

# COMPLIANCE AUDIT

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## Lilly Borough Police Pension Plan Cambria County, Pennsylvania For the Period January 1, 2018 to December 31, 2022

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September 2023



Commonwealth of Pennsylvania  
Department of the Auditor General

Timothy L. DeFoor • Auditor General



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**TIMOTHY L. DEFOOR  
AUDITOR GENERAL**

The Honorable Mayor and Borough Council  
Lilly Borough  
Cambria County  
Lilly, PA 15938

We have conducted a compliance audit of the Lilly Borough Police Pension Plan for the period January 1, 2018 to December 31, 2022. We also evaluated compliance with some requirements subsequent to that period when possible. The audit was conducted pursuant to authority derived from the Municipal Pension Plan Funding Standard and Recovery Act (Act 205 of 1984, as amended, 53 P.S. § 895.402(j)), which requires the Auditor General, as deemed necessary, to audit every municipality which receives general municipal pension system state aid and every municipal pension plan and fund in which general municipal pension system state aid is deposited. The audit was not conducted, nor was it required to be, in accordance with Government Auditing Standards issued by the Comptroller General of the United States. We planned and performed 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 is 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 the January 1, 2019 and January 1, 2021 actuarial valuation reports were prepared and submitted by March 31, 2020 and 2022, 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.

Borough officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Lilly Borough Police Pension Plan is administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies. We tested transactions, interviewed selected officials, and performed procedures to the extent necessary 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.

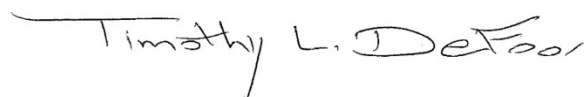
The results of our procedures indicated that, in all significant respects, the Lilly Borough Police Pension Plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies, except as noted in the following finding further discussed later in this report:

#### Finding – Return Of Unused Monies To The Commonwealth

As discussed in this report, Lilly Borough has not employed a full-time paid police officer since August 1, 1994. In addition, there have been no active, terminated members eligible for vested benefits in the future or retirees receiving pension benefits from the pension plan since June 7, 2015. As such, this report represents the final audit of the police pension plan.

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 Lilly Borough and, where appropriate, their responses have been included in the report. We would like to thank borough officials for the cooperation extended to us during the conduct of the audit.



Timothy L. DeFoor  
Auditor General  
August 21, 2023

# CONTENTS

	<u>Page</u>
Background.....	1
Finding and Recommendation:	
Finding – Return Of Unused Monies To The Commonwealth.....	2
Supplementary Information .....	4
Report Distribution List .....	8

## 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.

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 Lilly Borough Police Pension Plan is also governed by implementing regulations published at Title 16, Part IV of the Pennsylvania Code, and applicable provisions of various other state statutes.

The Lilly Borough Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 2002-12, as amended. The plan was established February 20, 1986. As of December 31, 2022, the plan had no active members, no terminated members eligible for vested benefits in the future, and no retirees receiving pension benefits (*refer to the Finding and Recommendation section of this report*).

LILLY BOROUGH POLICE PENSION PLAN  
FINDING AND RECOMMENDATION

**Finding – Return Of Unused Monies To The Commonwealth**

Condition: Lilly Borough has not employed a full-time paid police officer since August 1, 1994. In addition, there are no terminated members eligible for vested benefits in the future or retirees receiving pension benefits from the pension plan (*the last eligible recipient stopped receiving benefits June 7, 2015*). However, as of December 31, 2022, the borough has retained assets in its police pension plan amounting to \$63,599, which include unused state aid allocated under Act 205 intended for pension purposes.

Criteria: Act 205, at Section 402(g), directs that:

Any general municipal pension system State aid received by a municipality shall, only be used to defray the cost of the pension plan or pension plans maintained in the municipality...

Furthermore, Section 402(j) authorizes the Auditor General to administer the General Municipal Pension State Aid Program. This administrative power necessarily extends to ensuring that state aid is both allocated and used in accordance with the act. It has been the consistent practice of this department that municipalities that have received state aid under this program, and which do not employ at least one full-time paid police officer, must return unused funds not used for the purposes set forth herein within two years after receipt thereof, to the Commonwealth for distribution.

