

COMPLIANCE AUDIT

Londonderry Township Non-Uniformed Pension Plan Dauphin County, Pennsylvania

November 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
Londonderry Township
Dauphin County
Middletown, PA 17057

We have conducted a compliance audit of the Londonderry Township Non-Uniformed Pension Plan 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 findings 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 findings 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 for the periods noted above, our methodology included the following.

- For the period January 1, 2019 to December 31, 2023, 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. State aid allocations that were deposited into the pension plan for the years ended December 31, 2018 to December 31, 2023, are presented on the Summary of Deposited State Aid and Employer Contributions.
- For the period January 1, 2019 to December 31, 2023, 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, 2018 to December 31, 2023, are presented on the Summary of Deposited State Aid and Employer Contributions.
- For the period January 1, 2022 to December 31, 2023, we determined that there was no employee contribution required by the plan's governing document and applicable laws and regulations.
- For the period January 1, 2022 to December 31, 2023, we determined whether retirement benefits calculated for plan members who separated employment and received a lump-sum distribution during the period noted 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 recalculating the amount of the pension benefits due to the vested individuals and comparing these amounts to supporting documentation evidencing amounts determined and actually paid to the recipients.
- We determined whether the January 1, 2023 actuarial valuation report was prepared and submitted by March 31, 2024 in accordance with Act 205 and whether selected information provided on this report 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.

Londonderry Township contracted with an independent certified public accounting firm for annual audits of its basic financial statements which are available at the township's offices. Those 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 Londonderry Township Non-Uniformed Pension Plan is administered in compliance with applicable state laws, regulations, contracts, administrative

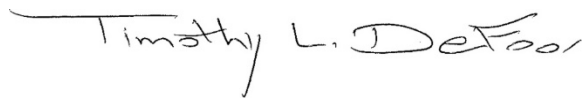
procedures, and local ordinances and policies. As previously described, we tested transactions, interviewed selected officials, and performed procedures to the extent necessary to provide reasonable assurance of detecting instances of noncompliance with legal and regulatory requirements or noncompliance with provisions of contracts, administrative procedures, and local ordinances and policies that are significant within the context of the audit objectives.

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 for the periods noted above, except as noted in the following findings further discussed later in this report:

- Finding No. 1 – Partial Compliance With Prior Audit Recommendation – Incorrect Data On Certification Form AG 385 Resulting In An Overpayment Of State Aid
- Finding No. 2 – Partial Compliance With Prior Audit Recommendation – Receipt Of State Aid In Excess Of Entitlement
- Finding No. 3 – Partial Compliance With Prior Audit Recommendation – Failure To Properly Fund Members' Accounts

The findings contained in this audit report repeat conditions that were cited in our previous report that have not been completely corrected by township officials. We are concerned by the township's failure to correct those previously reported findings and strongly encourage timely implementation of the recommendations noted in this audit report.

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.



Timothy L. DeFoor
Auditor General
October 17, 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 Londonderry 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 Londonderry Township Non-Uniformed Pension Plan is a single-employer defined contribution pension plan locally controlled by the provisions of Resolution No. 2016-7, as amended. The plan was established January 1, 2012. Active members are not required to contribute to the plan. The municipality was required to contribute five percent of each participant's compensation for the years 2019 through 2022 and ten percent of each participant's compensation for the year 2023. As of December 31, 2023, the plan had nine active members and one terminated member eligible for vested benefits in the future.

LONDONDERRY TOWNSHIP NON-UNIFORMED PENSION PLAN
STATUS OF PRIOR FINDINGS

Compliance With Prior Recommendations

Londonderry Township has complied with the prior recommendations concerning the following:

- Untimely Deposit of State Aid

The township deposited the 2019 state aid allocation into the pension plan, with interest, on July 1, 2021, along with the interest due for the late deposits of the 2016, 2017, and 2018 state aid allocations. In addition, during the period subject to audit, the township implemented adequate internal control procedures which ensured that the state aid was consistently deposited in accordance with the requirements of Act 205.

- Failure To Appoint A Chief Administrative Officer

The township formally appointed a chief administrative officer for its pension plan by adopting Resolution No. 2020-04, effective January 6, 2020.

- Failure To Maintain An Adequate Record-Keeping System

During the period subject to audit, the township maintained an adequate record-keeping system.

