

COMPLIANCE AUDIT

Mont Alto Borough Non-Uniformed Pension Plan Franklin 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



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**TIMOTHY L. DEFOOR
AUDITOR GENERAL**

The Honorable Mayor and Borough Council
Mont Alto Borough
Franklin County
Mont Alto, PA 17237

We have conducted a compliance audit of the Mont Alto Borough Non-Uniformed 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 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 plan members 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 individuals and comparing these amounts to supporting documentation evidencing amounts determined and actually paid 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.

Mont Alto 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 Mont Alto 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 Mont Alto 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.

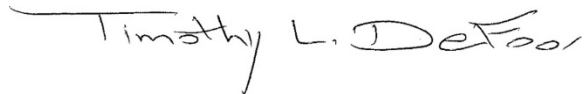
The results of our procedures indicated that, in all significant respects, the Mont Alto Borough Non-Uniformed Pension Plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies, except as noted in the following findings further discussed later in this report:

Finding No. 1 – Receipt Of State Aid In Excess Of Entitlement And Municipal Contributions Made In Excess Of Contributions Required To Fund The Plan

Finding No. 2 – Failure To Implement Mandatory Act 44 Procedures For The Procurement Of Professional Services

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 Mont Alto 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 14, 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 Mont Alto 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 Mont Alto Borough Non-Uniformed Pension Plan is a single-employer cash balance pension plan locally controlled by the provisions of Ordinance 732, effective July 1, 2020, and a separately executed plan agreement with the plan's custodian, adopted pursuant to Act 15. Prior to July 1, 2020, the plan was locally controlled by the provisions of Ordinance 614 and an agreement with the custodian adopted pursuant to Act 15. The plan was established January 1, 1995. Active members are not required to contribute to the plan. The municipality is required to contribute eight percent of each member's compensation (*Auditor's note: For the first and second quarter of 2018, the borough temporarily increased municipal contribution to 15 percent of compensation through enactment of Resolution 681.*). As of December 31, 2022, the plan had five active members, one terminated member eligible for vested benefits in the future, and seven retirees receiving pension benefits.

MONT ALTO BOROUGH NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Receipt Of State Aid In Excess Of Entitlement And Municipal Contributions Made In Excess Of Contributions Required To Fund The Plan

Condition: The borough received state aid in excess of the non-uniformed pension plan’s defined contribution pension costs in the year 2019 and also made municipal contributions in excess of those required to fund the plan in the years 2019 and 2020, as illustrated below:

| | <u>2019</u> | <u>2020</u> |
|---|-----------------|-----------------|
| Actual municipal pension Costs (<i>full-time costs</i>) | \$ 18,573 | \$ 20,969 |
| Forfeitures available | <u>(5,652)</u> | <u>(1,180)</u> |
| Adjusted actual municipal pension costs | 12,921 | 19,789 |
| State aid allocated | <u>(18,709)</u> | <u>(17,718)</u> |
| Excess state aid received | <u>\$ 5,788</u> | <u>\$ -</u> |
| Actual municipal contributions made | \$ 260 | \$ 3,237 |
| Municipal contributions required to fund plan | <u>(-)</u> | <u>(2,071)</u> |
| Excess municipal contributions | <u>\$ 260</u> | <u>\$ 1,166</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.

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.

MONT ALTO BOROUGH NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Cause: Plan officials were notified by the plan custodian that forfeitures were available and appropriately utilized a portion of available forfeitures to decrease their required contribution to the plan in 2019. However, officials failed to properly reconcile the borough's state aid allocation received and allocated, along with forfeitures applied and municipal contributions made to the pension plan with the plan's actual defined contribution pension costs for the years impacted.

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 overpayment of state aid in the year 2019 must be returned to the Commonwealth for redistribution.

In addition, as a result of the borough not properly reconciling the state aid allocated, forfeitures applied and municipal contributions made to the pension plan with the pension plan costs, excess municipal funds were used to fund the plan in 2019 and 2020 which could have been better utilized for other general municipal purposes and an unallocated reserve fund of \$7,931 and \$8,251 existed as of December 31, 2019 and 2020, respectively (*It was noted the fund balance decreased to \$3,286 as of December 31, 2022*).

Recommendation: We recommend that the municipality return the \$5,788 of excess state aid received in the year 2019 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 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 evidence of payment.

We also recommend that the borough liquidate any remaining unallocated reserve fund maintained by the pension plan by transferring the assets which represent excess municipal contributions to the borough's general fund or decreasing the borough's next scheduled contribution due the plan by the amount remaining in the municipal reserve account.

