

COMPLIANCE AUDIT

Upper Macungie Township Non-Uniformed Employees' Defined Contribution Pension Plan Lehigh County, Pennsylvania For the Period January 1, 2022 to December 31, 2023

December 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
Upper Macungie Township
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We have conducted a compliance audit of the Upper Macungie Township Non-Uniformed Employees' Defined Contribution Pension Plan for the period January 1, 2022 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 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 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, 2022 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, 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 Macungie 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 Upper Macungie 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 finding further discussed later in this report:

Finding – Late Filing Of Actuarial Valuation Report

The contents of this report were discussed with officials of Upper Macungie 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
November 14, 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 Macungie 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 including, but not limited to, the following:

Act 69 - The Second Class Township Code, Act of May 1, 1933 (P.L. 103, No. 69), as reenacted and amended, 53 P.S. § 65101 et seq.

The Upper Macungie Township Non-Uniformed Employees' Defined Contribution Pension Plan is a single-employer defined contribution pension plan locally controlled by the provisions of Ordinance No. 2022-01 and a separately executed plan agreement with the plan's custodian effective January 1, 2022, for administrative employees hired on or after January 1, 2022. The plan was established January 1, 2022. Active members are not required to contribute to the plan. The municipality is required to contribute seven percent of compensation. As of December 31, 2023, the plan had five active members.

UPPER MACUNGIE TOWNSHIP NON-UNIFORMED EMPLOYEES'
DEFINED CONTRIBUTION PENSION PLAN
FINDING AND RECOMMENDATION

Finding – Late Filing Of Actuarial Valuation Report

Condition: Actuarial valuation report form 201A, for the non-uniformed defined contribution pension plan with a valuation date of January 1, 2023, was not submitted to the Municipal Pension Reporting Program (MPRP) by the March 31, 2024, deadline, as required by Act 205. The actuarial valuation report was not received by MPRP until August 28, 2024.

Criteria: Section 201(a) of Act 205 states, in part:

Each municipality which has established or maintains a pension plan for its employees, including any municipality which participates in the Pennsylvania Municipal Retirement System, shall cause to be made actuarial valuation reports. Actuarial valuation reports shall be made biennially, unless the applicable municipality is applying or has previously applied for supplemental State assistance pursuant to Section 603, whereupon actuarial valuation reports shall be made annually.

Furthermore, Section 201(b) of Act 205 states, in part:

The biennial actuarial valuation report required pursuant to subsection (a) shall be made as of the beginning of each plan year occurring in an odd-numbered calendar year and shall be filed with the executive director of the commission no later than the last business day of March occurring in the following calendar year.

In addition, Section 204 of Act 205 provides:

If a complete actuarial valuation report or experience investigation is not filed in a timely fashion, any and all financing which is provided to the municipality by the Commonwealth and is dedicated for pension plan purposes shall be withheld until the report or investigation is filed.

Finally, Section 402(e)(7) of Act 205 states, in part:

Any municipality which has not filed with the commission on a timely basis, pursuant to the applicable municipal pension plan actuarial reporting law, an actuarial report for each of the municipal pension plans which it has established or maintains shall be entitled to receive as general municipal pension system State aid, at such time as compliance with the actuarial reporting requirement occurs, the adjusted amount of general municipal pension system State aid per unit

UPPER MACUNGIE TOWNSHIP NON-UNIFORMED EMPLOYEES'
DEFINED CONTRIBUTION PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

Cause: The untimely submission of the actuarial valuation report occurred because plan officials were not familiar with Act 205 filing deadlines with the addition of the new plan.

Effect: Due to the late filing of the actuarial valuation report, the township's 2024 state aid allocation was withheld until the necessary report was filed. In addition, the adjusted unit value of \$5,940.63 was used to calculate the state aid allocation, instead of the regular unit value of \$6,291.56. Because the municipality certified 106 units, it received \$37,199 less state aid than it would have received had the actuarial valuation report been submitted in a timely manner.

Furthermore, due to the late submission of the report, the reduced state aid, in the amount of \$629,706, was not released until November 11, 2024, 48 days after the release of state aid to those municipalities who submitted their reports by the filing deadline. Consequently, for 48 days, the municipality did not have even the reduced state aid available to use for operating expenses and investment opportunities.

Recommendation: To ensure that future actuarial filing deadlines are met in a timely manner and to improve pension plan administration, we recommend that plan officials develop and implement internal control procedures, such as a calendar listing the various reporting and filing deadlines required by Act 205, including the actuarial valuation report filing date.

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

Year Ended December 31	State Aid	Employer Contributions
2022	None	\$ 2,897
2023	None	16,661

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.

UPPER MACUNGIE 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

Mr. Jeff Fleischaker
Chairman, Board of Township Supervisors

Mr. Robert Ibach, Jr.
Township Manager

Mr. Bruce T. Koller
Finance Director

Ms. Michelle Souls
Assistant Finance Manager

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.