

COMPLIANCE AUDIT

Ephrata Borough Retirement Pension Plan Lancaster County, Pennsylvania For the Period January 1, 2017 to December 31, 2020

September 2021



Commonwealth of Pennsylvania
Department of the Auditor General

Timothy L. DeFoor • Auditor General



**Commonwealth of Pennsylvania
Department of the Auditor General
Harrisburg, PA 17120-0018
Facebook: Pennsylvania Auditor General
Twitter: @PAAuditorGen
www.PaAuditor.gov**

**TIMOTHY L. DEFOOR
AUDITOR GENERAL**

The Honorable Mayor and Borough Council
Ephrata Borough
Lancaster County
Ephrata, PA 17522

We have conducted a compliance audit of the Ephrata Borough Retirement 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 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 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. 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 separated employment 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.

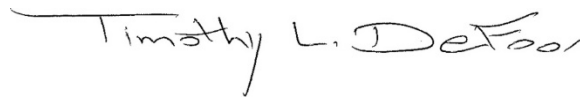
Ephrata Borough contracted with an independent certified public accounting firm for annual audits of its basic financial statements which are available at the borough's offices. Those financial statements were not audited by us and, accordingly, we express no opinion or other form of assurance on them.

Borough officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Ephrata Borough Retirement 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 Ephrata Borough Retirement 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 – Incorrect Data On Certification Form AG 385 Resulting In A
Net Underpayment Of State Aid

The contents of this report were discussed with officials of Ephrata 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 letter.

September 13, 2021

Timothy L. DeFoor
Auditor General

CONTENTS

	<u>Page</u>
Background.....	1
Finding and Recommendation:	
Finding – Incorrect Data On Certification Form AG 385 Resulting In A Net Underpayment Of State Aid	2
Summary of Deposited State Aid and Employer Contributions.....	4
Report Distribution List	5

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 Ephrata Borough Retirement 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 Ephrata Borough Retirement Pension Plan is a single-employer defined contribution pension plan locally controlled by the provisions of Ordinance No. 1484, as amended, and a separately executed plan agreement with the plan's custodian for the borough's non-uniformed employees not represented by a collective bargaining agreement, who were hired on or after May 15, 2012, and for all non-uniformed employees who were hired after January 1, 2017. The plan is also affected by the provisions of collective bargaining agreements between the borough and its non-uniformed employees. The plan was established May 15, 2012. Active members are not required to contribute to the plan. The municipality is required to contribute 6 percent of compensation. As of December 31, 2020, the plan had 13 active members.

EPHRATA BOROUGH RETIREMENT PENSION PLAN
FINDING AND RECOMMENDATION

Finding – Incorrect Data On Certification Form AG 385 Resulting In A Net Underpayment Of State Aid

Condition: The borough failed to certify an eligible non-uniformed employee (1 unit) and understated payroll by \$90,699 and \$93,804 on the Certification Form AG 385s filed in 2018 and 2019, respectively. In addition, the borough failed to certify 3 eligible non-uniformed employees (3 units) and understated payroll by \$258,304 on the Certification Form AG 385 filed in 2020. Furthermore, the borough certified 2 ineligible police officers (4 units) and failed to certify 1 eligible police officer (2 units) and 5 eligible non-uniformed employees (5 units) and understated total payroll by \$154,410 on the Certification Form AG 385 filed in 2021. The two ineligible police officers retired effective January 31, 2020 and May 31, 2020, respectively, and entered the borough's Deferred Retirement Option Program (DROP) and therefore, were ineligible for certification purposes. 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.

Furthermore, Act 205 at Section 402(e)(2) states, in part:

For the purpose of computing and reporting the applicable number of units, a DROP participant shall not be reported to the Auditor General as an active employee.

Cause: Plan officials failed to establish adequate internal control procedures, such as having another individual review the accuracy of the data certified prior to submission. In addition, plan officials were unaware that DROP participants, along with their compensation, are not eligible for certification.

EPHRATA BOROUGH RETIREMENT 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 the borough’s state aid allocations were based on unit value, the incorrect certification of pension data affected the borough’s state aid allocations, as identified below:

<u>Year</u>	<u>Type Of Plan</u>	<u>Units Overstated (Understated)</u>	<u>Unit Value</u>	<u>State Aid Overpayment (Underpayment)</u>
2018	Non-Uniformed	(1)	\$ 4,684	\$ (4,684)
2019	Non-Uniformed	(1)	\$ 5,121	\$ (5,121)
2020	Non-Uniformed Retirement	(1) (2)	\$ 4,924 \$ 4,924	\$ (4,924) <u>(9,848)</u>
			Total	<u>\$ (14,772)</u>
2021	Non-Uniformed Retirement Police	(1) (4) 2	\$ 4,797 \$ 4,797 \$ 4,797	\$ (4,797) (19,188) <u>9,594</u>
			Total	<u>\$ (14,391)</u>
			Net Underpayment of State Aid	<u>\$ (38,968)</u>

Although the borough will be reimbursed for the total net underpayment of state aid due to the borough’s certification errors, the full amount of the 2018, 2019, 2020, and 2021 state aid allocations were not available to be deposited timely and therefore were not available to pay operating expenses or for investment.

Recommendation: We recommend that in the future, plan officials establish adequate internal control procedures, such as having at least two people review the data certified, 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.

Auditor’s Conclusion: Compliance will be evaluated during our next audit of the plan.

EPHRATA BOROUGH RETIREMENT PENSION PLAN
SUMMARY OF DEPOSITED STATE AID AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid	Employer Contributions
2015	None	\$ 6,624
2016	None	6,428
2017	None	12,879
2018	None	22,096
2019	None	42,883
2020	None	52,518

EPHRATA BOROUGH RETIREMENT PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

The Honorable Ralph Mowen
Mayor

Ms. Susan E. Rowe
Council President

Mr. Robert Thompson
Borough Manager

Ms. Debra Bartow
Assistant Borough Manager/CFO

Ms. Amanda Eberly
Human Resource Manager

This report is a matter of public record and is available online at www.PaAuditor.gov. Media questions about the report can be directed to the Pennsylvania Department of the Auditor General, Office of Communications, 229 Finance Building, Harrisburg, PA 17120; via email to: news@PaAuditor.gov.