

COMPLIANCE AUDIT

Elizabethville Borough Non-Uniformed Employee's Pension Plan

Dauphin County, Pennsylvania
For the Period
January 1, 2017 to December 31, 2020

January 2022



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
Elizabethville Borough
Dauphin County
Elizabethville, PA 17023

We have conducted a compliance audit of the Elizabethville Borough Non-Uniformed Employee's Pension Plan for the period January 1, 2017 to December 31, 2020. 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. State aid allocations that were deposited into the pension plan for the years ended December 31, 2015 to December 31, 2020, are presented on the Summary of Deposited State Aid and Employer Contributions.

- 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, 2015 to December 31, 2020, are presented on the Summary of Deposited State Aid and Employer Contributions.
- We determined that there were no employee contributions required by the plan's governing document and applicable laws and regulations for the years covered by our audit period.
- We determined whether retirement benefits calculated for the lone plan member who retired and received a lump-sum distribution 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 recalculating the amount of the pension benefits due to the retired individual and comparing these amounts to supporting documentation evidencing amounts determined and actually paid to the recipient.
- We determined whether the January 1, 2017, and January 1, 2019 actuarial valuation reports were prepared and submitted by March 31, 2018, and 2020, 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.
- We determined 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 contracts with the plan's provisions, investment policies, and state regulations.

Borough officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Elizabethville Borough Non-Uniformed Employee's 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.

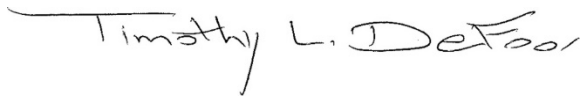
The results of our procedures indicated that, in all significant respects, the Elizabethville Borough Non-Uniformed Employee's Pension Plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies, except as noted in the following findings further discussed later in this report:

Finding No. 1 – Failure To Include Eligible Employees In The Pension Plan

Finding No. 2 – Failure To Properly Fund Member Accounts

Finding No. 3 – Failure To Maintain An Adequate Record-Keeping System

The contents of this report were discussed with officials of Elizabethville 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.

A handwritten signature in black ink that reads "Timothy L. DeFoor". The signature is written in a cursive style with a long horizontal line extending to the left of the first name.

Timothy L. DeFoor
Auditor General
January 3, 2022

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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 Elizabethville Borough Non-Uniformed Employee's 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 Elizabethville Borough Non-Uniformed Employee's Pension Plan is a single-employer defined contribution pension plan locally controlled by the provisions of Ordinance No. 362 and a separately executed plan agreement with the plan's custodian. The plan was established January 1, 1990. Active members are not required to contribute to the plan. The municipality is required to contribute 15 percent of the participant's quarterly compensation. As of December 31, 2020, the plan had two active members.

ELIZABETHVILLE BOROUGH NON-UNIFORMED EMPLOYEE'S PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Failure To Include Eligible Employees In The Pension Plan

Condition: The borough did not properly identify and include two employees who met the eligibility criteria established by the borough for participation in the pension plan according to the plan document, as illustrated below:

<u>Employee Hire Date</u>	<u>2017 Compensation</u>	<u>2018 Compensation</u>	<u>2019 Compensation</u>	<u>2020 Compensation</u>
9/16/2017	\$ 10,445	\$ 17,188	\$ 18,850	\$ 17,534
6/12/2017	3,276	15,274	16,230	18,006

In addition, it was also noted that an additional employee, who was not previously identified during the conduct of prior engagements also appeared as eligible for participation in the borough's pension plan according to the plan document, as follows:

<u>Employee Hire Date</u>	<u>2017 Compensation</u>	<u>2018 Compensation</u>	<u>2019 Compensation</u>	<u>2020 Compensation</u>
8/7/2009	\$ 2,202	\$ 2,425	\$ 2,614	\$ 3,645

Criteria: Article 1.02 of the separately executed plan agreement adopted by Ordinance No. 362 contains the following Definitions:

Eligible Employee means any Employee of the Employer excluding a Police officer;

Eligibility Service means an Employee's Period of Service. Eligibility Service shall be measured from his Employment Commencement Date to his most recent Severance Date.

Vested Account means the vested part of a Participant's Account. All Contributions are 100% vested when made, therefore the Participant's Vested Account is equal to his Account.

Concurrently, **Article II Participation** Section 2.01(a)(1)-Active Participant, states, in part:

An Employee shall first become an Active Participant on the earliest Monthly Date on which he is an Eligible Employee and has met the eligible requirement set forth below. This date is his Entry Date.

- 1) He has completed three months of Eligibility Service before his Entry Date.

ELIZABETHVILLE BOROUGH NON-UNIFORMED EMPLOYEE'S PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Whereas, **Article III Contributions** Section 3.01 Employer Contributions states, in part:

The amount of the Employer Contribution for each eligible person shall be calculated as of the Contribution Date and shall be equal to 15% of the Participant's Quarterly Compensation.

Cause: Plan officials were unaware of the eligibility provisions currently prescribed in the plan's governing document for participation in the borough's pension plan. In addition, the borough lacked adequate internal control procedures to timely identify and enroll all employees satisfying the eligibility requirements for participation in its pension plan in accordance with the plan document.

Effect: The failure to properly identify and enroll all employees meeting the plan's participation criteria could result in the denial of benefits to which eligible employees are entitled to under provisions of the plan's governing document.

Recommendation: We recommend that the borough, after consulting its solicitor, take appropriate action to ensure that the aforementioned employees are afforded the opportunity to participate in the borough's pension plan and receive all benefits due in accordance with the plan document at their earliest opportunity to do so.

