

# LIMITED PROCEDURES ENGAGEMENT

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## Nazareth Borough Non-Uniformed Pension Plan Northampton County, Pennsylvania For the Period January 1, 2012 to December 31, 2014

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March 2016



Commonwealth of Pennsylvania  
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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EUGENE A. DePASQUALE  
AUDITOR GENERAL

The Honorable Mayor and Borough Council  
Nazareth Borough  
Northampton County  
Nazareth, PA 18064

We conducted a Limited Procedures Engagement (LPE) of the Nazareth Borough Non-Uniformed Pension Plan for the period January 1, 2012 to December 31, 2014 to determine its compliance with certain relevant state laws, regulations, policies, and administrative procedures. We also evaluated compliance with some requirements subsequent to that period when possible. The LPE was conducted pursuant to authority derived from Section 402(j) of the Municipal Pension Plan Funding Standard and Recovery Act (P.L. 1005, No. 205, as amended, 53 P.S. § 895.101 *et seq.*) but was not conducted in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States. 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. We believe that the evidence obtained provides a reasonable basis to support our LPE results.

Our LPE was limited to determining the following:

- × Whether municipal officials took appropriate corrective action to address the findings contained in our prior audit report, by inquiring of plan officials and evaluating supporting documentation provided by officials evidencing that the suggested corrective action has been appropriately taken.
- × 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 engagement period. State aid allocations that were deposited into the pension plan for the years ended December 31, 2009 to December 31, 2014, are presented on the Summary of Deposited State Aid and Employer Contributions.

- × 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, 2009 to December 31, 2014, are presented on the Summary of Deposited State Aid and Employer Contributions.
- × Whether annual employee contributions were required during the engagement period and, if so, were calculated, deducted, and deposited into the pension plan in accordance with the plan's governing document and applicable laws and regulations by testing members' contributions on an annual basis using the rates obtained from the plan's governing document in effect for all years within the engagement period and examining documents evidencing the deposit of these employee contributions into the pension plan.
- × Whether the January 1, 2011 and January 1, 2013 actuarial valuation reports were prepared and submitted to the Public Employee Retirement Commission (PERC) by March 31, 2012 and 2014, 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.
- × 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.

Based on the results of our procedures performed during our LPE, nothing came to our attention indicating that the Nazareth Borough Non-Uniformed Pension Plan was not being 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 subsequent to this letter:

Finding No. 1 – Partial Compliance With Prior Audit Recommendation –  
Receipt Of State Aid In Excess Of Entitlement

Finding No. 2 – Partial Compliance With Prior Audit Recommendation –  
Incorrect Data On Certification Form AG 385 Resulting In An  
Overpayment Of State Aid

Our determination to perform a LPE for this engagement period does not preclude the Department from conducting an audit in accordance with *Government Auditing Standards* of the pension plan in subsequent periods. The borough should continue to maintain documentation related to this pension plan.

The contents of this letter were discussed with officials of Nazareth Borough and, where appropriate, their responses have been included in this letter. We would like to thank borough officials for the cooperation extended to us during the conduct of this LPE.

March 2, 2016

A handwritten signature in black ink, appearing to read "Eugene A. DePasquale". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

EUGENE A. DEPASQUALE  
Auditor General

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NAZARETH BOROUGH NON-UNIFORMED PENSION PLAN  
STATUS OF PRIOR FINDINGS

Partial Compliance With Prior Audit Recommendations

Nazareth Borough has partially complied with the prior audit recommendations concerning the following:

- Receipt Of State Aid In Excess Of Entitlement

During the current period under review, the borough reimbursed \$3,509 to the Commonwealth for the excess state aid received in 2010; however, plan officials again failed to reconcile the borough's annual state aid allocation after the application of any available employee forfeitures with the plan's annual defined contribution pension costs in 2012 and in 2014, as further discussed in the Findings and Recommendations section of this report.

- Incorrect Data On Certification Form AG 385 Resulting In An Overpayment Of State Aid

During the current period under review, the borough reimbursed \$3,171 to the Commonwealth for the overpayment of state aid in received in 2011; however, plan officials failed to comply with the instructions that accompany Certification Form AG 385 to assist them in accurately reporting the required pension data in the year 2013 as further discussed in the Findings and Recommendations section of this report.

NAZARETH BOROUGH NON-UNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – Partial Compliance With Prior Audit Recommendation - Receipt Of State Aid In Excess Of Entitlement**

Condition: As disclosed in the Status of Prior Findings section of this letter, the borough partially complied with our prior audit recommendation by returning \$3,509 to the Commonwealth for the excess state aid received in 2010; however, plan officials again failed to reconcile the borough’s annual state aid allocation after the application of any available employee forfeitures with the plan’s annual defined contribution pension costs in 2012 and in 2014, as illustrated below:

|                                | <u>2012</u>     | <u>2014</u>     |
|--------------------------------|-----------------|-----------------|
| State aid allocation           | \$ 40,184       | \$ 43,115       |
| Forfeiture available           | 4,086           | 3,279           |
| Actual municipal pension costs | <u>(41,271)</u> | <u>(45,436)</u> |
| Excess state aid               | <u>\$ 2,999</u> | <u>\$ 958</u>   |

Criteria: Section 402(f)(2) of Act 205 states:

No municipality shall be entitled to receive an allocation of general municipal pension system State aid in an amount which exceeds the aggregate actual financial requirements of any municipal pension plans for police officers, paid firefighters or employees other than police officers or paid firefighters maintained by the municipality, less the amount of any aggregate annual member or employee contributions during the next succeeding plan year, as reported in the most recent complete actuarial report filed with the commission.

