

# COMPLIANCE AUDIT

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## Newville Borough Police Pension Plan Cumberland County, Pennsylvania For the Period January 1, 2019 to December 31, 2022

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June 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  
Newville Borough  
Cumberland County  
Newville, PA 17241

We have conducted a compliance audit of the Newville Borough Police Pension Plan for the period January 1, 2019 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 that there were no employee contributions required for the years covered by our audit period due to the fact that employee contributions were appropriately waived by the municipality.
- We determined that there were no benefit calculations prepared for the years covered by our audit period.
- 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.

Borough officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Newville Borough Police 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 Newville Borough Police 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 – Noncompliance With Prior Audit Recommendation – Failure To Deposit State Aid Into An Eligible Pension Plan
- Finding No. 2 – Noncompliance With Prior Audit Recommendation – Failure To Pay The Minimum Municipal Obligation Of The Plan

The findings contained in this audit report repeat conditions that were cited in our previous audit report that have not been corrected by borough officials. We are concerned by the borough's failure to correct these previously reported audit findings 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 Newville 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 horizontal line above the first few letters.

Timothy L. DeFoor  
Auditor General  
May 11, 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 Newville Borough Police 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 600 – Police Pension Fund Act, Act of May 29, 1956 (P.L. 1804, No. 600), as amended, 53 P.S. § 767 et seq.

The Newville Borough Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 2019-02 and a separately executed plan agreement with Pennsylvania State Association of Boroughs (PSAB) effective September 10, 2012, adopted pursuant to Act 600. The plan is also affected by the provisions of collective bargaining agreements between the borough and its police officers. The plan was established October 1, 1976. Active members are required to contribute 2.75 percent of the participant's compensation to the plan; however, member contributions were waived during the current audit period. As of December 31, 2022, the plan had four active members, no terminated members eligible for vested benefits in the future, and two retirees receiving pension benefits from the plan.

NEWVILLE BOROUGH POLICE PENSION PLAN  
STATUS OF PRIOR FINDINGS

Noncompliance With Prior Audit Recommendations

Newville Borough has not complied with the prior audit recommendations concerning the following as further discussed in the Findings and Recommendations section of this report:

- Failure To Deposit State Aid Into An Eligible Pension Plan
- Failure To Pay The Minimum Municipal Obligation Of The Plan

NEWVILLE BOROUGH POLICE PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – Noncompliance With Prior Audit Recommendation – Failure To Deposit State Aid Into An Eligible Pension Plan**

Condition: As disclosed in the two most recent audit reports, the municipality failed to deposit its 2012 state aid allocation into an eligible pension plan in accordance with Act 205. As the date of this report, 2012 state aid in the amount of \$25,286 remains undeposited.

Criteria: Section 402(g) of Act 205 states, in part:

. . . the total amount of the general municipal pension system State aid received by the municipality shall, within 30 days of receipt by the treasurer of the municipality, be deposited in the pension funds or the alternate funding mechanisms applicable to the pension plans.

Cause: Municipal officials again failed to establish adequate internal control procedures to ensure compliance with the prior audit recommendation.

Effect: When state aid is not deposited into a pension plan account, the funds are not available to pay pension obligations (*refer to Finding No. 2*) or operating expenses, or for investment, and the risk of misapplication is increased.

Furthermore, pursuant to an Order To Show Cause issued to the borough on July 15, 2013 by the department, the borough's 2016 through 2022 state aid allocations are being withheld, as described in the Potential Withhold of State Aid/Status of Order To Show Cause section of this audit report. The borough's future state aid allocations may also be withheld until the finding recommendation is complied with.

Recommendation: We again recommend that the municipality deposit the borough's outstanding 2012 state aid allocation, \$25,286, plus interest earned during the period beyond the 30-day grace period allowed by Act 205, compounded annually, into an eligible pension plan. A copy of the interest calculation must be submitted to our department along with evidence of the deposit to the plans.

We also again recommend that plan officials develop and implement procedures to ensure that future state aid is deposited into an eligible pension plan within 30 days of receipt by the municipal treasurer.



NEWVILLE BOROUGH POLICE PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – (Continued)**

Management’s Response: Municipal officials agreed with the finding without exception. At the exit conference held on April 17, 2023, municipal officials indicated that they would provide a written response to this finding within 10 working days; however, as of June 1, 2023, no such response has been provided.

Auditor’s Conclusion: Although the municipality did not provide a written response as of the issuance of this report, any response to the finding provided by officials subsequent to report issuance will be given due consideration upon receipt. Compliance with the finding will be monitored subsequent to the release of the audit report and through our next audit of the plan.

**Finding No. 2 – Noncompliance With Prior Audit Recommendation – Failure To Pay The Minimum Municipal Obligation Of The Plan**

Condition: As disclosed in the prior audit report, the borough failed to pay the minimum municipal obligations (MMOs) due the police pension plan for the years 2012, 2016, 2017, and 2018, \$102,907 in the aggregate, as required by Act 205. In addition, the borough failed to pay interest required under Act 205 on the untimely deposits of the MMOs made to the police pension plan for the years 2013, 2014, and 2015.

A similar condition occurred during the current audit period. The borough again failed to pay the MMOs due the police pension plan for the years 2019, 2020, 2021, and 2022 in the total amount of \$153,246. Based on a calculation prepared by the plan consultant, the reported total for all outstanding MMOs and accumulated interest due the police pension plan amounted to \$408,079 as of December 31, 2022.

Criteria: As previously disclosed, 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, in part:

The minimum obligation of the municipality shall be payable to the pension plan from the revenue of the municipality.

NEWVILLE BOROUGH POLICE PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 2 – (Continued)**

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

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...

