

# COMPLIANCE AUDIT

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## Hanover Township Non-Uniformed Employees' Money Purchase Pension Plan Northampton County, Pennsylvania For the Period January 1, 2012 to December 31, 2014

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September 2015



Commonwealth of Pennsylvania  
Department of the Auditor General  
Eugene A. DePasquale • Auditor General



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EUGENE A. DePASQUALE  
AUDITOR GENERAL

Board of Township Supervisors  
Hanover Township  
Northampton County  
Bethlehem, PA 18017

We have conducted a compliance audit of the Hanover Township Non-Uniformed Employees' Money Purchase Pension Plan for the period January 1, 2012 to December 31, 2014. We also evaluated compliance with some requirements subsequent to that period when possible. The audit was conducted pursuant to authority derived from Section 402(j) of Act 205 and in accordance with the standards applicable to performance audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform our 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 finding contained in our prior audit 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 finding contained in our prior audit 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. 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.

- × 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, 2009 to December 31, 2014, 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 members' contributions on an annual basis using the rates obtained from the plan's governing document in effect for all years within the period under audit and examining documents evidencing the deposit of these employee contributions into the pension plan. We also tested individual employee contributions for all 8 active employees employed during the audit period amounting to \$17,115, \$19,211 and \$21,556, for the years 2012, 2013 and 2014, respectively, made during the audit period.
- × We determined whether retirement benefits calculated for 2 of the plan members who terminated employment and elected a lump-sum form of pension benefit during the current audit period, and through the completion of our fieldwork procedures, 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 comparing the distributed amounts to supporting documentation evidencing amounts determined and actually paid to the recipients.
- × We determined whether the January 1, 2013 actuarial valuation report was prepared and submitted to the Public Employee Retirement Commission (PERC) by March 31, 2014, 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 Hanover Township Non-Uniformed Employees' Money Purchase Pension Plan is administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies. In conducting our audit, we obtained an understanding of the township's internal controls as they relate to the township's compliance with those requirements and that we considered to be significant within the context of our audit objectives, and assessed whether those significant controls were properly designed and implemented. Additionally and as previously described, we tested transactions, assessed official actions, performed analytical procedures, and interviewed selected officials 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.

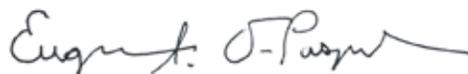
The results of our procedures indicated that, in all significant respects, the Hanover Township Non-Uniformed Employees' Money Purchase Pension Plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies, except as noted in the following finding further discussed later in this report:

Finding – Partial Compliance With Prior Audit Recommendation - Incorrect Data On Certification Form AG 385 Resulting In An Overpayment Of State Aid

The finding contained in this audit report repeats a condition that was cited in our previous audit report that has not been corrected by township officials. We are concerned by the township's failure to correct this previously reported audit finding and strongly encourage timely implementation of the recommendation noted in this audit report.

The contents of this report were discussed with officials of Hanover 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.

September 11, 2015

  
EUGENE A. DEPASQUALE  
Auditor General

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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. Section 402(j) of Act 205 specifically requires the Auditor General, as deemed necessary, to make an audit of every municipality which receives general municipal pension system state aid and of every municipal pension plan and fund in which general municipal pension system state aid is deposited.

Annual state aid allocations are provided from a 2 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 Hanover Township Non-Uniformed Employees' Money Purchase Pension Plan is also governed by implementing regulations adopted by the Public Employee Retirement Commission published at Title 16, Part IV of the Pennsylvania Code and applicable provisions of various other state statutes.

The Hanover Township Non-Uniformed Employees' Money Purchase Pension Plan is a single-employer defined contribution pension plan locally controlled by the provisions of Resolution No. 2006-19, effective January 1, 2007. All township employees hired on or after January 1, 2007, shall be enrolled in the employees' money purchase pension plan. The plan was established December 12, 2006. Active members are required to contribute 6 percent of annual salary to the plan and may make voluntary contributions of up to an additional 6 percent of salary. The municipality is required to match each member's contributions up to 8 percent of annual salary. As of December 31, 2014, the plan had 8 active members, no terminated members eligible for vested benefits in the future, and no retirees receiving monthly pension benefits.

