

# COMPLIANCE AUDIT

---

## Hanover Township Non-Uniformed Employees' Money Purchase Pension Plan Northampton County, Pennsylvania For the Period January 1, 2015 to December 31, 2016

---

February 2018



Commonwealth of Pennsylvania  
Department of the Auditor General

Eugene A. DePasquale • Auditor General



Commonwealth of Pennsylvania  
Department of the Auditor General  
Harrisburg, PA 17120-0018  
Facebook: Pennsylvania Auditor General  
Twitter: @PAAuditorGen  
www.PaAuditor.gov

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, 2015 to December 31, 2016. 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.

- 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, 2011 to December 31, 2016, 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 total 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 14 active employees employed during the audit period amounting to \$28,515 and \$33,190, for the years 2015 and 2016, respectively, made during the audit period.
- We determined whether retirement benefits calculated for both plan members who terminated employment and elected a lump-sum form of pension benefit 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 comparing the distributed amounts to supporting documentation evidencing amounts determined and actually paid to the recipients.
- We determined whether the January 1, 2013 , January 1, 2015, and January 1, 2017, actuarial valuation reports were prepared and submitted to the former Public Employee Retirement Commission (PERC) by March 31, 2014, 2016, and 2018, 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.

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 A Net Overpayment Of State Aid

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.

February 8, 2018



EUGENE A. DEPASQUALE  
Auditor General

## CONTENTS

	<u>Page</u>
Background.....	1
Status of Prior Finding.....	2
Finding and Recommendation:	
Finding – Partial Compliance With Prior Audit Recommendation – Incorrect Data On Certification Form AG 385 Resulting In A Net Overpayment Of State Aid.....	3
Summary of Deposited State Aid and Employer Contributions.....	5
Report Distribution List.....	6

## 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 former 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, as amended. 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 members' contributions up to 8 percent of annual salary. As of December 31, 2016, the plan had 12 active members, no terminated members eligible for vested benefits in the future, and no retirees receiving 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 An Overpayment Of State Aid

During the current audit period, the township reimbursed \$11,982 to the Commonwealth for the overpayment of state aid in 2014; however, plan officials again failed to comply with the instructions that accompany Certification Form AG 385 to assist them in accurately reporting the required pension data in the years 2015 and 2016 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 A Net Overpayment Of State Aid**

Condition: As disclosed in the Status of Prior Finding section of this report, the township partially complied with our prior audit recommendation by reimbursing the Commonwealth for the overpayment of state aid in 2014; however, a similar condition occurred during the current audit period. Plan officials again failed to comply with the instructions that accompanied Certification Form AG 385 to assist them in accurately reporting the required pension data in the years 2015 and 2016. The township certified 2 ineligible non-uniformed employees (2 units) and overstated payroll by \$46,268 on the Certification Form AG 385 filed in 2015. In addition, the township failed to certify 1 eligible non-uniformed employees (1 unit) and understated payroll by \$54,022 on the Certification Form AG 385 filed in 2016. The data contained on these certification forms is based on prior calendar year information.

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 again failed to establish adequate internal control procedures to ensure the accuracy of the data certified and ensure compliance with this department's prior audit recommendation.

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 plan. Because Hanover Township participates in a regional police pension plan, the township's state aid allocation for its non-uniformed pension plan is separately calculated by the Department of the Auditor General Comptroller's Office using an alternate method, taking into account the municipality's pension costs and unit value as well as the municipality's percentage of the regional police pension plan's pension costs and unit value. The township's state aid allocation for 2015 was \$90,179, which was based on the plans' unit values. Based on the corrected information, the township was entitled to an allocation of \$82,341, based on the plans' adjusted pension costs. Therefore, the township received a \$7,838 overpayment of state aid in 2015. Additionally, the township's state aid allocation for 2016 was \$96,242, which was based on the plans' unit values. Based on the corrected information, the township was entitled to an allocation of \$100,625, based on the plans' adjusted pension costs. Therefore, the township received a \$4,383 underpayment payment of state aid in 2016. The total net effect resulted in a \$3,455 overpayment of state aid.

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

**Finding – (Continued)**

Recommendation: We recommend that the net overpayment of state aid, in the amount of \$3,455, plus interest, be returned to the Commonwealth. 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, 321 Finance Building, Harrisburg, PA 17120. A copy of the interest calculation must be submitted along with the check.

We also 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 Conclusion: We are concerned that the municipality has not fully complied with the prior audit recommendation and encourage compliance at the earliest opportunity to do so. Compliance will be evaluated during our next audit of the plan.

**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
2011	None	\$ 4,516
2012	None	17,115
2013	None	19,211
2014	None	21,556
2015	None	28,515
2016	None	26,482*

Note: In 2016, the township met the plan's \$33,190 funding requirement by applying \$6,708 in accumulated forfeitures from terminated employees' accounts and depositing \$26,482 in employer contributions.

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

**Mr. John N. Diacogiannis**  
Chairman, Board of Township Supervisors

**Mr. Mark J. Tanczos**  
Vice-Chairman, Board of Township Supervisors

**Mr. Michael J. Prendeville**  
Township Supervisor

**Mr. John D. Nagle**  
Township Supervisor

**Mr. Stephen R. Salvesen**  
Township Supervisor

**Mr. John J. Finnigan, Jr.**  
Township Manager

**Ms. Beth A. Bucko**  
Treasurer

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).