In addition, once participation is determined, we recommend that any resulting deficient contributions due to members' accounts be deposited, with interest, from the date of deposit of the municipal contributions which were made in a particular funding year to the date of deposit of the amount in arrears. A copy of the interest calculation must be maintained by the borough for examination during our next audit of the plan.

We also recommend that that in the future, the borough establish adequate internal control procedures to timely identify and enroll all subsequent employees meeting the eligibility provisions for participation in the borough's pension plan in accordance with the pension plan document.

Management's Response: The borough disagrees with the position of the department as provided in the following written response:

Based on past audits from (2008-2009): published in August 2010, (2010-2012) published in December 2013 and (2013-2016) published in March 2018 the issue in question was never brought up, referred to or even questioned by any of the department's Auditors or Reviewers over the past 13 years. Not even an observation was given in reference to this issue.

ELIZABETHVILLE BOROUGH NON-UNIFORMED EMPLOYEE'S PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

The Borough maintains that precedent was set by previous audits and their conclusions. Not once were Eligibility issues brought into question via a finding or an observation since 2008.

In an effort to maintain consistency set forth by previous Auditor and Reviewers of the Borough's Non-Uniformed Pension Plan we ask that the finding be rescinded.

Auditor's Conclusion: The department acknowledges the borough's disagreement with the disclosure. The fact that the issue was not identified during prior audits does not preclude the department from disclosing inconsistencies that arise during the conduct of the current engagement. Moreover, given the nature that it is a municipality's responsibility to establish the benefit structure and participatory requirements for its municipal pension plan and administer such plan within the established parameters and it is the provisions of such plan document which defines the plan's eligibility and participation requirements, it is merely the department's responsibility to perform the audit and denote whether the pension plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies for the period covered by the audit. Based on the criteria cited above, the finding remains as stated and compliance will be evaluated during our next audit of the plan.

Finding No. 2 – Failure To Properly Fund Member Accounts

Condition: During 2020, the borough failed to properly fund members' accounts in accordance with the plan's governing document based on records provided by the borough. The borough overfunded a member's account in the amount of \$194, and underfunded another member's account in the amount of \$32, resulting in a total net overfunding of \$162. The overfunding occurred for an employee who was hired on October 14, 2019, but did not become a member of the plan until February 1, 2020.

Criteria: Section 3.01 of the separately executed plan agreement adopted by Ordinance No. 362, states the following:

The amount of the Employer Contribution for each eligible person shall be calculated as of the Contribution Date and shall be equal to 15% of the Participant's Quarterly Compensation.

ELIZABETHVILLE BOROUGH NON-UNIFORMED EMPLOYEE'S PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Section 2.01(a)(1) of the plan agreement states, in part:

An Employee shall first become an Active Participant (begin active participation in the Plan) on the earliest Monthly Date on which he is an Eligible Employee and has met the eligible requirement set forth below. This date is his Entry Date.

He has completed three months of Eligibility Service Before his Entry Date.

Furthermore, Section 1.02 further defines service, as follows:

Eligibility Service means an Employee's Period of Service. Eligibility Service shall be measured from his Employment Commencement Date to his most recent Severance Date.

Cause: The borough did not properly fund the aforementioned employees' accounts due to an oversight. Additionally, the borough lacked adequate internal control procedures to ensure that only eligible plan members' accounts were properly funded in accordance with the provisions contained in the plan's governing documents.

Effect: The failure to properly fund member accounts could result in the payment of excess benefits or the denial of benefits to which eligible employees are entitled to under provisions of the plan document.

Recommendation: We recommend that the borough review the applicable members' accounts and make the adjustments deemed necessary to ensure accounts are funded in accordance with the provisions contained in the plan's governing document.

We also recommend that plan officials implement adequate internal control procedures to ensure that the members' accounts are properly funded in accordance with the provisions contained in the plan's governing document.

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.

ELIZABETHVILLE BOROUGH NON-UNIFORMED EMPLOYEE'S PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – Failure To Maintain An Adequate Record-Keeping System

Condition: The plan's record-keeping system did not provide effective control over assets, revenues and expenses. The deficiencies are as follows:

- Member account statements were not maintained; and
- Investment rosters were not maintained.

Criteria: An adequate system of accounting and record keeping is a prerequisite for sound administration of pension plans.

Cause: Plan officials were unaware of their various record-keeping responsibilities including the maintenance of accurate member account statements, summarizing annual account activity such as the annual allocation of required contributions as well as investment earnings to ensure propriety of accumulated pension accounts.

Effect: The failure to maintain adequate records and/or monitor individual members' accounts could lead to undetected errors or improprieties, such as that described in Finding No. 2, and prohibits municipal officials from effectively monitoring the pension plan.

Recommendation: We recommend that plan officials establish accounting procedures that provide effective control over assets, revenues and expenses. Plan officials should refer to the Auditor General's Bulletin No. 2-88 entitled "Preparation, Maintenance and Auditability of Financial Records," for further guidance in establishing adequate accounting procedures.

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.

ELIZABETHVILLE BOROUGH NON-UNIFORMED EMPLOYEE'S PENSION PLAN
SUMMARY OF DEPOSITED STATE AID AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid	Employer Contributions
2015	\$ 3,921	\$ 7,055
2016	4,375	7,102
2017	4,588	7,065
2018	4,684	7,687
2019	5,120	7,901
2020	4,924	8,175

ELIZABETHVILLE BOROUGH NON-UNIFORMED EMPLOYEE'S PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

The Honorable Edward E. Engle, Jr.
Mayor

Mr. James S. Facinelli
Council President

Ms. Denise M. Spickler
Borough Secretary/Treasurer

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