

COMPLIANCE AUDIT

Camp Hill Borough Cash Balance Pension Plan Cumberland County, Pennsylvania For the Period January 1, 2018 to December 31, 2021

March 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
Camp Hill Borough
Cumberland County
Camp Hill, PA 17011

We have conducted a compliance audit of the Camp Hill Borough Cash Balance Pension Plan for the period January 1, 2018 to December 31, 2021. 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 findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings 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.

- 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.
- 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 nine active employees employed during the audit period amounting to \$7,664, \$8,928, \$8,748, and \$14,522, for the years 2018, 2019, 2020, and 2021, respectively, made during the audit period.
- We determined that there were no benefit calculations prepared for the years covered by our audit period.
- We determined whether the January 1, 2017, January 1, 2019, and January 1, 2021, actuarial valuation reports were prepared and submitted by March 31, 2018, 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.

The Camp Hill Borough Cash Balance Pension Plan participates in the Pennsylvania Municipal Retirement System (PMRS), which is an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for participating municipal pension plans. PMRS issues a separate Annual Comprehensive Financial Report, copies of which are available from the PMRS accounting office. PMRS's 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 Camp Hill Borough Cash Balance Pension Plan is administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies. As previously described, 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.

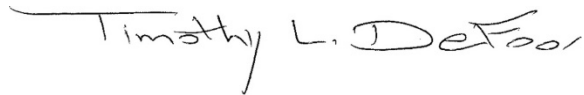
The results of our procedures indicated that, in all significant respects, the Camp Hill Borough Cash Balance Pension Plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies, except as noted in the following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

Finding No. 1 – Allocation Of State Aid In Excess Of Entitlement

Finding No. 2 – Municipal Contributions Made In Excess Of Contributions
Required To Fund The 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 Camp Hill 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
March 13, 2023

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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.

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 Camp Hill Borough Cash Balance 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 including, but not limited to, the following:

Act 15 - Pennsylvania Municipal Retirement Law, Act of February 1, 1974
(P.L. 34, No. 15), as amended, 53 P.S. § 881.101 et seq.

The Camp Hill Borough Cash Balance Pension Plan is a single-employer cash balance pension plan locally controlled by the provisions of Ordinance No. 2021-06, effective September 1, 2020, and a separately executed plan agreement with the plan custodian, adopted pursuant to Act 15. Prior to September 1, 2020, the plan was locally controlled by the provisions of Resolution No. 2016-04 and an agreement also adopted pursuant to Act 15. The plan is also affected by the provisions of collective bargaining agreements between the borough and its non-uniformed employees. The plan was established April 1, 2016. Active members are required to contribute four and one-half (4.5) percent of compensation to the plan and may optionally contribute up to 15.5 percent of compensation to the plan. The municipality is required to contribute 10 percent of each member's compensation. As of December 31, 2021, the plan had seven active members.

CAMP HILL BOROUGH CASH BALANCE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Allocation Of State Aid In Excess Of Entitlement

Condition: In 2019 and 2021, the borough allocated state aid to its cash balance pension plan in excess of the plan’s pension costs under Act 205, as illustrated below:

	<u>2019</u>	<u>2021</u>
State aid allocation	\$ 16,861	\$ 16,026
Actual municipal pension costs	19,920	32,330
Less: Forfeitures applied	(5,305)	(25,468)
Excess state aid	\$ 2,246	\$ 9,164

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 plan 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 were unaware to annually reconcile the amount of state aid allocated, along with available plan forfeitures, with the plan’s actual defined contribution pension costs.

Effect: It is this department’s opinion that, since 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; however, the borough does have the option to allocate the excess state aid to its defined benefit pension plans.

Recommendation: We recommend the borough re-allocate excess state aid amounting to \$11,410 to one or both of its defined benefit pension plans. *(Auditor’s Note: It should be noted that as of the date of this report, the borough’s police pension plan was 98.6% funded while the non-uniformed pension plan was 110.9% funded.)*

In addition, we recommend that, in the future, plan officials reconcile the annual state aid, forfeitures, and municipal contributions made to the pension plan with the plan’s pension costs.

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.

CAMP HILL BOROUGH CASH BALANCE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Municipal Contributions Made In Excess Of Contributions Required To Fund The Plan

Condition: The borough made contributions to its cash balance pension plan in excess of contributions required to fund the pension plan, as illustrated below:

	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>Total</u>
Actual municipal pension costs	\$ 17,091	\$ 19,920	\$ 19,561	\$ 32,330	\$ 88,902
Forfeitures available	<u>(2,457)</u>	<u>(5,305)</u>	<u>(2,052)</u>	<u>(25,468)</u>	<u>(35,282)</u>
Adjusted actual municipal pension costs	14,634	14,615	17,509	6,862	53,620
State aid allocated	<u>(12,299)</u>	<u>(16,861)</u>	<u>(8,759)</u>	<u>(16,026)</u>	<u>(53,945)</u>
Municipal contributions required to fund plan	<u>\$ 2,335</u>	<u>\$ -</u>	<u>\$ 8,750</u>	<u>\$ -</u>	<u>\$ 11,085</u>
Actual municipal contributions made	\$ 14,614	\$ 14,615	\$ 19,372	\$ 18,096	\$ 66,697
Municipal contributions required to fund plan	<u>(2,335)</u>	<u>-</u>	<u>(8,750)</u>	<u>-</u>	<u>(11,085)</u>
Excess municipal contributions	<u>\$ 12,279</u>	<u>\$ 14,615</u>	<u>\$ 10,622</u>	<u>\$ 18,096</u>	<u>\$ 55,612</u>

Criteria: Section 3.01 of the plan’s Adoption Agreement states, in part, in regards to contribution amounts:

Required Municipal Contribution

Required in an amount equal to ten percent (10.00%) of each Member’s Compensation.

