

**HANOVER TOWNSHIP NONUNIFORMED EMPLOYEES' MONEY PURCHASE
PENSION PLAN**

NORTHAMPTON COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2009, TO DECEMBER 31, 2011



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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.

Pension plan aid is provided from a 2 percent foreign casualty insurance premium tax, a portion of the foreign 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 Nonuniformed 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 Nonuniformed 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. 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 annual salary. The municipality is required to match each member's contributions up to 8 percent of annual salary.



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

We have conducted a compliance audit of the Hanover Township Nonuniformed Employees' Money Purchase Pension Plan for the period January 1, 2009, to December 31, 2011. 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. Our methodology addressed determinations about the following:

- Whether state aid was properly determined and deposited in accordance with Act 205 requirements.
- Whether employer contributions are determined and deposited in accordance with the plan's governing document and applicable laws and regulations.
- Whether employee contributions are required and, if so, are determined, deducted and deposited into the pension plan and are in accordance with the plan provisions and applicable laws and regulations.

- Whether benefit payments, if any, represent payments to all (and only) those entitled to receive them and are properly determined in accordance with applicable laws and regulations.
- Whether obligations for plan benefits are accurately determined in accordance with plan provisions and based on complete and accurate participant data; and whether actuarial valuation reports are prepared and submitted to the Public Employee Retirement Commission (PERC) in accordance with state law and 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.

Township officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Hanover Township Nonuniformed 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, 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 tests indicated that, in all significant respects, the Hanover Township Nonuniformed 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:

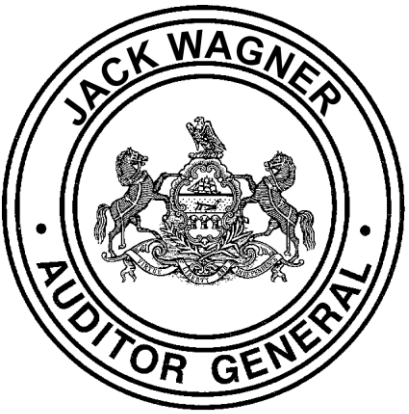
Finding – Noncompliance With Prior Audit Recommendation – Incorrect Data
On Certification Form AG 385 Resulting In A Net Overpayment Of
State Aid

The accompanying supplementary information is presented for purposes of additional analysis. We did not audit the information or conclude on it and, accordingly, express no form of assurance on it.

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

October 25, 2012

JACK WAGNER
Auditor General



HANOVER TOWNSHIP NONUNIFORMED EMPLOYEES' MONEY PURCHASE
PENSION PLAN
STATUS OF PRIOR FINDING

Noncompliance With Prior Audit Recommendation

Hanover Township has not complied with the prior audit recommendation concerning the following:

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

Municipal officials failed to comply with the recommendation in the prior audit report to establish adequate internal control procedures to ensure compliance with the instructions that accompany Certification Form AG 385 to assist them in accurately reporting the required pension data, as further discussed in the Finding and Recommendation section of this report.

HANOVER TOWNSHIP NONUNIFORMED EMPLOYEES' MONEY PURCHASE
PENSION PLAN
FINDING AND RECOMMENDATION

Finding – Noncompliance With Prior Audit Recommendation – Incorrect Data On Certification
Form AG 385 Resulting In A Net Overpayment Of State Aid

Condition: As disclosed in the prior audit report, the township failed to establish adequate internal control procedures to ensure compliance with the instructions that accompanied Certification Form AG 385, resulting in an underpayment of state aid in 2008. During the current audit period, the township again failed to comply with the instructions that accompany Certification Form AG 385. The township certified 2 ineligible nonuniformed employees (2 units) and understated payroll by \$77,999 on the Certification Form AG 385 filed in 2010. In addition, the township failed to certify 1 eligible nonuniformed employee (1 unit) and understated payroll by \$8,602 on the Certification Form AG 385 filed in 2011. 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.

In addition, pursuant to the instructions that accompany Certification Form AG 385, the total payroll eligible to be certified should be Internal Revenue Service Form W-2 earnings pertaining to full-time positions.

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

HANOVER TOWNSHIP NONUNIFORMED EMPLOYEES' MONEY PURCHASE
PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

Effect: The data submitted on these certification forms is used, in part, to calculate the state aid due to the municipality for distribution to its pension plans. Because Hanover Township participates in regional police and nonuniformed pension plans, the township's state aid allocation for its nonuniformed pension plans is calculated using an alternate method, taking into account the township's nonuniformed pension plans' pension costs and unit values as well as the township's percentage of the regional police and nonuniformed pension plans' pension costs and unit values. Consequently, the township received a net overpayment of state aid in the amount of \$873 as identified below:

<u>Year</u>	<u>Original Allocation</u>	<u>Revised Allocation</u>	<u>State Aid Overpayment (Underpayment)</u>
2010	\$ 93,810	\$ 87,341	\$ 6,469
2011	163,623	169,219	<u>(5,596)</u>
Net Overpayment of State Aid			<u>\$ 873</u>

Recommendation: We recommend that the net overpayment of state aid, in the amount of \$873, 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, 11 Stanwix Street, Suite 1450, Pittsburgh, PA 15222. 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 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.

HANOVER TOWNSHIP NONUNIFORMED EMPLOYEES' MONEY PURCHASE
PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF STATE AID
AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid Deposited	Employer Contributions
2007	None	\$ 1,181
2008	None	9,990
2009	None	11,808
2010	None	16,378
2011	None	4,516

HANOVER TOWNSHIP NONUNIFORMED EMPLOYEES' MONEY PURCHASE
PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania

Hanover Township Nonuniformed 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
Ms. Lori A. Stranzl	Secretary

This report is a matter of public record. Copies of this report may be obtained from the Pennsylvania Department of the Auditor General, Office of Communications, Room 318 Finance Building, Harrisburg, PA 17120. If you have any questions regarding this report or any other matter, you may contact the Department of the Auditor General by accessing our website at www.auditorgen.state.pa.us.