

# COMPLIANCE AUDIT

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

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November 2023



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  
Abington Township  
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Abington, PA 19001

We have conducted a compliance audit of the Abington 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 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, 2017 to December 31, 2022, are presented on the Summary of Deposited State Aid and Employer Contributions.
- We determined whether annual employee contributions were calculated, deducted, and deposited into the pension plan in accordance with the plan's governing document and applicable laws and regulations by testing total members' contributions on an annual basis using the rates obtained from the plan's governing document in effect for all years within contributions into the pension plan. We also tested individual employee contributions for 12 of 39 active employees employed during 2019 amounting to \$38,085 of the total employee contributions of \$121,646 for 2019, for 13 of 42 active employees employed during 2020 amounting to \$39,863 of the total employee contributions of \$141,220 for 2020, for 14 of 49 active employees employed during 2021 amounting to \$40,074 of the total employee contributions of \$164,565 for 2021, and for 15 of 60 active employees employed during 2022 amounting to \$44,176 of the total employee contributions of \$202,463 for 2022, made during the audit period.<sup>1</sup>
- We determined that there were no benefit calculations prepared for the years covered by our audit period.
- 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.

Abington 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.

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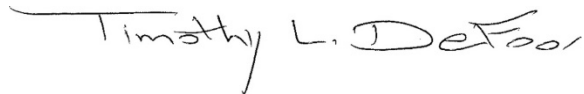
<sup>1</sup> We selected employees randomly from the population of active employees during the current audit period in order to obtain a representative selection for the purpose of our testing to achieve the audit objective. While representative selection is a required factor of audit sampling methodologies, audit sampling methodology was not applied to achieve this test objective; accordingly, the results of this audit procedure are not, and should not be, projected to the population.

Township officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Abington 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 objective.

The results of our procedures indicated that, in all significant respects, the Abington 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 – Improper Vesting Distributions

The contents of this report were discussed with officials of Abington 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  
November 3, 2023

# CONTENTS

|  | <u>Page</u> |
|--|-------------|
| Background.....  | 1           |
| Finding and Recommendation:                                    |             |
| Finding – Improper Vesting Distributions .....                 | 2           |
| Summary of Deposited State Aid and Employer Contributions..... | 4           |
| Report Distribution List .....                                 | 5           |

## **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 Abington 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 Abington Township Non-Uniformed Defined Contribution Pension Plan is a single-employer defined contribution pension plan locally controlled by the provisions of Resolution No. 15-038 for non-uniformed employees hired on or after January 1, 2016. The plan is also affected by the provisions of collective bargaining agreements between the township and its non-uniformed employees. The plan was established December 10, 2015. Active members are required to contribute 5 percent of base pay plus longevity to the plan. The municipality is required to contribute 5 percent of base pay plus longevity to the plan. As of December 31, 2022, the plan had 60 active members.

ABINGTON TOWNSHIP NON-UNIFORMED DEFINED CONTRIBUTION PENSION PLAN  
FINDING AND RECOMMENDATION

**Finding – Improper Vesting Distributions**

Condition: An employee who terminated in 2020 with 3 years of credited service and another employee who terminated in 2022 with 2 years of credited service both received distributions of 100 percent of their respective account balances; however, neither employee had a vested interest in the employer contributions portion of their participant account. These improper distributions resulted in the funds not being available as forfeitures.

Criteria: The plan’s governing document, Resolution No. 15-038, at section 17.21, Vested Interest, states:

“Vested Interest” shall mean the non-forfeitable right to any immediate or deferred benefit in the amount which is equal to the sum of (a) and (b) below:

- (a) The value on that date of that portion of the Participant’s Account that is attributable to and derived from a Participant’s own contributions, if any.
- (b) The value on that date of that portion of the Participant’s Account that is attributable to and derived from Employer Contributions multiplied by his Vesting Percentage determined on the date applicable.

In addition, Section 17.22, Vesting Percentage, states:

| <u>Full Years of Service</u> | <u>% Vested</u> |
|------------------------------|-----------------|
| Less than five (5) years     | 0%              |
| Five (5) or more years       | 100%            |

Pursuant to the above schedule and provisions, the terminated employees were not entitled to distributions of the employer contribution portion of their respective accounts.

In addition, Section 19.06, Forfeiture, states:

Forfeiture will remain assets of the Trust and at the Township’s discretion, be used to reduce or eliminate future Township contributions pursuant to Section 3.01 and/or reduce the administrative cost to the plan and/or to be reallocated to the member account in the proportion that an individual member’s account balance (excluding rollover account balances) bears to the total of all member accounts.

Cause: Township officials failed to establish adequate internal control procedures to ensure the distributions to the individuals were limited to the participants’ own contributions.

ABINGTON TOWNSHIP NON-UNIFORMED DEFINED CONTRIBUTION PENSION PLAN  
FINDING AND RECOMMENDATION

**Finding – (Continued)**

Effect: The terminated employees received distributions in the amounts of \$12,987 and \$5,663, respectively, to which they were not entitled. In addition, because the distributions were made, forfeitures were not determined and utilized to reduce future municipal contributions to the plan pursuant to the provisions contained in the plan’s governing document.

Recommendation: We recommend that the pension plan be reimbursed \$18,650 for the improper distributions and that this amount be utilized pursuant to the provisions contained in the plan’s governing document regarding forfeitures.

We also recommend that municipal officials ensure the correct vesting percentage is utilized in future distributions in accordance with the provisions contained in the plan’s governing document.

Management’s Response: Municipal officials indicated that reclaim letters were issued to the two participants requesting that they return the excess money to the plan. The excess funds have been returned from one participant thus far. When the funding is returned it will be reinstated into the plan forfeiture account and then returned to the plan sponsor.

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



ABINGTON 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      | \$ 38,347              |
| 2018                   | None      | 81,286                 |
| 2019                   | None      | 121,646                |
| 2020                   | None      | 141,220                |
| 2021                   | None      | 164,565                |
| 2022                   | None      | 173,166                |

Note: In 2022, the township met the plan's \$202,463 funding requirement through the deposit of \$173,166 in employer contributions and the allocation of \$29,297 in terminated employee forfeitures.

ABINGTON 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

**Mr. Thomas Hecker**  
President, Board of Township Commissioners

**Mr. Richard J. Manfredi**  
Township Manager

**Ms. Jeannette Hermann**  
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).