

COMPLIANCE AUDIT

Jonestown Borough Non-Uniformed Pension Plan Lebanon County, Pennsylvania For the Period January 1, 2017 to December 31, 2020

October 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
Jonestown Borough
Lebanon County
Jonestown, PA 17038

We have conducted a compliance audit of the Jonestown Borough Non-Uniformed 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 that there were no benefit calculations prepared for the years covered by our audit period.
- 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.

Jonestown Borough contracted with an independent certified public accounting firm for annual audits of its basic financial statements for the years ended December 31, 2017, 2018, and 2019, 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.

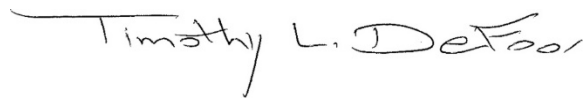
The Jonestown Borough Non-Uniformed Pension Plan participates in the Pennsylvania Municipal Retirement System (PMRS), which is an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for participating municipal pension plans. PMRS issues a separate Comprehensive Annual 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 Jonestown Borough Non-Uniformed 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 Jonestown Borough Non-Uniformed 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 – Incorrect Data On Certification Form AG 385 Resulting In An Underpayment Of State Aid
- Finding No. 2 – Receipt Of State Aid In Excess Of Entitlement
- Finding No. 3 – Failure To Maintain An Adequate Record-Keeping System To Effectively Monitor Activity Of The Pension Plan

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



October 4, 2021

Timothy L. DeFoor
Auditor General

CONTENTS

	<u>Page</u>
Background.....	1
Findings and Recommendations:	
Finding No. 1 – Incorrect Data On Certification Form AG 385 Resulting In An Underpayment Of State Aid.....	2
Finding No. 2 – Receipt Of State Aid In Excess Of Entitlement.....	3
Finding No. 3 – Failure To Maintain An Adequate Record-Keeping System To Effectively Monitor Activity Of The Pension Plan	5
Summary of Deposited State Aid and Employer Contributions.....	7
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 Jonestown Borough Non-Uniformed 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 Jonestown Borough Non-Uniformed Pension Plan is a single-employer cash balance pension plan locally controlled by the provisions of Ordinance No. 2016-1, as amended, and a separately executed plan agreement with the Pennsylvania Municipal Retirement System (PMRS), adopted pursuant to Act 15. Effective January 1, 2020, the plan is locally controlled by the provisions of Ordinance No. 2020-3, and a separately executed plan agreement with PMRS, adopted pursuant to Act 15. The plan was established January 1, 1993. Active members are not required to contribute to the plan. The municipality is required to contribute 9 percent of compensation. As of December 31, 2020, the plan had two active members.

JONESTOWN BOROUGH NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Incorrect Data On Certification Form AG 385 Resulting In An Underpayment Of State Aid

Condition: The borough reported an incorrect date of plan establishment on the Certification Form AG 385 filed in the years 2018 and 2019. The borough reported March 1, 2016, which is the effective date of Ordinance 2016-01, which moved custody of the plan’s assets and administration to PMRS, rather than the original plan effective date of January 1, 1993, the effective date of Ordinance No. 1993-01, which established the plan.

Criteria: The instructions that accompany Certification Form AG 385 require the date the plan was established to be reported. That date is then used to determine whether the plan is eligible for state aid. Pursuant to Act 205, at Section 402(e)(2), if a plan is established after December 31, 1984, the plan has to be maintained by the municipality for at least three plan years prior to becoming eligible for state aid.

Cause: The borough changed to a new plan custodian/administrator effective March 1, 2016. The borough mistakenly interpreted the instructions for Certification Form AG 385 and reported the effective date of the ordinance that authorized the custodian change instead of the original effective date of the plan. Plan officials failed to seek guidance on how to complete the form or have the form reviewed by anyone more experienced in completing it.

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 plan. Based on the reported plan establishment date of March 1, 2016, the borough did not receive a state aid allocation in 2018 or 2019 because that date implied that the non-uniformed pension plan had not yet been funded for at least three plan years. However, based on the corrected plan date of January 1, 1993, the borough would have received state aid allocations in 2018 and 2019 in the amounts of \$7,347 and \$5,380, respectively. However, since these amounts exceed the plan’s actual pension costs in 2018 and 2019 less plan forfeitures used, the borough is only entitled to \$5,249 of 2018 state aid and \$40 of 2019 state aid, totaling \$5,289. We further note that this state aid underpayment will be netted with the excess 2017 and 2020 state aid totaling \$2,782 reported in Finding No. 2, therefore, the net underpayment of \$2,507 will be allocated to the borough.

Although the additional state aid will be allocated to the borough, the borough had to use municipal funds to satisfy the 2018 and 2019 minimum municipal obligations due to the plan instead of being able to use their state aid allocations.

JONESTOWN BOROUGH NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

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 the next audit of the plan.

Finding No. 2 – Receipt Of State Aid In Excess Of Entitlement

Condition: In 2017, the borough received state aid in excess of the non-uniformed pension plan’s defined contribution pension costs. In 2020, the borough received state aid in excess of the plan’s pension costs due to the application of a terminated member’s forfeiture, as illustrated below:

	<u>2017</u>	<u>2020</u>
State aid allocation	\$ 7,180	\$ 2,613
Forfeiture used	-	6,981
Actual municipal pension costs	<u>(6,971)</u>	<u>(7,021)</u>
Excess state aid	<u>\$ 209</u>	<u>\$ 2,573</u>

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 plans 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.

