

# COMPLIANCE AUDIT

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## Midland Borough Non-Uniformed Pension Plan Beaver County, Pennsylvania For the Period January 1, 2020 to December 31, 2022

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March 2024



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  
Midland Borough  
Beaver County  
Midland, PA 15059

We have conducted a compliance audit of the Midland Borough Non-Uniformed Pension Plan for the period January 1, 2020 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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The objectives of the audit were:

1. To determine if municipal officials took appropriate corrective action to address the findings contained in our prior report; and
2. 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 objectives identified above. To determine if municipal officials took appropriate corrective action to address the findings contained in our prior report, we inquired of plan officials and evaluated supporting documentation provided by officials evidencing that the suggested corrective action has been appropriately taken. 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 whether annual employee contributions were calculated, deducted, and deposited into the pension plan in accordance with the plan's governing document and applicable laws and regulations by testing total members' contributions on an annual basis using the rates obtained from the plan's governing document in effect for all years within the period under audit and examining documents evidencing the deposit of these employee contributions into the pension plan.
- We determined that there were no benefit calculations prepared for the years covered by our audit period.
- We determined whether the January 1, 2021 and January 1, 2023 actuarial valuation reports were prepared and submitted by March 31, 2022 and March 31, 2024, 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.

Midland Borough contracted with an independent certified public accounting firm for audits of its basic financial statements for the years ended December 31, 2020 and 2021, 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 Midland 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 objectives.

The results of our procedures indicated that, in all significant respects, the Midland 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:

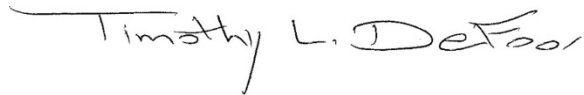
Finding No. 1 – Partial Compliance With Prior Recommendation – Failure To Fully Pay The Minimum Municipal Obligation Of The Plan

Finding No. 2 – Pension Benefit Payments Made To Deceased Individual

Finding No. 1 contained in this audit report repeats a condition that was cited in our previous report that has not been fully corrected by the borough. We are concerned by the borough's failure to correct this previously reported finding and strongly encourage timely implementation of the recommendations noted in this audit report.

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 Midland 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 16, 2024

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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 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 Midland 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.

The Midland Borough Non-Uniformed Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 683, as amended. The plan was established June 1, 1975. Effective December 31, 2016, the borough froze membership in the defined benefit non-uniformed pension plan, and existing employees and all new employees participate in a union administered, defined contribution plan. Existing participating members were still required to contribute \$0.55 per hour to the plan through 2021 when the contributions were eliminated through collective bargaining. As of December 31, 2023, the plan had one terminated member eligible for vested benefits in the future, and four retirees receiving pension benefits from the plan.

MIDLAND BOROUGH NON-UNIFORMED PENSION PLAN  
STATUS OF PRIOR FINDINGS

Compliance With Prior Recommendation

Midland Borough has complied with the prior recommendation concerning the following:

- Untimely Deposit Of Member Contributions

During the current audit, municipal officials calculated and deposited the interest due on the untimely deposit of prior 2017 and 2018 member contributions from the dates of deduction through the dates of deposit into the pension plan as recommended.

Partial Compliance With Prior Recommendation

Midland Borough has partially complied with the prior recommendation concerning the following:

- Failure To Fully Pay The Minimum Municipal Obligation (MMO) Of The Plan

The borough paid the outstanding 2019 MMO balance due to the pension plan with interest; however, a similar condition occurred during the current audit period, as further discussed in the Findings and Recommendations section of this report.

MIDLAND BOROUGH NON-UNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – Partial Compliance With Prior Recommendation – Failure To Fully Pay The Minimum Municipal Obligation Of The Plan**

Condition: As disclosed in the Status of Prior Findings section of this report, the municipality partially complied with the prior recommendation by depositing the unpaid 2019 MMO balance due to the pension plan with interest. However, a similar condition occurred during the current audit period. The borough failed to fully pay the 2020 and 2021 MMO due, as required by Act 205. Based upon an estimate provided by the borough, there was an unpaid MMO balance of \$4,360 for the year 2020 (*It was noted that the borough made a payment (\$9,986) towards the original outstanding 2020 MMO balance (\$14,346 as of December 31, 2022) during 2023 which did not include interest.*) and an unpaid MMO balance of \$13,173 for the year 2021.

Criteria: With regard to the MMO, Section 302(c) of Act 205 states, in part:

Annually, the chief administrative officer of the pension plan shall determine the minimum obligation of the municipality with respect to the pension plan for the following plan year.

Section 302(d) of Act 205 states:

Annually, the municipality shall provide for the full amount of the minimum obligation of the municipality in the budget of the municipality. The minimum obligation of the municipality shall be payable to the pension plan from the revenue of the municipality. Payment of the minimum obligation of the municipality shall be made by the municipality prior to December 31.

Furthermore, Section 302(e) of Act 205 states:

Any amount of the minimum obligation of the municipality which remains unpaid as of December 31 of the year in which the minimum obligation is due shall be added to the minimum obligation of the municipality for the following year, with interest from January 1 of the year in which the minimum obligation was first due until the date the payment is paid at a rate equal to the interest assumption used for the actuarial valuation report or the discount rate applicable to treasury bills issued by the Department of Treasury of the United States with a six-month maturity as of the last business day in December of the plan year in which the obligation was due, whichever is greater, expressed as a monthly rate and compounded monthly.

