

# COMPLIANCE AUDIT

---

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

---

March 2024



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  
Hummelstown Borough  
Dauphin County  
Hummelstown, PA 17036

We have conducted a compliance audit of the Hummelstown 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 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 that there were no employee contributions required for the years covered by our audit period due to the fact that employee contributions were appropriately waived by the municipality.
- We determined whether retirement benefits calculated for plan members who retired or vested 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 monthly pension benefits due to the retired individuals and comparing these amounts to supporting documentation evidencing amounts determined and actually paid or payable to the recipients.
- 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.

Hummelstown 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.

The Hummelstown Borough Police 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.

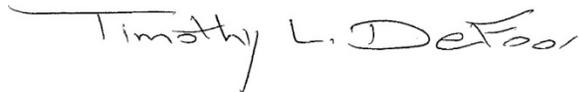
Borough officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Hummelstown Borough Police Pension Plan is administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances 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 Hummelstown 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 findings further discussed later in this report:

- Finding No. 1 – Failure To Deposit The Full Amount Of State Aid Into An Eligible Pension Plan
- Finding No. 2 – Ordinance Improperly Amended By Resolution
- Finding No. 3 – Inconsistent Pension Benefit Provision

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 Hummelstown 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  
February 20, 2024

## CONTENTS

	<u>Page</u>
Background.....	1
Findings and Recommendations:	
Finding No. 1 – Failure To Deposit The Full Amount Of State Aid Into An Eligible Pension Plan .....	2
Finding No. 2 – Ordinance Improperly Amended By Resolution .....	3
Finding No. 3 – Inconsistent Pension Benefit Provision .....	4
Supplementary Information .....	5
Report Distribution List .....	9

## 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 two 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 Hummelstown 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 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 Hummelstown Borough Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Resolution No. 2020-4 (*see Finding No. 2*) and two separately executed plan agreements with the plan custodian, effective September 1, 2020, adopted pursuant to Act 15. Prior to September 1, 2020, the plan was locally controlled by the provisions of Ordinance No. 99-1 and a separately executed plan agreement with the plan custodian, adopted pursuant to Act 15. The plan is also affected by the provisions of collective bargaining agreements between the borough and its police officers. The plan was established January 1, 1976. Active members are required to contribute five percent of compensation to the plan; however, member contributions were waived during the audit period. As of December 31, 2022, the plan had eight active members, two terminated members eligible for vested benefits in the future, and six retirees receiving pension benefits.

HUMMELSTOWN BOROUGH POLICE PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – Failure To Deposit The Full Amount Of State Aid Into An Eligible Pension Plan**

Condition: The municipality did not deposit the full amount of its 2022 state aid allocation into an eligible pension plan. The municipality received its initial 2022 state aid allocation in the amount of \$69,763 on September 28, 2022, and an additional 2022 state aid allocation in the amount of \$5,001 on February 13, 2023, totaling \$74,764, but only state aid totaling \$56,818 was deposited into the borough's pension plans.

Criteria: Section 402(g) of Act 205 states, in part:

. . . the total amount of the general municipal pension system State aid received by the municipality shall, within 30 days of receipt by the treasurer of the municipality, be deposited in the pension funds....

Cause: The full amount of the 2022 state aid was not deposited into an eligible pension plan because internal control procedures were not in effect to ensure the deposit of the full amount of state aid. The borough's 2022 state aid allocation exceeded the required minimum municipal obligation for the police and non-uniformed pension plans for that year, and plan officials only deposited the minimum amounts required to each plan and not the entire amount of state aid received, as required by Act 205. The undeposited state aid received remained in the borough's general fund.

Effect: When state aid is not deposited into a pension plan account, the funds are not available to pay operating expenses or for investment and the risk of misapplication is increased.

Recommendation: We recommend that the borough deposit the remaining state aid allocation of \$17,946, plus interest earned during the period beyond the 30 day grace period allowed by Act 205, compounded annually, into an eligible pension plan. 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 plan officials develop and implement procedures to ensure that future state aid is deposited into an eligible pension plan within 30 days of receipt by the municipal treasurer.

HUMMELSTOWN BOROUGH POLICE PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – (Continued)**

Management’s Response: Borough officials provided the following response:

Due to staff turnover within the Borough, the excess State Aid received in 2022 was not properly deposited into the Uniform and Non-Uniform accounts. This error has since been corrected and the Borough has cut a check to PMRS for the excess State Aid prior to the completion of the audit. The excess State Aid received in 2023 was properly remitted to PMRS to deposit into the Borough’s Uniform Pension and Non-Uniform Pension accounts.

Auditor’s Conclusion: The municipality has substantially complied with the recommendation by remitting the outstanding state aid allocation to the plan custodian for deposit to the pension plans. Full compliance with the recommendation will be evaluated during our next audit of the plan.

