

# COMPLIANCE AUDIT

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## South Whitehall Township Non-Uniformed Employees' Defined Contribution Pension Plan Lehigh County, Pennsylvania For the Period January 1, 2020 to December 31, 2023

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April 2025



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  
South Whitehall Township  
Lehigh County  
Allentown, PA 18104

We have conducted a compliance audit of the South Whitehall Township Non-Uniformed Employees' Defined Contribution Pension Plan for the period January 1, 2020 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 objectives. We believe that the evidence obtained provides a reasonable basis for our finding 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, our methodology included the following:

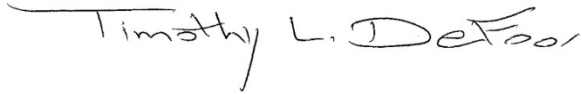
- We determined whether state aid was properly determined and deposited in accordance with Act 205 requirements by verifying the annual deposit date of state aid and determining whether deposits were made within 30 days of receipt for all years within the period under audit.
- We determined whether annual 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, 2018 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 whether retirement benefits calculated for plan members who separated employment and received a lump-sum distribution during the current audit period 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 retired individuals and comparing these amounts to supporting documentation evidencing amounts determined and actually paid to the recipients.
- We determined whether the January 1, 2019, January 1, 2021, and January 1, 2023 actuarial valuation reports were prepared and submitted by March 31, 2020, 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.
- We determined whether the terms of the plan's unallocated insurance contract, including ownership and any restrictions, were in compliance with plan provisions, investment policies, and state regulations by comparing the terms of the contract with the plan's provisions, investment policies, and state regulations.

Township officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the South Whitehall 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 objectives.

The results of our procedures indicated that, in all significant respects, the South Whitehall 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 – Incorrect Data On Certification Form AG 385 Resulting In An Underpayment Of State Aid

The contents of this report were discussed with officials of South Whitehall 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 horizontal line above the first name.

Timothy L. DeFoor  
Auditor General  
March 7, 2025

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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 South Whitehall 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 South Whitehall Township Non-Uniformed Employees' Defined Contribution Pension Plan is a single-employer defined contribution pension plan locally controlled by the provisions of Ordinance No. 991, as amended, for the township's non-uniformed, non-union employees hired on or after January 1, 2015 and the township's non-uniformed union employees hired on or after January 1, 2017. The plan is also affected by the provisions of collective bargaining agreements between the township and its non-uniformed public works union employees. The plan was established on December 17, 2014. Active members are not required to contribute to the plan. The municipality is required to contribute 6 percent of compensation. As of December 31, 2023, the plan had 46 active members and 1 terminated member eligible for vested benefits in the future.

SOUTH WHITEHALL TOWNSHIP NON-UNIFORMED EMPLOYEES' DEFINED  
CONTRIBUTION PENSION PLAN  
STATUS OF PRIOR FINDINGS

Compliance With Prior Recommendations

South Whitehall Township has complied with the prior recommendations concerning the following:

· Failure To Timely Fund Members' Accounts

During 2023, the township deposited interest for the untimely contributions to member accounts for the years 2015 through 2019. In addition, during the current audit period, the township began depositing an estimated MMO amount into the plan before the end of the year.

· Failure To Properly Allocate Forfeitures

During the current audit period, the township utilized the forfeiture account to offset municipal contributions on a timely basis in accordance with the plan's governing document. Excess funds were deposited by the township into a retainer fund in 2021, 2022, and 2023 to avoid untimely payment of the MMO and will be liquidated upon the payment of the 2024 MMO.

SOUTH WHITEHALL TOWNSHIP NON-UNIFORMED EMPLOYEES' DEFINED  
CONTRIBUTION PENSION PLAN  
FINDING AND RECOMMENDATION

**Finding – 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) and understated payroll by \$38,922 on the Certification Form AG 385 filed in 2022. The data contained on this certification form 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: Former township officials made an error in determining eligibility on this form. Current township officials have implemented internal controls to ensure compliance with the form instructions.

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 plans. Because the township's state aid allocation was 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

Although the additional state aid will be allocated to the township, the full amount of the 2022 state aid allocation was not available to be deposited timely and therefore resulted in the township having to make additional municipal contributions in order to meet its plans' funding obligations.

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.

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

Year Ended December 31	State Aid	Employer Contributions
2018	None	\$ 55,913
2019	None	96,604
2020	None	74,921
2021	None	147,648
2022	None	138,999
2023	None	181,505

Note: In 2018, the township met the plan's \$60,244 funding requirement through the deposit of \$55,913 in employer contributions and the allocation of \$4,331 in terminated employee forfeitures.

In 2020, the township met the plan's \$121,421 funding requirement through the deposit of \$74,921 in employer contributions and the allocation of \$46,500 in terminated employee forfeitures.

In 2021, the township met the plan's \$153,585 funding requirement through the deposit of \$147,648 in employer contributions and the allocation of \$5,937 in terminated employee forfeitures.

In 2022, the township met the plan's \$162,151 funding requirement through the deposit of \$138,999 in employer contributions and the allocation of \$23,152 in terminated employee forfeitures.

In 2023, the township met the plan's \$189,255 funding requirement through the deposit of \$181,505 in employer contributions and the allocation of \$7,750 in terminated employee forfeitures.

SOUTH WHITEHALL 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. Diane Kelly**  
President, Board of Township Commissioners

**Mr. Thomas R. Petrucci, MPA**  
Township Manager

**Ms. Diana Valkova**  
Payroll Coordinator

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).