non-Uniformed Defined Contribution Pension Plan is a single employer defined contribution pension plan locally controlled by the provisions of Ordinance 17-04. The plan was established June 1, 2016. Active members are not required to contribute to the plan. The municipality is required to contribute five percent of employee compensation. As of December 31, 2022, the plan had 12 active members and 1 terminated member eligible for vested benefits in the future.

NEW HANOVER TOWNSHIP NON-UNIFORMED
DEFINED CONTRIBUTION PENSION PLAN
STATUS OF PRIOR FINDING

New Hanover Township has partially complied with the prior recommendation concerning the following:

- Failure To Properly Fund Member Accounts

During the current audit period, the township made the appropriate financial adjustments to applicable members' accounts that were disclosed in the prior audit report. However, plan officials again failed to ensure that members' accounts were properly funded in accordance with the provisions contained in the plan's governing document as further discussed in the Findings and Recommendations section of this report.

NEW HANOVER TOWNSHIP NON-UNIFORMED
DEFINED CONTRIBUTION PENSION PLAN
FINDING AND RECOMMENDATION

Finding – Partial Compliance With Prior Finding – Failure To Properly Fund Member Accounts

Condition: As disclosed in the Status of Prior Finding section of this report, the township partially complied with the prior recommendation by making appropriate adjustments to the prior impacted members’ accounts. However, during the current audit period, a similar condition occurred. Plan officials again failed to ensure that members’ accounts were properly funded in accordance with the plan’s governing document. During 2019, three members’ accounts were found deficient while five members’ accounts received excess contributions, resulting in net excess contributions of \$392, and in 2020, five members’ accounts were noted as deficient while one member’s account received excess contributions, resulting in net deficient contributions of \$270, as illustrated below.

<u>2019 Employees</u>	<u>Required Contributions</u>	<u>Actual Contributions</u>	<u>Contributions Excess/(Deficient)</u>
1	\$ 688	\$ 871	\$ 183
2	5,718	5,947	229
3	1,041	923	(118)
4	616	554	(62)
5	906	825	(82)
6	654	695	42
7	2,032	2,135	102
8	2,273	2,371	98
		Total	<u>\$ 392</u>

<u>2020 Employees</u>	<u>Required Contributions</u>	<u>Actual Contributions</u>	<u>Contributions Excess/(Deficient)</u>
1	\$ 1,816	\$ 1,742	\$ (74)
2	1,800	1,721	(80)
3	2,203	2,095	(108)
4	217	319	102
5	1,005	977	(29)
6	228	147	(81)
		Total	<u>\$ (270)</u>

NEW HANOVER TOWNSHIP NON-UNIFORMED
DEFINED CONTRIBUTION PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

Criteria: Section 1 (E) of Ordinance 17-04 states, in part:

The Township shall contribute five percent (5%) of participating Employee Compensation to the DC Plan, which may be amended as needed by Resolution of the Board of Supervisors of New Hanover Township.

Cause: Plan officials again failed to establish adequate internal control procedures, such as maintaining an annual reconciliation of W-2 payroll to year end pensionable wage totals used in calculating required and actual contributions allocated to individual members' accounts, to ensure that eligible plan members' accounts were funded appropriately in accordance with provisions in the plan's governing document and compliance with the prior recommendation.

Effect: The failure to properly fund the members' accounts could result in plan members not receiving correct benefits to which they are entitled to in accordance with the plan's governing document.

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

We also again recommend that the township implement adequate internal control procedures to ensure that members' accounts are properly funded in subsequent periods, in accordance with the provisions contained in the plan's governing document.

Management's Response: The township provided the following response:

We disagree with the finding. We have provided the documentation necessary to support the funding of the member accounts in question. However, we again have reviewed the members' accounts and determined that there are not any adjustments that we deem necessary.

Auditor's Conclusion: Based on the Management Response, we acknowledge the township's disagreement; however, the finding remains as stated. Supplemental action taken by the township, along with compliance in subsequent periods will be evaluated during our next audit of the plan.

NEW HANOVER TOWNSHIP NON-UNIFORMED
DEFINED CONTRIBUTION PENSION PLAN
SUMMARY OF DEPOSITED STATE AID AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid	Employer Contributions
2017	None	\$ 13,039
2018	\$ 26,488	3,942
2019	None	19,485
2020	15,547	2,829
2021	18,404	12,572
2022	26,402	9,154

Note: In 2019, the township met the plan's \$25,915 funding requirement through the deposit of \$19,057 in employer contributions and the allocation of \$6,858 in terminated employee forfeitures. In 2020, the township met the plan's \$29,602 funding requirement through the deposit of \$15,547 in state aid and \$9,432 in employer contributions and the allocation of \$4,623 in terminated employee forfeitures.

NEW HANOVER TOWNSHIP NON-UNIFORMED
DEFINED CONTRIBUTION PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Joshua D. Shapiro
Governor
Commonwealth of Pennsylvania

Ms. Livelsberger
Chair, Board of Township Supervisors

Mr. William Ross Snook
Vice Chair, Board of Township Supervisors

Mr. Jamie Gwynn
Chief Administrative Officer

Mr. Kurt Zebrowski
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Township Supervisor

Mr. Keith Youse
Township Supervisor

Ms. Michele Smith
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.