**Finding No. 2 – Ordinance Improperly Amended By Resolution**

Condition: The pension plan’s governing document, Ordinance No. 99-1, was restated and superseded by two plan adoption agreements adopted by Resolution No. 2020-04 effective September 20, 2020.

Criteria: In Wynne v. Lower Merion Township, 181 Pa. Superior Ct., 524, the Pennsylvania Superior Court held that an ordinance may be amended only by another ordinance and not by a resolution.

Cause: Municipal officials were not aware that a resolution cannot amend an ordinance.

Effect: The failure to properly adopt the restated plan document could result in inconsistent or improper benefit calculations and incorrect benefit payments from the pension plan.

Recommendation: We recommend that the borough amend the plan’s governing document with a properly executed ordinance.

Management’s Response: Borough officials provided the following response:

The Borough has been made aware that an Ordinance cannot be amended by Resolution, and this current staff will work to have a new Ordinance adopted and signed by Borough Council.

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

HUMMELSTOWN BOROUGH POLICE PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 3 – Inconsistent Pension Benefit Provision**

Condition: The pension plan’s governing document adopted by Resolution 2020-04 contains a benefit provision that conflicts with the collective bargaining agreement between the police officers and the borough as follows:

<u>Benefit Provision</u>	<u>Governing Document</u>	<u>Collective Bargaining Agreement</u>
Retirement age	The later of date the member attains the age of 55 and member completes 12 years of service. <i>(Plan agreement effective September 1, 2020)</i>	Normal Retirement for full time officers is 25 years of service and 50 years of age. <i>(2023-2025 CBA signed December 15, 2022)</i>

Criteria: The plan’s governing document and the collective bargaining agreement should contain consistent benefit provisions to ensure the sound administration of retirement benefits.

Cause: Municipal officials failed to update the plan’s governing document to be consistent with the collective bargaining agreement between the police officers and the borough.

Effect: Inconsistent plan documents could result in inconsistent or improper benefit calculations and incorrect benefit payments from the pension plan.

Recommendation: We recommend that municipal officials take appropriate action to ensure the plan’s governing document and the collective bargaining agreement contain consistent benefit provisions at their earliest opportunity to do so.

Management’s Response: Borough officials provided the following response:

The Borough of Hummelstown has been in communications with PMRS to have a cost study completed and requested plan changes to be consistent with CBA to show age 50 or 25 years of service. The Borough will adopt this change by ordinance once cost study is completed and will be effective 1/1/2024.

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

HUMMELSTOWN 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	\$ 3,826,758	\$ 3,403,601	\$ (423,157)	112.4%
01-01-19	4,154,163	3,715,822	(438,341)	111.8%
01-01-21	4,426,341	4,113,157	(313,184)	107.6%

HUMMELSTOWN 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.

HUMMELSTOWN BOROUGH POLICE PENSION PLAN  
 SUPPLEMENTARY INFORMATION  
 (UNAUDITED)

SCHEDULE OF CONTRIBUTIONS

<u>Year Ended December 31</u>	<u>Actuarially Determined Contribution</u>	<u>Actual Contributions</u>	<u>Contribution Deficiency (Excess)</u>	<u>Covered- Employee Payroll</u>	<u>Contributions as a Percentage of Covered- Employee Payroll</u>
2014	\$ 39,263	\$ 40,802	\$ (1,539)	\$ 501,001	8.14%
2015	65,785	65,785	-	531,704	12.37%
2016	61,515	61,555	(40)	442,473	13.91%
2017	51,725	51,745	(20)	444,151	11.65%
2018	55,782	55,782	-	513,753	10.86%
2019	37,534	38,159	(625)	532,304	7.17%
2020	40,307	40,307	-	556,607	7.24%
2021	27,301	38,044	(10,743)	544,574	6.99%
2022	23,989	24,029	(40)	635,599	3.78%

HUMMELSTOWN 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	Not applicable
Remaining amortization period	None
Asset valuation method	Not available
Actuarial assumptions:	
Investment rate of return *	5.25%, compounded annually, net of investment and administration expenses.
Projected salary increases *	4.1%
* Includes inflation at	2.2%
Cost-of-living adjustments	2.2% per year, subject to plan limitations.

*The information reported above was extracted from the Pennsylvania Municipal Retirement System Experience Study Results Report dated September 2020, which is the basis for the 01-01-2021 actuarial valuation. The report did not specify the actuarial or market value methodologies often contained in the Notes to Supplementary Schedules and will be added going forward when readily available.*

HUMMELSTOWN 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 David Roeting**  
Mayor

**Mr. Christopher Black**  
Council President

**Ms. Theresa Eberly**  
Borough Manager

**Ms. Traci Eismann**  
Bookkeeper

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

This report is a matter of public record and is available online at [www.PaAuditor.gov](http://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](mailto:news@PaAuditor.gov).