Cause: Current plan officials were unsure of the proper disposition of the unused funds maintained in the borough's pension plan or their responsibility to return any unused state aid allocation under Act 205 intended for pension purposes pursuant to the aforementioned criteria, to the Commonwealth

Effect: Funds distributed under the General Municipality Pension System State Aid Program were not used for their intended statutory purpose or returned to the Commonwealth for redistribution to defray other eligible municipalities' pension costs.

Recommendation: We recommend that borough officials, with the assistance of their solicitor and the plan's actuary, identify any outstanding liabilities that need to be satisfied from the pension plan assets. We also recommend that borough officials account for any municipal contributions previously made to fund the pension plan and transfer such unused municipal contributions to the borough's general fund.

LILLY BOROUGH POLICE PENSION PLAN  
FINDING AND RECOMMENDATION

**Finding – (Continued)**

After accounting for any remaining liabilities and municipal contributions, the remaining police pension plan assets should be returned to the Commonwealth. A check, along with any applicable calculations used in determining the amount reimbursed, should be made payable to the Commonwealth of Pennsylvania, and submitted to: Department of the Auditor General, Municipal Pensions & Fire Relief Programs Unit, 321 Finance Building, Harrisburg, PA 17120.

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

Auditor's Conclusion: Compliance will be monitored subsequent to the release of the audit report and through our next audit of the borough's non-uniformed pension plan.

LILLY BOROUGH POLICE PENSION PLAN  
 SUPPLEMENTARY INFORMATION  
 (UNAUDITED)

SCHEDULE OF FUNDING PROGRESS

Historical trend information about the plan is presented herewith as supplementary information. It is intended to help users assess the plan’s funding status on a going-concern basis, assess progress made in accumulating assets to pay benefits when due, and make comparisons with other state and local government retirement systems.

The actuarial information is required by Act 205 biennially. The historical information, beginning as of January 1, 2017, is as follows:

	(1)	(2)	(3)	(4)
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability* (AAL) - Entry Age (b)	Unfunded (Assets in Excess of) Actuarial Accrued Liability (b) - (a)	Funded Ratio (a)/(b)
01-01-17	\$ 56,113	\$ -	\$ (56,113)	N/A
01-01-19	57,581	-	(57,581)	N/A
01-01-21	67,457	-	(67,457)	N/A

*\* As of June 7, 2015, there were no active members participating in the plan, terminated members entitled to future benefits, or retirees collecting benefits from the plan.*



LILLY BOROUGH POLICE PENSION PLAN  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

The comparability of trend information is affected by changes in actuarial assumptions, benefit provisions, actuarial funding methods, accounting policies, and other changes. Those changes usually affect trends in contribution requirements and in ratios that use the actuarial accrued liability as a factor.

Analysis of the dollar amount of the actuarial value of assets, actuarial accrued liability, and unfunded (assets in excess of) actuarial accrued liability in isolation can be misleading. Expressing the actuarial value of assets as a percentage of the actuarial accrued liability (Column 4) provides one indication of the plan's funding status on a going-concern basis. Analysis of this percentage, over time, indicates whether the system is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the plan.

LILLY BOROUGH POLICE PENSION PLAN  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER  
AND OTHER CONTRIBUTING ENTITIES

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2017	None	N/A
2018	None	N/A
2019	None	N/A
2020	None	N/A
2021	None	N/A
2022	None	N/A

LILLY BOROUGH POLICE PENSION PLAN  
SUPPLEMENTARY INFORMATION  
NOTES TO SUPPLEMENTARY SCHEDULES  
(UNAUDITED)

The information presented in the supplementary schedules was determined as part of the actuarial valuation at the date indicated. Additional information as of the latest actuarial valuation date follows:

Actuarial valuation date	January 1, 2021
Actuarial cost method	Entry age normal
Amortization method	N/A
Remaining amortization period	N/A
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return	7.5%

LILLY BOROUGH POLICE PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

**The Honorable Joshua D. Shapiro**  
Governor  
Commonwealth of Pennsylvania

**The Honorable Michael Sklodowski**  
Mayor

**Mr. William Patterson**  
Council President

**Mr. Richard Sweeney**  
Vice President

**Ms. Claudine Falger**  
Secretary

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