In addition, the plan’s governing document at Section 606(4)(F), states:

All forfeitures under this §606(4) shall be used to reduce future employer contributions to the plan.

Cause: Plan officials failed to establish adequate internal control procedures to reconcile the borough’s state aid allocation and employee forfeitures available to reduce municipal contributions with the plan’s actual defined contribution pension costs.

NAZARETH BOROUGH NON-UNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – (Continued)**

Effect: It is this department's opinion that because the entire proceeds of the insurance premium tax on foreign casualty insurance companies are distributed annually to each eligible recipient municipality, it is inappropriate to use state aid in one year to offset pension costs in other years. Consequently, the overpayment of state aid in the years 2012 and 2014, in the total amount of \$3,957, must be returned to the Commonwealth for redistribution.

Recommendation: We recommend that the municipality return the \$3,957 of excess state aid received in the years 2012 and 2014 to the Commonwealth from the non-uniformed pension plan. A check in this amount, with interest compounded annually from date of receipt to date of repayment, at a rate earned by the plan, should be made payable to: Commonwealth of Pennsylvania and mailed to: Department of the Auditor General, Municipal Pension & Fire Relief Programs Unit, 320 Finance Building, Harrisburg, PA 17120. A copy of the interest calculation must be submitted along with evidence of payment.

Furthermore, we recommend that, in the future, plan officials reconcile the borough's annual state aid allocation and municipal contributions made to the pension plan and any available employee forfeitures with the plan's annual defined contribution pension costs and reimburse any excess state aid received to the Commonwealth.

Management's Response: Municipal officials agreed with the finding without exception.

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

**Finding No. 2 – Partial Compliance With Prior Audit Recommendation – Incorrect Data On Certification Form AG 385 Resulting In An Overpayment Of State Aid**

Condition: As disclosed in the prior audit report, the borough overstated payroll by \$30,299 in 2011 on Certification Form AG 385. During the current period under review, the borough reimbursed \$3,171 to the Commonwealth for the overpayment of state aid received; however, plan officials failed to comply with the instructions that accompany Certification Form AG 385 to assist them in accurately reporting the required pension data in 2013.

The borough overstated payroll by \$17,623 on the Certification Form AG 385 filed in 2013. The data contained on this certification form is based on prior calendar year information.

NAZARETH BOROUGH NON-UNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 2 – (Continued)**

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

Cause: Plan officials failed to establish adequate internal control procedures to ensure the accuracy of the data certified and to ensure full compliance with the prior audit recommendation.

Effect: The data submitted on this certification form is used, in part, to calculate the state aid due to the borough for distribution to its pension plans. Because the borough’s state aid allocation was based on pension costs, the incorrect certification of pension data affected the borough’s state aid allocation, as identified below:

| <u>Year</u> | <u>Normal<br/>Cost</u> | <u>Payroll<br/>Overstated</u> | <u>State Aid<br/>Overpayment</u> |
|-------------|------------------------|-------------------------------|----------------------------------|
| 2013        | 9.0%                   | \$ 17,623                     | \$ 1,586                         |

Recommendation: We recommend that the overpayment of state aid, in the amount of \$1,586, be reimbursed to the Commonwealth from borough funds. A check in this amount, with interest compounded annually from date of receipt to date of repayment, at a rate earned by the pension plan, should be made payable to: Commonwealth of Pennsylvania and mailed to: Department of the Auditor General, Municipal Pension & Fire Relief Programs Unit, 320 Finance Building, Harrisburg, PA 17120. A copy of the interest calculation must be submitted along with the check.

Furthermore, we again recommend that, in the future, plan officials establish adequate internal control procedures, such as having at least 2 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 Conclusions: Compliance will be monitored subsequent to the release of the LPE results letter and through our next engagement of the plan.

NAZARETH BOROUGH NON-UNIFORMED PENSION PLAN  
SUMMARY OF DEPOSITED STATE AID AND EMPLOYER CONTRIBUTIONS

| Year Ended December 31 | State Aid | Employer Contributions |
|------------------------|-----------|------------------------|
| 2009                   | \$ 34,859 | \$ 2,605               |
| 2010                   | 34,009    | None                   |
| 2011                   | 41,714    | None                   |
| 2012                   | 40,184    | None                   |
| 2013                   | 39,647    | 3,468                  |
| 2014                   | 43,115    | None                   |

Note: In 2010, the borough met the plan's \$39,197 funding requirement through the deposit of \$34,009 in state aid and \$5,188 in terminated employee forfeitures. In 2012, the borough met the plan's \$41,271 funding requirement through the deposit of \$40,184 in state aid and \$4,086 in terminated employee forfeitures. In 2014, the borough met the plan's \$45,436 funding requirement through the deposit of \$43,115 in state aid and \$3,279 in terminated employee forfeitures.

NAZARETH BOROUGH NON-UNIFORMED PENSION PLAN  
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