

# COMPLIANCE AUDIT

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## Salisbury Township Non-Uniformed Employees' Defined Contribution Pension Plan Lehigh County, Pennsylvania For the Period June 1, 2019 to December 31, 2023

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January 2025



Commonwealth of Pennsylvania  
Department of the Auditor General

Timothy L. DeFoor • Auditor General



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**TIMOTHY L. DEFOOR  
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Board of Township Commissioners  
Salisbury Township  
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Allentown, PA 18103

We have conducted a compliance audit of the Salisbury Township Non-Uniformed Employees' Defined Contribution Pension Plan for the period June 1, 2019 to December 31, 2023. 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 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.

- 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, 2019 to December 31, 2023, 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 that there were no benefit calculations prepared for the years covered by our audit period.
- We determined whether the January 1, 2021 and January 1, 2023 actuarial valuation reports were prepared and submitted by March 31, 2022 and 2024, 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.

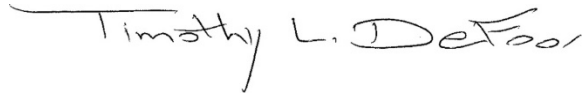
Township officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Salisbury Township Non-Uniformed Employees’ Defined Contribution Pension Plan is administered in compliance with applicable state laws, regulations, contracts, administrative 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 objective.

The results of our procedures indicated that, in all significant respects, the Salisbury Township Non-Uniformed Employees’ 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 findings further discussed later in this report:

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

Finding No. 2 – Failure To Properly Fund Member Accounts

The contents of this report were discussed with officials of Salisbury 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  
December 11, 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 Salisbury Township Non-Uniformed Employees' 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 Salisbury Township Non-Uniformed Employees' Defined Contribution Pension Plan is a single-employer defined contribution pension plan locally controlled by the provisions of Ordinance No. 05-2019-622, as amended, for all non-uniformed employees hired on or after June 1, 2019. The plan is also affected by the provisions of collective bargaining agreements between the township and its non-uniformed employees. The plan was established June 1, 2019. Active members are not required to contribute to the plan. The municipality is required to contribute 8 percent of compensation. As of December 31, 2023, the plan had 17 active members.

SALISBURY TOWNSHIP NON-UNIFORMED EMPLOYEES’  
 DEFINED CONTRIBUTION PENSION PLAN  
 FINDINGS AND RECOMMENDATIONS

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

Condition: The township failed to certify an eligible non-uniformed employee (1 unit) on the Certification Forms AG 385 filed in 2022, 2023, and 2024 who was serving in the uniformed services of the United States. The data contained on these certification forms is based on prior calendar year information.

Criteria: Pursuant to Act 205, at Section 402(e)(2), an employee who has been employed on a full-time basis for at least six consecutive months and has been participating in a pension plan during the certification year is eligible for certification. 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.

Cause: Plan officials were unsure of the propriety of certifying a member in the uniformed service of the United States with only imputed compensation.

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 plans. Because the township’s state aid allocations were based on unit value, the township received an underpayment of state aid as identified below:

<u>Year</u>	<u>Units Understated</u>	<u>Unit Value</u>	<u>State Aid Underpayment</u>
2022	1	\$ 5,180	\$ 5,180
2023	1	\$ 5,828	5,828
2024	1	\$ 6,292	<u>6,292</u>
Total Underpayment of State Aid			<u><u>\$ 17,300</u></u>

Although the additional state aid will be allocated to the township, the full amount of the 2022, 2023, and 2024 state aid allocations was not available to be deposited timely and therefore was not available to pay operating expenses or for investment.

SALISBURY TOWNSHIP NON-UNIFORMED EMPLOYEES’  
DEFINED CONTRIBUTION PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – (Continued)**

Recommendation: We 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 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 – Failure To Properly Fund Member Accounts**

Condition: The township did not fully fund the accounts of three plan members in 2020 in the amount of \$1,250, as illustrated below:

<u>2020 Employees</u>	<u>Required Contributions</u>	<u>Actual Contributions</u>	<u>Contributions Due</u>
1	\$ 4,599	\$ 4,121	\$ 478
2	4,624	4,166	458
3	5,549	5,235	<u>314</u>
		Total	<u>\$ 1,250</u>

Criteria: Article IV, Section 401 (a) of the separately executed plan agreement adopted by Ordinance No. 05-2019-622, states in part:

(A)s of the last day of each Plan Year, the Employer Contribution Account of each Qualified Recipient shall be credited with an amount equal to eight percent (8.00) of the Qualified Recipient’s Compensation *attributable to* service as a Qualified Employee.

Cause: Plan officials inadvertently used an incorrect earnings report when calculating 2020 municipal contributions due.



SALISBURY TOWNSHIP NON-UNIFORMED EMPLOYEES'  
DEFINED CONTRIBUTION PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 2 – (Continued)**

Effect: The failure to properly fund the members' accounts could result in plan members being denied benefits to which they are entitled in accordance with the plan's governing document.

Furthermore, due to the township's failure to properly fund the accounts of several members, the township must now pay interest on the delinquent contributions.

Recommendation: We recommend that the township deposit the contributions due to the members' accounts for the year 2020, with interest. A copy of the interest calculation should be maintained by the township for examination during our next audit of the plan.

We also recommend that, in the future, township officials properly fund the accounts of all eligible plan members.

Management's Response: Municipal officials agreed with the finding without exception. Municipal officials calculated the amount due to the employees in question, with interest, and provided this Department with a copy of the calculation. Municipal officials sent the amount due to the plan's custodian on November 15, 2024.

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

SALISBURY TOWNSHIP NON-UNIFORMED EMPLOYEES'  
 DEFINED CONTRIBUTION PENSION PLAN  
 SUMMARY OF DEPOSITED STATE AID AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid	Employer Contributions
2019	None	\$ 4,950
2020	None	18,189
2021	None	34,515
2022	None	68,922
2023	None	77,582

The Department typically presents this data for the past six consecutive fiscal years. Since six years of data was not yet available, this will be done prospectively.

Note: In 2023, the township met the plan's \$83,017 funding requirement through the deposit of \$77,582 in employer contributions, \$12 from the reserve fund, and the allocation of \$5,423 in terminated employee forfeitures.

SALISBURY TOWNSHIP NON-UNIFORMED EMPLOYEES'  
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. Debra Brinton**  
President, Board of Township Commissioners

**Ms. Cathy Bonaskiewich**  
Township Manager

**Mr. Paul Ziegenfus**  
Finance Director

This report is a matter of public record and is available online at [www.PaAuditor.gov](http://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](mailto:news@PaAuditor.gov).