

COMPLIANCE AUDIT

Mifflinburg Borough Money Purchase Pension Plan Union County, Pennsylvania For the Period January 1, 2018 to December 31, 2021

October 2022



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
Mifflinburg Borough
Union County
Mifflinburg, PA 17844

We have conducted a compliance audit of the Mifflinburg Borough Money Purchase 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 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. State aid allocations that were deposited into the pension plan for the years ended December 31, 2016 to December 31, 2021, 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, 2016 to December 31, 2021, are presented on the Summary of Deposited State Aid and Employer Contributions.
- 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 also tested individual employee contributions for all seven active employees employed during the audit period amounting to \$14,406, \$14,631, \$13,898 and \$14,787, for the years 2018, 2019, 2020 and 2021, respectively, made during the 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, 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.

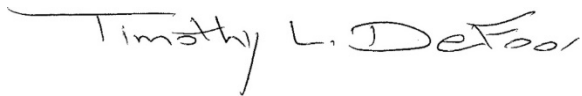
Mifflinburg Borough contracted with an independent certified public accounting firm for audits of its basic financial statements for the years ended December 31, 2018 and 2019, which are available at the borough's offices. Those financial statements were not audited by us and, accordingly, we express no opinion or other form of assurance on them.

Borough officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Mifflinburg Borough Money Purchase 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 Mifflinburg Borough Money Purchase 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 – Municipal Contributions Made In Excess Of Contributions Required
To Fund The Plan

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

Timothy L. DeFoor
Auditor General
September 8, 2022

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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 Mifflinburg Borough Money Purchase 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 Mifflinburg Borough Money Purchase Pension Plan is a single-employer defined contribution pension plan locally controlled by the provisions of Ordinance No 2013-03 for non-uniformed employees hired on or after January 1, 2013. The plan is also affected by the provisions of collective bargaining agreements between the borough and its non-uniformed employees. The plan was established January 1, 2013. Active members are required to contribute five (5.0) percent of base pay to the plan. The municipality is required to contribute five (5.0) percent of base pay. As of December 31, 2021, the plan had six active members and one terminated member eligible for vested benefits in the future.

MIFFLINBURG BOROUGH MONEY PURCHASE PENSION PLAN
FINDING AND RECOMMENDATION

Finding – Municipal Contributions Made In Excess Of Contributions Required To Fund The Plan

Condition: The borough made contributions to its money purchase pension plan in excess of contributions required to fund the pension plan, as illustrated below:

	<u>2018</u>	<u>2021</u>	<u>Total</u>
Actual municipal pension costs	\$ 16,666	\$ 18,557	\$ 35,223
State aid allocated	<u>(14,053)</u>	<u>-</u>	<u>(14,053)</u>
Municipal contributions required to fund plan	\$ 2,613	\$ 18,557	\$ 21,170
Actual municipal contributions made	<u>3,266</u>	<u>18,896</u>	<u>22,162</u>
Excess municipal Contributions	<u>\$ 653</u>	<u>\$ 339</u>	<u>\$ 992</u>

Auditor’s Note: Although the borough deposited excess contributions during 2018 and 2021, it was noted that there exists a deficiency between the accumulated plan assets of the pension plan and the aggregate total of all individual plan members’ account balances as of December 31, 2021.

Criteria: Section A-3.01(b) of Ordinance No. 2013-03 states, in part:

As of the last day of each payroll period, the Employer shall contribute an amount equal to five percent (5.0%) of each Participant’s Compensation.

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.

Cause: The borough did not have adequate internal control procedures in place to ensure that municipal contributions were limited to required contributions outlined in the plan’s governing document for 2018 and 2021.

MIFFLINBURG BOROUGH MONEY PURCHASE PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

Effect: The municipality deposited contributions into the plan in excess of the defined contribution percentage rate contained in the plan’s governing document. By making excess municipal contributions, there were more contributions than needed to pay pension costs and/or administrative expenses for the aforementioned years and these funds could have been better utilized for other general municipal governmental purposes.

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 plan at this time.