HANOVER TOWNSHIP NON-UNIFORMED EMPLOYEES' MONEY PURCHASE  
PENSION PLAN  
STATUS OF PRIOR FINDING

Partial Compliance With Prior Audit Recommendation

Hanover Township has partially complied with the prior audit recommendation concerning the following:

· Incorrect Data On Certification Form AG 385 Resulting In A Net Overpayment Of State Aid

During the current audit period, the township reimbursed \$1,047 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 the year 2014, as further discussed in the Finding and Recommendation section of this report.

HANOVER TOWNSHIP NON-UNIFORMED EMPLOYEES' MONEY PURCHASE  
PENSION PLAN  
FINDING AND RECOMMENDATION

**Finding – 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 township certified incorrect data on the Certification Forms AG 385 filed in 2010 and 2011, resulting in an overpayment of state aid. During the current audit period, the township reimbursed \$1,047 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 the year 2014.

On the 2014 Certification Form AG 385, township officials inadvertently overstated the total number of eligible non-uniformed employees on the front page of the form by 3 (3 units).

Criteria: The instructions on Certification Form AG 385 state, in part:

Complete PERSONNEL ROSTERS for each pension plan (Uniformed and Non-Uniformed) and return with Certification Form AG-385. Totals from the Personnel Roster MUST EQUAL totals on the Certification Form AG-385.

Cause: Although plan officials correctly listed the 24 eligible non-uniformed employees for both of its non-uniformed pension plans on the personnel roster which serves as support for Certification Form AG 385, they inadvertently reported 27 as the total number of employees included on the Certification Form. In addition, 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 township for distribution to its pension plans. Because Hanover Township also participates in regional police and non-uniformed pension plans, the township's state aid allocation for its non-uniformed pension plans is calculated using an alternate method, taking into account the township's non-uniformed pension plans' pension costs and unit values as well as the township's percentage of the regional police and non-uniformed pension plans' costs and unit values.

HANOVER TOWNSHIP NON-UNIFORMED EMPLOYEES' MONEY PURCHASE  
 PENSION PLAN  
 FINDING AND RECOMMENDATION

**Finding – (Continued)**

Consequently, the township received an overpayment of state aid in the amount of \$11,610 as identified below:

| <u>Original<br/>Allocation</u> | <u>Revised<br/>Allocation</u> | <u>State Aid<br/>Overpayment</u> |
|--------------------------------|-------------------------------|----------------------------------|
| \$ 104,562                     | \$ 92,952                     | \$ 11,610                        |

Furthermore, the township's future state aid allocations may be withheld until the finding recommendation is complied with.

Recommendation: We recommend that the total overpayment of state aid, in the amount of \$11,610, be reimbursed to the Commonwealth from township 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 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 Conclusion: Compliance with the finding recommendation will be monitored subsequent to the release of the audit report and through our next audit of the pension plan.

HANOVER TOWNSHIP NON-UNIFORMED EMPLOYEES' MONEY PURCHASE  
PENSION PLAN  
POTENTIAL WITHHOLD OF STATE AID

The finding contained in this audit report cites an overpayment of state aid to the township in the amount of \$11,610. A condition of this nature may lead to a total withholding of state aid in the future unless the finding is corrected. A check in this amount with interest, 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.

HANOVER TOWNSHIP NON-UNIFORMED EMPLOYEES' MONEY PURCHASE  
PENSION PLAN  
SUMMARY OF DEPOSITED STATE AID AND EMPLOYER CONTRIBUTIONS

| Year Ended December 31 | State Aid | Employer Contributions |
|------------------------|-----------|------------------------|
| 2009                   | None      | \$ 11,808              |
| 2010                   | None      | 16,378                 |
| 2011                   | None      | 4,516                  |
| 2012                   | None      | 17,115                 |
| 2013                   | None      | 19,211                 |
| 2014                   | None      | 21,556                 |

HANOVER TOWNSHIP NON-UNIFORMED EMPLOYEES' MONEY PURCHASE  
PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf  
Governor  
Commonwealth of Pennsylvania

Hanover Township Non-Uniformed Employees' Money Purchase Pension Plan  
Northampton County  
3630 Jacksonville Road  
Bethlehem, PA 18017

|                           |   |
|---------------------------|---|
| Mr. John N. Diacogiannis  | Chairman, Board of Township Supervisors |
| Mr. John J. Finnigan, Jr. | Township Manager                        |
| Mr. Ryan P. Kish          | Director of Administration              |

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).