Partial Compliance With Prior Recommendations

Londonderry Township has partially complied with the prior recommendations concerning the following:

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

During the period subject to audit, the township reimbursed \$5,536, plus interest, to the Commonwealth for the overpayment of state aid received in the years 2015, 2017, and 2018. However, the township again failed to comply with the instructions that accompany Certification Form AG 385 to assist them in accurately reporting the required pension data as further discussed in the Findings and Recommendations section of this report.

- Receipt Of State Aid In Excess Of Entitlement

During the period subject to audit, the township returned the excess state aid received in the years 2016 and 2017, totaling \$2,590, to the Commonwealth, plus interest. However, the township again received state aid in excess of the pension plan's defined contribution pension costs as further discussed in the Findings and Recommendations section of this report.

LONDONDERRY TOWNSHIP NON-UNIFORMED PENSION PLAN
STATUS OF PRIOR FINDINGS

Partial Compliance With Prior Recommendations – (Continued)

· Failure To Properly Fund Members' Accounts

During the period subject to audit, the township reviewed the applicable members' accounts and made the adjustments deemed necessary to ensure that they are funded in accordance with the provisions contained in the plan's governing document. However, the township again failed to properly fund members' accounts for the year 2023 in accordance with the provisions contained in the plan's governing document, as further discussed in the Findings and Recommendations section of this report.

LONDONDERRY TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Partial Compliance With Prior Audit Recommendation – Incorrect Data On Certification Form AG 385 Resulting In An Overpayment Of State Aid

Condition: As disclosed in the Status of Prior Findings section of this report, the township partially complied with the prior recommendation by reimbursing the Commonwealth for the overpayment of state aid received in the years 2015, 2017, and 2018. However, a similar condition occurred during the period subject to audit. The township certified an ineligible non-uniformed employee (1 unit) on the Certification Form AG 385 filed in 2024. The data contained on this certification form 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. The applicable number of units attributable to each eligible recipient city, borough, incorporated town, and township shall be two units for each police officer and firefighter and one unit for each employee other than police officer or firefighter.

In addition, the pension plan’s adoption agreement requires one year of service for plan membership and sets a member’s plan entry date as the first day of the plan year in which requirements are met.

Cause: The township certified an employee who was hired on May 29, 2023, but did not meet the plan’s eligibility requirements for plan membership until January 1, 2024. Additionally, the township lacked adequate internal control procedures, such as having another individual review the data certified, to ensure compliance with the instructions that accompanied Certification Form AG 385 prior to submission.

Effect: The data submitted on this certification form 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 allocation was based on unit value, the incorrect certification of pension data affected the township’s state aid allocation, as identified below:

<u>Year</u>	<u>Units Overstated</u>	<u>Unit Value</u>	<u>State Aid Overpayment</u>
2024	1	\$ 6,292	\$ 6,292

Furthermore, the township’s future state aid allocations may be withheld until the finding recommendation is complied with.

LONDONDERRY TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Recommendation: We recommend that the total overpayment of state aid, in the amount of \$6,292, be reimbursed 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.

Furthermore, we again recommend that, in the future, the township 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 to assist them in accurately reporting the required pension data.

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

Auditor’s Conclusion: Due to the potential withhold of state aid, the township’s compliance with the finding recommendation will be monitored subsequent to the release of the audit report and through our next audit of the plan.

Finding No. 2 – Partial Compliance With The Prior Audit Recommendation – Receipt Of State Aid In Excess Of Entitlement

Condition: As disclosed in the Status of Prior Findings section of this report, the township partially complied with the prior recommendation by reimbursing the Commonwealth for the overpayment of state aid received in the years 2016 and 2017. However, a similar condition occurred during the period subject to audit which resulted in the township receiving state aid in excess of the pension plan’s defined contribution pension costs in the year 2019, as illustrated below:

Actual municipal pension costs	\$	25,968
Available forfeitures		(6,939)
Adjusted actual municipal pension costs		19,029
State aid allocation		28,345
Excess state aid	\$	9,315

LONDONDERRY TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

In addition, as of the date of our audit fieldwork completion, the excess state aid remains in the township's general fund and has not been deposited into the pension plan according to municipal records.

We also noted that the township incorrectly returned state aid received in the years 2022 and 2023 in the amounts of \$107 and \$2,315, respectively, to the Commonwealth. However, the township incurred reimbursable pension costs and did not in fact receive state aid in excess of the plan's defined contribution pension costs in those years.