Recommendation: We recommend that, in the future, plan officials annually reconcile the amount of state aid allocated and municipal contributions made to the money purchase pension plan with the plan’s annual defined contribution pension costs as prescribed in the plan document.

Management’s Response: The borough provided the following response:

The evidence produced as the basis for the finding were the annual PSABMRT “Schedule of Changes in Net Assets” and “Detail Posting” statements for calendar years 2018 and 2019*(sic) (2019 not noted in Condition above). These statements were apparently obtained directly from the PSABMRT. The Borough did not provide these statements.

** The version of the 2018 account statement that you provided is not the version that was released in early 2019 to Mockenhaupt Benefits Group for use in preparing the 2018 Allocation Report for the plan, That version showed a distribution from the plan which was made in error, and which was later reversed in 2019. A copy of the original 2018 account statement is attached. You will notice the different ending balances stemming from the difference in Pension Payment value.*

We dispute this finding based on the following information, most of which is presented in the **annual Allocation Report, Financial Statements and Notes** reports that were prepared for the pension plan.

- The allocation reports are prepared on the accrual basis of accounting as is necessary to ensure that the appropriate annual contributions and earnings are allocated to each participant’s account, even in instances where deposits of contributions and/or expense reimbursement for the plan year are in transit or owed at the end of the calendar year.

MIFFLINBURG BOROUGH MONEY PURCHASE PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

If an employer contribution deposit hadn't posted to the account during the calendar year, for example, and the accrual basis of accounting were not used, only a partial employer contribution for the year could be allocated to participant accounts. This is not appropriate under the terms of the plan. Similarly, if an expense reimbursement hadn't been deposited and the deposit owed were not accounted for as a receivable, the investment return allocated to participant accounts would be reduced inappropriately.

- While it seems that the finding refers only to the years 2018 and 2019 (*sic*) (*not noted in Condition above, should be 2021*) based on the account statements provided to the Borough, Exhibit 1 presents the plan's contribution and account reconciliation history for the period 12/31/2017 through 12/31/2021 so that the appropriate years may be referred to as necessary.

You can see that at the end of each plan year (2017 through 2021) there were employer contributions owed to the plan. Whether the accounting labeled the amounts owed as expense reimbursement or as employer contributions (both items are payable from Borough funds to the plan), the appropriate total amounts owed to the plan have been accounted for on an accrual basis. The Borough deposits any funds identified as being owed through the end-of-year account reconciliation and allocation process on an ad hoc basis.

- There were no extra funds in the pension account in any plan year. There were no excess contributions made to the plan in any year.

Auditor's Conclusion: We acknowledge the borough's position, that with the assistance of the plan's consultant, the borough believes that there were no excess municipal contributions deposited into the plan during 2018 and 2021. However, based on the documentation provided to the department, in particular the annual *Allocation Report, Financial Statements and Notes* prepared by the plan consultant and the annual account statements and ledgers provided by the plan's custodian summarizing the activity of the pension plan for the years 2018 and 2021, the amounts disclosed in the *Condition* above remain as reported and the finding remains as stated. It should be noted however, that our analysis covered only activity which occurred during the current audit period and does not pertain to any other years not covered by the audit period aforementioned in this report. We do concur with the municipality that there is an overall deficiency (\$3,355) between the total assets maintained in the pension plan account (\$210,407) and the total aggregated account balances of all of the participating plan members (\$213,762) as of December 31, 2021, unrelated to the years cited above which should be addressed with the plan consultant/custodian, accordingly. Compliance will be evaluated during our next audit of the plan.

MIFFLINBURG BOROUGH MONEY PURCHASE PENSION PLAN
SUMMARY OF DEPOSITED STATE AID AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid	Employer Contributions
2016	None	\$ 8,206
2017	None	12,078
2018	\$ 14,053	3,266
2019	None	17,310
2020	None	16,696
2021	None	18,896

MIFFLINBURG BOROUGH MONEY PURCHASE PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

The Honorable David M. Cooney
Mayor

Mr. Richard Fry
Council President

Ms. Margaret A. Metzger
Borough 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.