

# COMPLIANCE AUDIT

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## Linesville Borough Non-Uniformed Pension Plan Crawford County, Pennsylvania For the Period January 1, 2018 to December 31, 2021

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February 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  
Linesville Borough  
Crawford County  
Linesville, PA 16424

We have conducted a compliance audit of the Linesville Borough Non-Uniformed 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 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 plan member who retired 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 individual and comparing these amounts to supporting documentation evidencing amounts determined and actually paid to the recipient.
- We determined whether the January 1, 2019, and January 1, 2021, actuarial valuation reports were prepared and submitted by March 31, 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 Linesville 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 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.

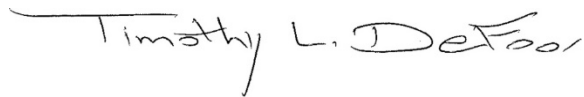
Borough officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Linesville Borough Non-Uniformed Pension Plan is administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local 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 Linesville 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 Overpayment Of State Aid
- Finding No. 2 – Municipal Contributions Made In Excess Of Contributions Required To Fund The Plan
- Finding No. 3 – Inadequate Accounting/Reporting Over Activity Of The Pension 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 Linesville 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  
January 17, 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 Linesville 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 Linesville Borough Non-Uniformed Pension Plan is a single-employer cash balance pension plan locally controlled by the provisions of Ordinance No. 315-2020 and a separately executed plan agreement effective January 1, 2020, adopted pursuant to Act 15. Prior to January 1, 2020, the plan was controlled by the provisions of Ordinance No. 314-2015 and an agreement adopted pursuant to Act 15. The plan was established January 1, 2009. Active members are not required to contribute to the plan. The municipality is required to contribute \$500 per quarter, per plan member effective January 1, 2020. Prior to January 1, 2020, the municipality was required to contribute \$250 per quarter, per plan member. As of December 31, 2021, the plan had two active members and one terminated member eligible for vested benefits in the future.

LINESVILLE BOROUGH NON-UNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

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

Condition: The borough certified an ineligible non-uniformed employee and overstated payroll by \$34,575 on the Certification Form AG 385 filed in 2022. The employee was hired on December 15, 2020 but did not become a plan member until January 2022 and therefore, was ineligible for certification according to Act 205. In addition, the borough overstated eligible payroll for members of the police plan by \$2,791 on the same form. The data contained on this certification form 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. In addition, pursuant to the instructions that accompany Certification Form AG 385, the total payroll eligible to be certified should be Internal Revenue Service Form W-2 earnings pertaining to full-time positions.

Cause: The borough lacked adequate internal control procedures, such as having another individual review the data certified, to ensure the accuracy of the reported data prior to submission.

Effect: The data submitted on this certification form 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 allocation was based on pension costs, the incorrect certification of pension data affected the borough’s state aid allocation, as identified below:

<u>Year</u>	<u>Type Of Plan</u>	<u>Normal Cost</u>	<u>Payroll Overstated</u>	<u>State Aid Overpayment</u>
2022	Police	12.33%	\$ 2,791	\$ 344
	Non-Uniformed	2.80%	34,575	<u>968</u>
			Total	<u>\$ 1,312</u>

Recommendation: We recommend that the total excess state aid, in the amount of \$1,312, plus interest, be returned to the Commonwealth. A check in this amount, with interest compounded annually from date of receipt to date of repayment, at a rate earned by the pension plan, should be made payable to: Commonwealth of Pennsylvania and mailed to: Department of the Auditor General, Municipal Pension & Fire Relief Programs Unit, 321 Finance Building, Harrisburg, PA 17120. A copy of the interest calculation must be submitted along with the check.

LINESVILLE BOROUGH NON-UNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – (Continued)**

We also 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: The borough’s compliance with the finding recommendation will be monitored subsequent to the release of the audit report and through our next audit of the pension plan.

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

Condition: The borough made contributions to the non-uniformed pension plan in excess of contributions required to fund the pension plan, as illustrated below:

	<u>2020</u>
Actual municipal costs	\$ 3,326
State aid allocated	<u>(1,807)</u>
Municipal contributions required to fund plan	<u>\$ 1,519</u>
Actual municipal contributions made	\$ 2,519
Municipal contributions required to fund plan	<u>(1,519)</u>
Excess municipal contributions	<u>\$ 1,000</u>

Criteria: Section 3.01 of the plan adoption agreement adopted by Ordinance No. 315-2020, effective January 1, 2020, states, in part:

The required municipal contribution is equal to \$500 per employee, per calendar quarter.

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.



LINESVILLE BOROUGH NON-UNIFORMED 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: As a result of the borough making contributions to the non-uniformed pension plan in excess of contributions required to fund the pension plan, an unallocated reserve fund was generated.

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 non-uniformed pension plan 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 non-uniformed pension plan 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.

**Finding No. 3 – Inadequate Accounting/Reporting Over Activity Of The Pension Plan**

Condition: The municipality's accounting/reporting system did not provide effective control over the transactional activity of the pension plan during the year 2021. Municipal officials were unable to furnish annual financial statements or custodial account statements summarizing the financial activity of its pension plan.

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.

LINESVILLE BOROUGH NON-UNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 3 – (Continued)**

Cause: 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. Additionally, municipal officials indicated that the plan’s custodian failed to provide copies of the custodial account transaction statements summarizing activity of the pension plan account for the year 2021.

Effect: Although we were able to obtain alternate documentation from the municipality to evidence the propriety of individual transactions tested during performance of the audit, the failure to maintain annual financial and/or account transaction statements prohibits municipal officials from effectively monitoring the plan’s financial operations and could lead to undetected errors or improprieties in account transactions.

Recommendation: We recommend that municipal officials establish and maintain a financial accounting and reporting 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. In addition, we recommend that municipal officials contact the plan custodian and obtain annual financial statements of the custodial account for its pension plan for the year 2021 to ensure the accuracy and propriety of the transaction activity.

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

Auditor’s Conclusion: It was noted that the plan custodian 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. In addition, the custodian has taken active measures to resolve these issues and has begun distributing 2021 financial reports to the municipalities; however, the borough had not received the 2021 financial reports for this pension plan as of the date of our audit fieldwork completion. Compliance with the finding recommendation will be evaluated during our next audit of the plan.

LINESVILLE BOROUGH NON-UNIFORMED 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***
2014	\$ 2,060	\$ 2,560	\$ (500)	\$ 63,690	4.02%
2015	2,060	1,500	560	66,066	2.27%
2016	2,060	2,120	(60)	68,722	3.08%
2017	2,060	2,060	-	68,442	3.01%
2018	2,060	1,560	500	71,310	2.19%
2019	2,060	3,560	(1,500)	71,614	4.97%
2020	3,326	3,326	<i>See Finding No. 2</i>	62,080	5.36%
2021	3,580	3,580	-		

\* 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.

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

LINESVILLE BOROUGH NON-UNIFORMED 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 Hoogstad, Sr.**  
Mayor

**Mr. Kevin McGrath**  
Council President

**Ms. Amanda Harper**  
Office Manager

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

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