

# LIMITED PROCEDURES ENGAGEMENT

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## Myerstown Borough Non-Uniformed Pension Plan Lebanon County, Pennsylvania For the Period January 1, 2012 to December 31, 2015

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June 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  
Myerstown Borough  
Lebanon County  
Myerstown, PA 17067

We conducted a Limited Procedures Engagement (LPE) of the Myerstown Borough Non-Uniformed Pension Plan for the period January 1, 2012 to December 31, 2015 to determine its compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies. 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, 2010 to December 31, 2015, 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, 2010 to December 31, 2015, are presented on the Summary of Deposited State Aid and Employer Contributions.
- × Whether retirement benefits calculated for plan members who retired during the engagement 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 benefit due to retired individuals and comparing these amounts to supporting documentation evidencing amounts determined and actually paid to recipients.
- × Whether the January 1, 2013 and January 1, 2015 actuarial valuation reports were prepared and submitted to the Public Employee Retirement Commission (PERC) by March 31, 2014 and 2016, 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.

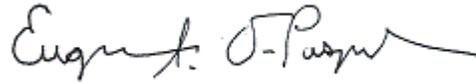
Based on the results of our procedures performed during our LPE, nothing came to our attention indicating that the Myerstown Borough Non-Uniformed Pension Plan was not being administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies, except as noted in the following findings 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 –  
Failure To Properly Fund Members' Accounts

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 Myerstown 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.

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

EUGENE A. DEPASQUALE  
Auditor General

May 25, 2016

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MYERSTOWN BOROUGH NON-UNIFORMED PENSION PLAN  
STATUS OF PRIOR FINDINGS

Partial Compliance With Prior Audit Recommendations

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

- Receipt Of State Aid In Excess Of Entitlement

During the current engagement period, the borough returned \$2,862 to the Commonwealth for the excess state aid received in 2011; however, plan officials failed to reconcile the borough's state aid allocation with the plan's actual defined contribution pension costs in 2013, as further discussed in the Findings and Recommendations section of this letter.

- Failure To Properly Fund Members' Accounts

During the current engagement period, the borough deposited the contributions due to the members' accounts for the years 2011 and 2012, with interest; however, plan officials failed to ensure that members' accounts were properly funded during the current engagement period, as further discussed in the Findings and Recommendations section of this letter.

MYERSTOWN 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 prior audit report, the borough received state aid in excess of the non-uniformed pension plan’s defined contribution costs in the year 2011. During the current engagement period, the borough returned \$2,862 to the Commonwealth for the excess state aid received in 2011; however, the borough received state aid in excess of the non-uniformed pension plan’s defined contribution pension costs in the year 2013, as illustrated below:

State aid allocation	\$ 57,467
Actual municipal pension costs	<u>(54,202)</u>
Excess state aid	<u><u>\$ 3,265</u></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.

Cause: Plan officials failed to establish adequate internal control procedures to reconcile the borough’s state aid allocation with the plan’s actual defined contribution pension costs.

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 year 2013, in the total amount of \$3,265, must be returned to the Commonwealth for redistribution.

Recommendation: We recommend that the municipality return the \$3,265 of excess state aid received in the year 2013 to the Commonwealth from the borough’s general fund. 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.

MYERSTOWN BOROUGH NON-UNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – (Continued)**

Furthermore, we again recommend that, in the future, plan officials reconcile the borough’s annual state aid allocation and municipal contributions made to the pension plan 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 monitored subsequent to the release of the LPE results letter and through our next engagement of the pension plan.

**Finding No. 2 – Partial Compliance With Prior Audit Recommendation – Failure To Properly Fund Members’ Accounts**

Condition: As disclosed in the prior audit report, the borough did not properly fund the accounts of 7 plan members in 2011 and 11 plan members in 2012. During the current engagement period, the borough deposited the contributions due to the members’ accounts for the years 2011 and 2012, with interest; however, the borough did not properly fund the accounts of 8 members in 2012 and 1 member in 2013, as illustrated below:

<u>2012 Employees</u>	<u>Required Contributions</u>	<u>Actual Contributions</u>	<u>Excess Contributions</u>
1	\$ 3,495	\$ 3,630	\$ (135)
2	5,670	5,885	(215)
3	7,937	8,280	(343)
4	6,543	6,763	(220)
5	7,404	7,678	(274)
6	5,435	5,634	(199)
7	5,435	5,640	(205)
8	6,284	6,592	(308)
		Total	<u><u>\$ (1,899)</u></u>

<u>2013 Employees</u>	<u>Required Contributions</u>	<u>Actual Contributions</u>	<u>Contributions Due</u>
1	\$ 4,158	\$ 1,452	\$ 2,706

MYERSTOWN BOROUGH NON-UNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 2 – (Continued)**

Criteria: The plan's governing document, a separately executed plan agreement with the plan's custodian effective January 1, 1997, established the municipal contribution rate at 16 percent of each participant's monthly compensation.

Cause: Plan officials failed to establish adequate internal control procedures to ensure that the plan members' accounts were properly funded in accordance with the provisions contained in the plan's governing document.

Effect: The failure to properly fund the members' accounts could result in certain plan members receiving benefits in excess of those to which they are entitled and other members being denied benefits to which they are entitled in accordance with the plan's governing document.

Recommendation: We again recommend that the borough review the applicable members' accounts and make the adjustments deemed necessary to ensure that they are funded in accordance with the provisions contained in the plan's governing document.

We also recommend that plan officials implement adequate internal control procedures to ensure that the members' accounts are properly funded in accordance with the provisions contained in the plan's governing document.

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.

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

Year Ended December 31	State Aid	Employer Contributions
2010	\$ 54,992	\$ 23,285
2011	71,544	None
2012	57,218	8,896
2013	48,461	None
2014	42,290	14,619
2015	31,367	26,678

MYERSTOWN BOROUGH NON-UNIFORMED PENSION PLAN  
DISTRIBUTION LIST

This letter was initially distributed to the following:

**The Honorable Tom W. Wolf**  
Governor  
Commonwealth of Pennsylvania

**The Honorable Gloria Eblings**  
Mayor

**Mr. Bryan Rittle**  
Council President

**Mr. Christopher Moonis**  
Borough Manager

This letter is a matter of public record and is available online at [www.PaAuditor.gov](http://www.PaAuditor.gov). Media questions about the letter 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).