

# LIMITED PROCEDURES ENGAGEMENT

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## Nazareth Borough Non-Uniformed Pension Plan Northampton County, Pennsylvania For the Period January 1, 2015 to December 31, 2018

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June 2019



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  
Nazareth Borough  
Northampton County  
Nazareth, PA 18064

We conducted a Limited Procedures Engagement (LPE) of the Nazareth Borough Non-Uniformed Pension Plan for the period January 1, 2015 to December 31, 2018 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 LPE 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, 2013 to December 31, 2018, 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, 2013 to December 31, 2018, 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, 2015 and January 1, 2017 actuarial valuation reports were prepared and submitted by March 31, 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.
- 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 Nazareth 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 finding further discussed later in this report:

Finding – Partial Compliance With The Prior Audit Recommendation – Receipt  
Of State Aid In Excess Of Entitlement

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 report were discussed with officials of Nazareth Borough and, where appropriate, their responses have been included in this report. We would like to thank borough officials for the cooperation extended to us during the conduct of this LPE.

June 11, 2019

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

EUGENE A. DEPASQUALE  
Auditor General

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NAZARETH BOROUGH NON-UNIFORMED PENSION PLAN  
STATUS OF PRIOR FINDINGS

Compliance With Prior LPE Report Recommendation

Nazareth Borough has complied with the prior LPE report recommendation concerning the following:

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

During the current audit period, the borough reimbursed \$1,586 to the Commonwealth for the overpayment of state aid received in 2013 and complied with the instructions that accompanied Form AG 385 and accurately reported the required data during the current period covered by our engagement.

Partial Compliance With Prior LPE Report Recommendation

Nazareth Borough has partially complied with the prior LPE report recommendation concerning the following:

- Receipt Of State Aid In Excess Of Entitlement

During the current audit period, the borough reimbursed \$3,957 to the Commonwealth for the excess state aid received in 2012 and 2014; however, plan officials again failed to properly reconcile the borough's annual state aid allocation after the application of any available forfeitures with the plan's annual defined contribution pension costs in 2015, as further discussed in the Finding and Recommendation section of this report.

NAZARETH BOROUGH NON-UNIFORMED PENSION PLAN  
FINDING AND RECOMMENDATION

**Finding – Partial Compliance With The Prior Audit Recommendation - Receipt Of State Aid  
In Excess Of Entitlement**

Condition: As disclosed in the Status of Prior Findings section of this report, the borough partially complied with our prior recommendation by reimbursing the Commonwealth for the excess state aid received in 2012 and 2014; however, plan officials again failed to properly reconcile the borough’s annual state aid allocation after the application of any available forfeitures with the plan’s annual defined contribution pension costs and received state aid in excess of the non-uniformed pension plan’s defined contribution pension costs in the year 2015, as illustrated below:

	<u>2015</u>
State aid allocation	\$ 45,441
Actual municipal pension costs	<u>(45,072)</u>
Excess state aid	<u>\$ 369</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 again failed to implement adequate internal control procedures to reconcile the borough’s state aid allocation and employee forfeitures available to reduce municipal contributions with the plan’s actual defined contribution pension costs and ensure full compliance with the prior recommendation.

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 2015 must be returned to the Commonwealth for redistribution.

NAZARETH BOROUGH NON-UNIFORMED PENSION PLAN  
FINDING AND RECOMMENDATION

**Finding – (Continued)**

Recommendation: We recommend that the municipality return the \$369 of excess state aid received in 2015 to the Commonwealth from the non-uniformed pension plan. 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, 321 Finance Building, Harrisburg, PA 17120. A copy of the interest calculation must be submitted along with evidence of payment.

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 and any available employee forfeitures 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 evaluated during our next audit of the plan.



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

Year Ended December 31	State Aid	Employer Contributions
2013	\$ 38,061	\$ 3,468
2014	42,157	None
2015	45,441*	None
2016	39,461	\$ 2,430
2017	43,502	2,308
2018	45,810	3,425

*\* refer to finding and recommendation section of this report.*

Note: In 2016, the borough met the plan's \$48,602 funding requirement through the deposit of \$39,461 in state aid and \$2,430 in employer contributions and liquidation of \$6,711 in terminated employee forfeitures.

NAZARETH BOROUGH NON-UNIFORMED PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

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

**The Honorable Lance E. Colondo**  
Mayor

**Mr. Daniel R. Chiavaroli**  
Council President

**Mr. Paul A. Kokolus**  
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