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: The township failed to establish adequate internal control procedures to reconcile the township's state aid allocation and available plan forfeitures to reduce municipal contributions with the plan's actual defined contribution pension costs.

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 2019 in the amount of \$9,315 must be returned to the Commonwealth for redistribution.

Furthermore, the township's future state aid allocations may be withheld until the finding recommendation is complied with.

Recommendation: We recommend that the municipality return excess state aid in the amount of \$6,893 to the Commonwealth, representing the \$9,315 excess state aid received in 2019 less the \$2,422 of 2022 and 2023 state aid previously returned. 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.

LONDONDERRY TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

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: Due to the potential withhold of state aid, the township’s compliance with the finding recommendation will be monitored subsequent to the release of the audit report and through our next audit of the plan.

Finding No. 3 – Partial Compliance With Prior Audit Recommendation – Failure To Properly Fund Members’ Accounts

Condition: As disclosed in the Status of Prior Findings section of this report, the township partially complied with the prior recommendation by reviewing the applicable members’ accounts and making the adjustments deemed necessary to ensure that they are funded in accordance with the provisions contained in the plan’s governing document. However, a similar condition occurred during the period subject to audit.

The township failed to properly fund members’ accounts in accordance with the plan’s governing document for the year 2023. The required employer contributions were determined to be \$65,965 but as of December 31, 2023, the township only deposited \$31,564 into members’ accounts, leaving employer contributions of \$34,401 outstanding. On August 23, 2024, the township deposited \$31,564 of employer contributions into members’ accounts for the year 2023. However, as of the date of this report, \$2,837 of employer contributions are still outstanding.

Criteria: The plan’s adoption agreement effective January 1, 2023, Section 30, states:

Employer Nonelective Contributions: Fixed contribution equal to 10% of Compensation of Participants eligible to share in allocations.

Section 302(d) of Act 205 states, in part:

The minimum obligation of the municipality shall be payable to the pension plan from the revenue of the municipality.

LONDONDERRY TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

Furthermore, Section 302(e) of Act 205 states:

Any amount of the minimum obligation of the municipality which remains unpaid as of December 31 of the year in which the minimum obligation is due shall be added to the minimum obligation of the municipality for the following year, with interest from January 1 of the year in which the minimum obligation was first due until the date the payment is paid at a rate equal to the interest earned by the plan or the discount rate applicable to treasury bills issued by the Department of Treasury of the United States with a six-month maturity as of the last business day in December of the plan year in which the obligation was due, whichever is greater, expressed as a monthly rate and compounded monthly.

Cause: The township again failed to establish adequate internal control procedures to ensure that the plan members' accounts were properly funded in accordance with the plan document. Municipal officials amended the plan adoption agreement, effective January 1, 2023, to increase the employer contribution rate to ten percent from five percent of each participant's compensation but municipal officials failed to apply the correct employer contribution rate in order to determine the employer contributions due for 2023.

Effect: The failure to properly allocate contributions to members' accounts has resulted in members being denied benefits to which they are entitled in accordance with the plan's governing document.

Recommendation: We again 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.

Furthermore, we again recommend that the township 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.

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: We are concerned that the municipality has not fully complied with the prior audit recommendation and encourage compliance at the earliest opportunity to do so.

LONDONDERRY TOWNSHIP NON-UNIFORMED PENSION PLAN
POTENTIAL WITHHOLD OF STATE AID

Finding Nos. 1 and 2 contained in this audit report cite overpayments of state aid to the township in the total amount of \$13,185, plus interest. Conditions of repeat findings of this nature may lead to a total withholding of state aid in the future unless those findings are corrected. A check in this amount with interest, 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.

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

Year Ended December 31	State Aid	Employer Contributions
2018	\$ 27,133	\$ 3,745
2019	19,029	None
2020	22,866	7,667
2021	29,210	None
2022	29,103	2,461
2023	29,249	33,880*

Note: In 2019, the township met the plan's \$25,968 funding requirement through the deposit of \$19,029 in state aid and \$6,939 in terminated employee forfeitures.

**See Finding No. 3*

LONDONDERRY 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. Bart Shellenhamer
Chairman, Board of Township Supervisors

Mr. Ron Kopp
Vice Chairman, Board of Township Supervisors

Mr. David Blechertas
Township Manager

Mr. Stephen Letavic
Chief Administrative Officer

Mr. Brian Marchuck, CPA
Finance Director

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