Furthermore, we recommend that, in the future, plan officials reconcile the borough's annual state aid allocation, along with any available forfeitures, and municipal contributions made to the pension plan, with the plan's annual defined contribution pension costs and reimburse any excess state aid received to the Commonwealth.

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.

MONT ALTO BOROUGH NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

**Finding No. 2 – Failure To Implement Mandatory Act 44 Procedures For The Procurement
Of Professional Services**

Condition: As disclosed as a verbal observation during the prior engagement, municipal officials failed to adopt the mandatory provisions of Act 205 regarding professional services contracts.

Criteria: Section 701-A of Act 205, as amended by Act 44 of 2009, defines a “Professional Services Contract”, as follows:

“Professional services contract.” A contract to which the municipal pension system is a party that is:

- (1) for the purchase or provision of professional services, including investment services, legal services, real estate services and other consulting services; and
- (2) not subject to a requirement that the lowest bid be accepted.

In addition, Section 702-A (a) of Act 205 states in part:

Each municipal pension system ... shall develop procedures to select the most qualified person to enter into a professional services contract. The procedures shall ensure that the availability of a professional services contract is advertised to potential participants in a timely and efficient manner. Procedures shall include applications and disclosure forms to be used to submit a proposal for review and to receive the award of a professional services contract.

Additionally, Section 702-A (c), (e), (f) and (h) state, in part:

Review. Procedures to select the most qualified person shall include a review of the person’s qualifications, experience and expertise and the compensation to be charged.

Conflict of interest. The municipal pension system shall adopt policies relating to potential conflicts of interest in the review of a proposal or the negotiation of a contract.

Public information. Following the award of a professional services contract, all applications and disclosure forms shall be public except for proprietary information or other information protected by law.

MONT ALTO BOROUGH NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Notice and summary. The relevant factors that resulted in the award of the professional services contract must be summarized in a written statement to be included in or attached to the documents awarding the contract. Within ten days of the award of the professional services contract, the original application, a summary of the basis for the award and all required disclosure forms must be transmitted to all unsuccessful applications and posted on the municipal pension system’s Internet website, if an Internet website is maintained, at least seven days prior to the execution of the professional services contract.

Cause: The borough again failed to establish adequate internal controls procedures to ensure compliance with provisions of Act 205 as previously recommended.

Effect: The borough’s failure to comply in all respects with the previous recommendation and the provisions stipulated in Act 205 regarding the procurement of professional investment and advisory services for the borough’s pension plan could result in a lack of transparency over the actions taken by plan officials relative to the awarding of the investment and advisory services contract for the borough’s pension plan.

Recommendation: We recommend that municipal officials obtain a comprehensive understanding of Act 205 provisions for the procurement of professional services and develop and implement formal written procedures to ensure compliance with these provisions. Procedures should include maintaining appropriate and sufficient supporting documentation evidencing every phase of the process in the awarding of future professional services contracts for the pension plan, including authorizations/approvals of borough officials in the official minutes of formal board meetings and the required notifications and disclosure responsibilities to ensure the transparency of the actions taken by plan officials relative to the awarding of such professional services contracts.

Management’s Response: Municipal officials agreed with the finding, and enacted Resolution No. 772, effective February 4, 2024, adopting written procedures detailing how professional service providers are chosen for its non-uniformed employee pension plan to comply with Act 44 of 2009.

Auditor’s Conclusion: Based on the management response, it appears the borough has complied with the finding recommendation. Compliance will be evaluated during our next audit of the plan.

MONT ALTO 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 | \$ 11,971 | \$ 11,893 | \$ 78 | \$ 233,872 | 5.09% |
| 2015 | 18,109 | 17,930 | 179 | 256,330 | 6.99% |
| 2016 | 21,726 | 21,747 | (21) | 269,333 | 8.07% |
| 2017 | 21,579 | 21,598 | (19) | 266,882 | 8.07% |
| 2018 | 36,759 | 201 | 36,558 | 250,806 | 0.08% |
| 2019 | 19,594 | 18,989 | 605 | 241,427 | 7.87% |
| 2020 | 20,969 | 20,969 | - | 258,861 | 8.10% |
| 2021 | 21,774 | 21,774 | - | 268,919 | 8.10% |
| 2022 | 21,985 | 21,985 | - | 271,315 | 8.10% |

* 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 Contributions in Relation to the SRC were provided by the custodian. Deviation between these amounts may be due to contributions to or transfers from the municipal reserve account. In 2018 and 2019, the borough met the plan's funding requirement through the liquidation of terminated employee forfeitures.

MONT ALTO 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 | 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.

MONT ALTO 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 Leisa McCleaf
Mayor

Mr. Earl McCleaf
Council President

Ms. Patti Stitely
Borough Secretary

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. 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.