Since state aid allocated to a pension plan must be expended on pension costs, it is the opinion of this department that where municipal contributions and state aid are both deposited into a pension plan, the state aid is expended first to fund pension costs.

CAMP HILL BOROUGH CASH BALANCE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Cause: The borough did not have adequate internal control procedures in place to ensure that municipal contributions would not exceed the required contributions outlined in the plan's governing document.

Effect: The borough's excess contributions to the pension plan combined with unapplied forfeitures and accumulated interest has resulted in an increase in the unallocated reserve fund to a balance of \$109,135 as of December 31, 2021.

It is the opinion of this department that the borough's failure to withdraw excess municipal contributions made in prior years does not preclude the borough from withdrawing the municipal contributions maintained in the unallocated reserve fund at this time.

The unallocated reserve fund maintained by the cash balance pension plan resulted because no reduction of municipal contributions occurred to reconcile the amount of state aid and available forfeitures with the plan's defined contribution pension costs. It is appropriate to use state aid to reimburse a municipality for contributions made to the pension plan to fund the pension costs in that same fiscal year, as long as annual pension costs for that pension plan are equal to or greater than the state aid allocated to that pension plan.

It is the opinion of this department that the borough's failure to withdraw excess municipal contributions made in prior years does not preclude the borough from withdrawing the municipal contributions maintained in the unallocated reserve fund at this time.

Recommendation: We recommend that the borough liquidate the unallocated reserve fund maintained by the cash balance pension plan (*after re-allocating the \$11,410 of excess state aid to the borough's defined benefit pension plans as noted in Finding No. 1*), by transferring the assets which represent nonstate aid funds, to the borough's general fund. In addition, any interest income earned on assets held in the reserve fund to the date of transfer should also be transferred to the general fund.

We also recommend that, in the future, plan officials reconcile the amount of state aid allocated to the cash balance pension plan, forfeitures available to lower municipal contributions, and municipal contributions made to the pension plan with the pension plan's annual defined contribution pension costs.

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.

CAMP HILL BOROUGH CASH BALANCE PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF CONTRIBUTIONS

Year Ended December 31	Statutorily Required Contribution (SRC)*	Contributions in Relation to the SRC*	Contribution Deficiency (Excess)**	Covered- Employee Payroll***	Contributions as a Percentage of Covered- Employee Payroll***
2017	\$ 12,596	\$ 18,146	\$ (5,550)	\$ 128,587	14.11%
2018	17,071	21,461	(4,390)	170,308	12.60%
2019	19,919	36,781	(16,862)	198,395	18.54%
2020	19,501	26,148	(6,647)	194,408	13.45%
2021	32,330	59,590	(27,260)		

* The Statutorily Required Contribution (SRC) is a contribution amount based upon the payroll and the contribution rate as outlined under the terms of the cash balance pension plan.

** The SRC and the actual Contribution were provided by the custodian. Deviation between these amounts may be due to contributions to or transfers from the municipal reserve account.

In 2017, the excess contribution was due to the deposit of 2016 contributions for a member who was retroactively added to the plan.

In 2018, the borough met the plan's \$17,091 funding requirement through the deposit of \$12,299 in state aid, \$14,614 in municipal contributions and \$2,457 in terminated employee forfeitures. (See excess municipal contributions in Finding No. 2.)

In 2019, the borough met the plan's \$19,920 funding requirement through the deposit of \$16,861 in state aid, \$14,615 in municipal contributions and \$5,305 in terminated employee forfeitures. (See excess state aid in Finding No. 1 and excess municipal contributions in Finding No. 2.)

In 2020, the borough met the plan's \$19,561 funding requirement through the deposit of \$8,759 in state aid, \$19,372 in municipal contributions and \$2,052 in terminated employee forfeitures. (See excess municipal contributions in Finding No. 2.)

In 2021, the borough met the plan's \$32,330 funding requirement through the deposit of \$16,026 in state aid, \$18,096 in municipal contributions and \$25,468 in terminated employee forfeitures. (See excess state aid in Finding No. 1 and excess municipal contributions in Finding No. 2.)

*** Due to the timing of this audit, covered-employee payroll for 2021 was not provided in this schedule.

CAMP HILL BOROUGH CASH BALANCE PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Joshua D. Shapiro
Governor
Commonwealth of Pennsylvania

The Honorable Mark Simpson
Mayor

Ms. Alissa Packer
Council President

Ms. Sara Gibson
Borough Manager

Mr. Jared Wolfgang
Finance Director

Mr. Richard Cardamone, CPA, CGMA
Pennsylvania Municipal Retirement System

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