JONESTOWN BOROUGH NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Cause: In 2017, plan officials did not reconcile the amount of state aid allocated to the pension plan with the plan's actual defined contribution pension costs and reimburse the difference to the Commonwealth. In October 2018, \$10,607 of municipal contributions plus interest was forfeited from a terminated employee account. PMRS issued a credit letter to the borough in March of 2019 for processing the forfeiture against the quarterly deposits of employer payroll contributions. All 2020 pension costs, with the exception of the \$40 PMRS administrative fee, were paid with forfeitures. Consequently, since forfeitures were used to satisfy the employer contribution due to the plan in 2020, the state aid, which was deposited into the borough's general fund, was unused. The borough has no internal year-end reconciliation process to ensure state aid received matched with pension expenses.

Effect: It is this department's opinion that because 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. Consequently, the excess state aid in the years 2017 and 2020, in the total amount of \$2,782, must be returned to the Commonwealth for redistribution. However, we note that the \$2,782 excess state will be netted with the 2018 and 2019 underpayments of state aid totaling \$5,289 reported in Finding No. 1; therefore, the net underpayment of \$2,507 will be allocated to the borough.

Recommendation: We recommend that, in the future, plan officials reconcile the borough's annual state aid allocation and any available employee forfeitures with the plan's annual pension costs and reimburse any excess state aid received to the Commonwealth.

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

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

JONESTOWN BOROUGH NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – Failure To Maintain An Adequate Record-Keeping System To Effectively Monitor Activity Of The Pension Plan

Condition: The borough’s record-keeping system did not provide effective control over the transactional activity of the non-uniformed pension plan during 2020. Municipal officials were unable to furnish annual financial statements or custodial account transaction statements for the non-uniformed pension plan. These annual financial and account statements have historically been provided by the plan’s custodian, PMRS. However, as of the date of this report, annual financial and accounting statements summarizing the pension account activity have not been provided for the year 2020.

Criteria: An adequate system of accounting and record keeping is a prerequisite for sound administration of pension plans. In addition, assets held in a custodial account for the purpose of plan management are to be governed by the terms and provisions of the account contract, provided that the terms and provisions of the contract are within the parameters of all prevailing pension legislation. Although the municipality may contract with a trustee to administer the financial management of the plan, the fiduciary responsibility for the plan remains with the municipality.

Cause: Municipal officials indicated that the plan’s custodian, PMRS, failed to provide copies of the custodial account transaction statements summarizing activity of the pension plan account for the year 2020. In addition, municipal officials did not maintain a separate detailed accounting of pension plan transactions which, among other things, helps assure the production of proper financial statements to effectively monitor the annual activity of the pension plan.

Effect: Although we were able to obtain alternate documentation from the municipality to evidence the propriety of the individual transactions tested during performance of the audit for the year 2020, the failure to maintain annual financial and/or account transaction statements prohibits municipal officials from effectively monitoring the plan’s financial operations. Additionally, inadequate monitoring of the pension plan account could lead to undetected errors or improprieties in account transactions as well as deficiencies in authorizing and implementing pension plan policies and procedures.

Recommendation: We recommend that municipal officials contact the plan custodian and obtain annual financial statements of the custodial account of the non-uniformed pension plan for the year 2020 to ensure the accuracy and propriety of the transaction activity. In addition, we recommend that municipal officials establish and maintain a financial record-keeping system that allows the municipality to effectively monitor the plan’s financial operations, even in the absence of statements from the plan custodian. Municipal 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 and record-keeping procedures.

JONESTOWN BOROUGH NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

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

Auditor's Conclusion: PMRS recently went through a substantial upgrade to the plan administration software and implemented a new accounting system. The modernization process, along with the COVID-19 pandemic, resulted in unforeseen delays in the year-end reporting process for financial statements and GASB 68 reports. PMRS officials have taken active measures to resolve these issues and recently indicated that they anticipate providing 2020 Year-End Financial Activity Reports and Annual Member Statements for all of their plans beginning in the fall of 2021. Compliance with the finding recommendation will be evaluated during our next audit of the plan.

JONESTOWN BOROUGH NON-UNIFORMED PENSION PLAN
SUMMARY OF DEPOSITED STATE AID AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid	Employer Contributions
2015	\$ 1,250	None
2016	None	\$ 5,561
2017	6,971	None
2018	None	5,393
2019	None	40
2020	40	None

Note: In 2019, the borough met the plan's \$2,640 funding requirement through the deposit of \$40 in employer contributions and the allocation of \$2,600 in terminated employee forfeitures.

Note: In 2020, the borough met the plan's \$7,021 funding requirement through the deposit of \$40 in state aid and the allocation of \$6,981 in terminated employee forfeitures.

JONESTOWN BOROUGH NON-UNIFORMED PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

The Honorable Joseph Quairolì
Mayor

Mr. Donald Raiger
Council President

Ms. Joan Keefer
Secretary/Treasurer

Ms. Cynthia Cranmer, CPA
Pennsylvania Municipal Retirement System

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.