

COMPLIANCE AUDIT

Quakertown Borough Money Purchase Pension Plan Bucks County, Pennsylvania For the Period January 1, 2014 to December 31, 2015

August 2016



Commonwealth of Pennsylvania
Department of the Auditor General

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EUGENE A. DePASQUALE
AUDITOR GENERAL

Borough Council
Quakertown Borough
Bucks County
Quakertown, PA 18951

We have conducted a compliance audit of the Quakertown Borough Money Purchase Pension Plan for the period January 1, 2014 to December 31, 2015. 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 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. 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.

- 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, 2010 to December 31, 2015, 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 made during the audit period for all 17 active employees employed during 2014 in the amount of \$7,574, and all 20 active employees employed during 2015 in the amount of \$8,526.
- We determined that there were no benefit calculations prepared for the years covered by our audit period.
- We determined 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.

Quakertown Borough contracted with an independent certified public accounting firm for an audit of its basic financial statements for the year ended December 31, 2014, which are available at the borough's offices. Those financial statements were not audited by us and, accordingly, we express no opinion or other form of assurance on them.

Borough officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Quakertown Borough 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 borough's internal controls as they relate to the borough's compliance with those requirements and that we considered to be significant within the context of our audit objective, 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 objective.

The results of our procedures indicated that, in all significant respects, the Quakertown Borough 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 – Failure To Properly Allocate Forfeitures

The contents of this report were discussed with officials of Quakertown Borough and, where appropriate, their responses have been included in the report.

June 16, 2016



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 Quakertown Borough 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 Quakertown Borough Money Purchase Pension Plan is a single-employer defined contribution pension plan locally controlled by the provisions of Ordinance No. 1166. The plan is also affected by the provisions of collective bargaining agreements between the borough and its non-uniformed employees hired after January 1, 2008. The plan was established on May 7, 2008. Active members are required to contribute 1 percent of salary to the plan. The municipality is required to contribute \$1.75 per hour worked to each eligible plan member. As of December 31, 2015, the plan had 18 active members.

QUAKERTOWN BOROUGH MONEY PURCHASE PENSION PLAN
FINDING AND RECOMMENDATION

Finding – Failure To Properly Allocate Forfeitures

Condition: The borough has not properly applied plan forfeitures resulting from the non-vested portion of two terminated employees' accounts in accordance with the provisions of the retirement plan administered by Mid Atlantic Trust Co.

Criteria: Section 4.02, Exhibit "A" of the retirement plan document states, in part:

All amounts forfeited by terminated participants, pursuant to Section 7.06, shall be allocated to a suspense account and used to reduce dollar for dollar Employer Contributions otherwise required under the plan for the current plan year and succeeding plan years, if necessary. Forfeitures may first be used to pay the reasonable administrative expenses of the plan, with any remainder being applied to reduce employer contributions.

Cause: Plan officials failed to establish adequate internal controls to ensure that forfeitures were utilized in accordance with the provisions contained in the plan's governing document.

Effect: As a result of not properly applying forfeitures in accordance with the provision contained in the plan's governing document, the borough was required to make additional contributions from the general fund to satisfy the plan's funding requirements. As of December 31, 2015, funds amounting to \$11,865 were available for use as forfeitures.

Recommendation: We recommend that the borough contact the plan administrator to arrange for the forfeiture balance to be applied against the borough's future obligations to the plan. We also recommend that the municipality review the forfeiture policy with the plan administrator to ensure that, in the future, all available unused assets are properly used to meet plan obligations.

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

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

QUAKERTOWN BOROUGH MONEY PURCHASE PENSION PLAN
SUMMARY OF DEPOSITED STATE AID AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid	Employer Contributions
2010	None	\$ 16,732
2011	None	24,670
2012	None	33,559
2013	None	49,462
2014	\$ 54,218	5,909
2015	62,733	3,423

QUAKERTOWN BOROUGH MONEY PURCHASE PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

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