Cause: Municipal officials again failed to establish adequate procedures to pay the plan's annual MMO in accordance with Act 205 and ensure compliance with the prior recommendation.

Effect: The failure to pay the MMOs 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 2012 and 2016 through 2022 MMOs by each year's applicable December 31 deadline, the municipality must add these outstanding MMO amounts to the current year's MMO and include interest, as required by Act 205. In addition, regarding the untimely 2013, 2014, and 2015 MMO payments, the plan has not been adequately compensated for the municipality's failure to pay the MMOs timely in accordance with Act 205 requirements.

Furthermore, pursuant to an Order To Show Cause issued to the borough on July 15, 2013 by the Department of the Auditor General, the borough's 2016 through 2022 state aid allocations are being withheld, as further described in the Potential Withhold of State Aid/Status of Order To Show Cause section of this audit report. Moreover, the borough's future state aid allocations may also be withheld until the finding recommendation is complied with.

Recommendation: We recommend that the municipality pay the outstanding MMOs due to the police pension plan for the years 2012 and 2016 through 2022, totaling \$256,153 plus applicable interest, in accordance with Section 302(e) of Act 205. We also again recommend that the borough pay the interest due to the police pension plan for the untimely payment of the 2013, 2014, and 2015 MMOs in accordance with Section 302(e) of Act 205. A copy of the interest calculations must be submitted to our department along with evidence of the payments to the plan.

We also again recommend that plan officials develop and implement adequate internal control procedures to ensure that future MMOs are fully and timely paid in accordance with Act 205 requirements.

NEWVILLE BOROUGH POLICE PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 2 – (Continued)**

Management's Response: Municipal officials agreed with the finding without exception. At the exit conference held on April 17, 2023, municipal officials indicated that they would provide a written response to this finding within 10 working days; however, as of June 1, 2023, no such response has been provided.

Auditor's Conclusion: Although the municipality did not provide a written response as of the issuance of this report, any response to the finding provided by officials subsequent to report issuance will be given due consideration upon receipt. Compliance with the finding will be monitored subsequent to the release of the audit report and through our next audit of the plan.

NEWVILLE BOROUGH POLICE PENSION PLAN  
POTENTIAL WITHHOLD OF STATE AID / STATUS OF ORDER TO SHOW CAUSE

An Order To Show Cause (OTSC) was issued to the borough on July 15, 2013 by the department as a result of the borough's noncompliance with the finding recommendations contained in the police and non-uniformed pension plan audit reports for the period January 1, 2009 to December 31, 2011. The OTSC initially resulted in the borough's 2013, 2014, and 2015 annual state aid allocations being withheld. After receipt of documentary evidence of the borough's substantial compliance with the 2009-2011 audit recommendations provided during and subsequent to the department's prior audit of the pension plans covering the period January 1, 2012 to December 31, 2015, the borough's 2013, 2014, and 2015 state aid allocations were released to the borough in 2016 but also included a letter from the department to borough officials (*dated December 5, 2016*), stating that the state aid was released with the understanding that the borough would pay the outstanding MMOs due its pension plans through 2015, with applicable interest. The letter also stated that the Order To Show Cause would remain in effect but would be held in abeyance pending confirmation of these deposits, and that upon satisfactory confirmation of these deposits and satisfaction of any other outstanding finding issues, the Department would withdraw the Order To Show Cause and release state aid for 2016 to the borough, accordingly.

As disclosed in the findings contained in the audit reports of the police and non-uniformed pension plans for the period January 1, 2016 to December 31, 2018, as well as the current audit reports covering the period January 1, 2019 to December 31, 2022, the borough has not satisfactorily complied with the prior audit recommendations, and the borough's state aid allocations for the years 2016 through 2022 continue to be withheld, in the total amount of \$370,120. The borough's continued noncompliance with the finding recommendations may also result in the withholding of future state aid allocations. Evidence of the borough's compliance with the recommendations contained in this report should be submitted to: Department of the Auditor General, Bureau of Municipal Pension & Liquor Control Audits, 314 Finance Building, Harrisburg, PA 17120.

NEWVILLE BOROUGH POLICE 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, 2017, 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)
01-01-17	\$ 543,250	\$ 576,799	\$ 33,549	94.2%
01-01-19	551,375	555,880	4,505	99.2%
01-01-21	630,990	652,105	21,115	96.8%

NEWVILLE BOROUGH POLICE 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.

NEWVILLE BOROUGH POLICE 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	\$ 31,394	\$ -	\$ 31,394	\$ 129,368	N/A
2015	34,801	-	34,801	163,506	N/A
2016	26,380	-	26,380	150,202	N/A
2017	27,008	-	27,008	155,980	N/A
2018	25,621	-	25,621	111,150	N/A
2019	24,173	-	24,173	100,000	N/A
2020	33,967	-	33,967	189,192	N/A
2021	44,384	-	44,384	268,588	N/A
2022	50,722	-	50,722	274,228	N/A

*N/A – Not applicable, the borough has not funded the plan in accordance with Act 205 as disclosed in Finding No. 2.*

NEWVILLE BOROUGH POLICE 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	Level dollar
Remaining amortization period	15 years
Asset valuation method	Fair value
Actuarial assumptions:	
Investment rate of return	7.25%
Projected salary increases	5.00%
Cost-of-living adjustments	In accordance with Act 600. Annual cap is 2.0%



NEWVILLE BOROUGH POLICE PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

**The Honorable Joshua D. Shapiro**  
Governor  
Commonwealth of Pennsylvania

**The Honorable Michael Croutch**  
Mayor

**Mr. Scott Penner**  
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**Mr. Edward Sinkovitz**  
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