

# COMPLIANCE AUDIT

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## Upper Gwynedd Township Non-Uniformed Pension Plan Montgomery County, Pennsylvania

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September 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 Commissioners  
Upper Gwynedd Township  
Montgomery County  
North Wales, PA 19454

We have conducted a compliance audit of the Upper Gwynedd 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 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 whether 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 area 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:

- For the period January 1, 2023 to December 31, 2023, we determined whether state aid was properly determined and deposited in accordance with Act 205 requirements by verifying the 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.

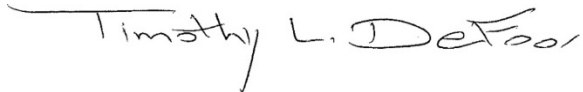
- For the period January 1, 2023 to December 31, 2023, we determined whether employer contributions were calculated and deposited in accordance with the plan's governing document and applicable laws and regulations by examining the municipality's calculation of the plan's annual financial requirements 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, 2023 to December 31, 2023, we determined that there were no employee contributions required by the plan's governing document and applicable laws and regulations.
- For the period January 1, 2023 to December 31, 2023, we determined that there were no benefit calculations prepared.
- 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.

Township officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Upper Gwynedd 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 Upper Gwynedd 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 finding further discussed later in this report:

Finding – Failure To Properly Allocate Forfeitures

The contents of this report were discussed with officials of Upper Gwynedd 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  
July 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 Upper Gwynedd 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 Upper Gwynedd Township Non-Uniformed Pension Plan is a single-employer defined contribution pension plan locally controlled by the provisions of Ordinance No. 2013-007, as amended. The plan was established January 2, 1973. Active members are not required to contribute to the plan. The municipality is required to contribute 7.5 percent of compensation. As of December 31, 2023, the plan had 39 active members, and 7 terminated members eligible for vested benefits in the future.

UPPER GWYNEDD TOWNSHIP NON-UNIFORMED PENSION PLAN  
FINDING AND RECOMMENDATION

**Finding – Failure To Properly Allocate Forfeitures**

Condition: The township has not properly applied plan forfeitures resulting from the non-vested portion of terminated employees' accounts in accordance with the provisions of the governing document.

Criteria: Section 7.01 (a) (2) of Article VII of Ordinance No. 2013-007 states, in part:

All amounts forfeited shall be used first to pay administrative expenses. Any forfeitures remaining shall be accumulated and used to reduce the next contribution of the employer.

Cause: The township lacked adequate procedures for properly disposing of the assets maintained in the forfeiture account in accordance with plan provisions.

Effect: As a result of not properly applying forfeitures in accordance with the governing document, the township was required to contribute additional funds from the general fund to satisfy the plan's annual pension obligation that could have been better utilized for other general municipal purposes. As of December 31, 2023, funds amounting to \$75,076 were available for use in the unallocated forfeiture account.

Recommendation: We recommend that the township contact the plan administrator and review the plan's forfeiture policy, arrange for the unallocated account balance to be applied against the township's subsequent obligations to the plan in accordance with the plan's governing document and ensure, going forward, that all available non-vested pension assets are properly used towards future plan obligations prior to using additional resources from the township and its taxpayers.

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.

UPPER GWYNEDD TOWNSHIP NON-UNIFORMED PENSION PLAN  
SUMMARY OF DEPOSITED STATE AID AND EMPLOYER CONTRIBUTIONS  
(UNAUDITED)

Year Ended December 31	State Aid	Employer Contributions
2018	\$ 171,139	\$ 12,630
2019	None	146,195
2020	None	150,485
2021	None	178,266
2022	None	207,629
2023	None	215,550

Note: In 2019, the township met the plan's \$159,987 funding requirement through the deposit of \$146,195 in employer contributions and the allocation of \$13,792 in terminated employee forfeitures.

Note: In 2020, the township met the plan's \$167,853 funding requirement through the deposit of \$150,485 in employer contributions and the allocation of \$17,368 in terminated employee forfeitures.

Note: In 2021, the township met the plan's \$193,131 funding requirement through the deposit of \$178,266 in employer contributions and the allocation of \$14,865 in terminated employee forfeitures.



UPPER GWYNEDD TOWNSHIP NON-UNIFORMED PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

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