Cause: The borough again failed to ensure timely payment of the plan's MMOs in accordance with Act 205 during 2020 and 2021 and compliance with the prior audit recommendation.



MIDLAND BOROUGH NON-UNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – (Continued)**

Effect: The failure to fully pay the MMO could result in the plan not having adequate resources to meet current and future benefit obligations to its members. Due to the municipality's failure to pay the 2020 and 2021 MMOs by the respective December 31, deadlines, the municipality must add the 2020 and 2021 MMO balances to the current year's MMO and include interest, as required by Act 205.

Furthermore, the borough's future state aid allocations may be withheld until the finding recommendation is complied with.

Recommendation: We recommend that the municipality pay the outstanding MMOs due to the non-uniformed pension plan for the years 2020 and 2021, with interest on all payments made after the respective December 31 due dates, in accordance with Section 302(e) of Act 205. A copy of the interest calculations must be maintained by the borough for examination during our next audit of the plan. Furthermore, we recommend that, in the future, plan officials timely and fully pay the MMO of the plan.

Management's Response: Municipal officials agreed with the finding without exception and indicated that they are working to make installment payments in order to fully pay the MMOs.

Auditor's Conclusion: Due to the potential withhold of state aid, 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 plan.

MIDLAND BOROUGH NON-UNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 2 – Pension Benefit Payments Made To Deceased Individual**

Condition: The borough made improper monthly pension benefit payments from September 2020 through April 2022 to a recipient who passed away on August 9, 2020, from the pension plan.

Criteria: The municipality has a fiduciary responsibility to monitor the continued eligibility of individuals receiving pension benefits and ensure that each eligible individual receives only the benefits to which he or she is entitled as well as detecting timely and properly terminating payments to deceased individuals. Procedures to monitor the continued eligibility of individuals receiving pension benefits is a prerequisite for the consistent, sound administration of retirement benefits and provides assurance that each eligible individual receives only those benefit to which entitled.

Cause: The borough failed to establish adequate internal control procedures to prevent or detect improper benefit payments from the pension plan and/or ensure that the custodial agreement with the plan custodian includes the monitoring of recipients' continued eligibility to receive such pension benefit payments under the plan.

Effect: The pension plan made improper benefit payments to the deceased recipient resulting in a \$3,600 loss from the pension plan.

Recommendation: We recommend that plan officials consult with its solicitor and determine whether recovery of these payments would be appropriate and/or whether referral to appropriate law enforcement is warranted.

We also recommend that borough implement adequate internal procedures, such as reviewing internally prepared or custodial benefit eligibility reports, to effectively monitor the continued eligibility of its pension recipients and ensure the timely detection and cessation of payments to deceased benefit recipients in the future.

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.

MIDLAND BOROUGH NON-UNIFORMED PENSION PLAN  
POTENTIAL WITHHOLD OF STATE AID

A condition of a repeat finding such as that reported by Finding No. 1 contained in this audit report may lead to a total withholding of state aid in the future unless that finding is corrected. However, such action will not be considered if sufficient written documentation is provided to verify compliance with this department's recommendation. Such documentation should be submitted to: Department of the Auditor General, Bureau of Municipal Pension & Liquor Control Audits, 314 Finance Building, Harrisburg, PA 17120.

MIDLAND BOROUGH NON-UNIFORMED 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, 2019, 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)
01-01-19	\$ 237,971	\$ 336,355	\$ 98,384	70.7%
01-01-21	251,626	310,672	59,046	81.0%
01-01-23	206,465	200,058	(6,407)	103.2%

MIDLAND BOROUGH NON-UNIFORMED 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.

MIDLAND BOROUGH NON-UNIFORMED PENSION PLAN  
 SUPPLEMENTARY INFORMATION  
 (UNAUDITED)

SCHEDULE OF CONTRIBUTIONS

Year Ended December 31	Actuarially Determined Contribution	Actual Contributions	Contribution Deficiency (Excess)	Covered- Employee Payroll	Contributions as a Percentage of Covered- Employee Payroll
2014	\$ 26,089	\$ 26,089	-	\$ -	N/A
2015	26,508	26,508	-	-	N/A
2016	29,935	29,935	-	-	N/A
2017	30,871	30,871	-	-	N/A
2018	42,696	42,696	-	-	N/A
2019	44,126	43,632	\$ 494	-	N/A
2020	21,044	6,698	14,073	-	N/A
2021	13,173	0	13,173	-	N/A
2022	490	490	-	-	N/A

The Contribution Deficiency of \$494 in 2019 was paid in 2022, with interest earned by the plan (refer to the Status of Prior Audit Findings section of this report).

A portion of the Contribution Deficiency of \$14,073 for 2020 amounting to \$9,986 was paid during the year 2023. A deficiency remains in the amount of \$4,360 (refer to Finding No. 1 of this report).

The Contribution Deficiency of \$13,173 for 2021 remains outstanding (refer to Finding No. 1 of this report).

MIDLAND BOROUGH NON-UNIFORMED 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	N/A
Remaining amortization period	N/A
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return	5.5%

MIDLAND 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 Angela M. Adkins**  
Mayor

**Mr. David Trevino**  
Council President

**Mr. David F. Tye**  
Manager

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