

COMPLIANCE AUDIT

Polk Borough Police Pension Plan Venango County, Pennsylvania For the Period January 1, 2018 to December 31, 2022

January 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
Polk Borough
Venango County
Polk, PA 16342

We have conducted a compliance audit of the Polk Borough Police 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 the plan member who elected to vest 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 pension benefits due to the retired individual and comparing these amounts to supporting documentation evidencing amounts determined and payable 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 this report 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 Polk Borough Police 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.

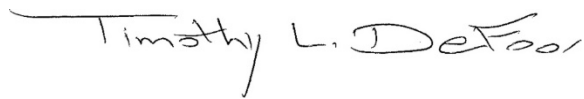
Borough officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Polk Borough Police Pension Plan is administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and 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 objective.

The results of our procedures indicated that, in all significant respects, the Polk 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 – Incorrect Data Certified On Actuarial Valuation Report Resulting In An Overpayment Of State Aid
- Finding No. 2 – Receipt Of State Aid In Excess Of Entitlement
- Finding No. 3 – Incorrect Data On Certification Form AG 385 Resulting In A Net Overpayment Of State Aid
- Finding No. 4 – Failure To Properly Fund Member Accounts
- Finding No. 5 – Ordinance Improperly Amended By Resolution

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 Polk 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
December 5, 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 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 Polk 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 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 Polk Borough Police Pension Plan is a single-employer cash balance pension plan locally controlled by the provisions of Resolution No. 2021-01-07, effective January 1, 2020, and a separately executed adoption agreement with the plan custodian, adopted pursuant to Act 15 (*refer to Finding No. 5*). Prior to January 1, 2020, the plan was locally controlled by the provisions of Ordinance 2009-11-05, and an agreement with the plan custodian adopted pursuant to Act 15. The plan was established January 1, 2010. Active members are not required to contribute to the plan. Effective January 1, 2021, the municipality is required to contribute \$6,000 per plan member. For the year 2020, the municipality was required to contribute \$5,000 per plan member. For the years 2018 and 2019, the municipality was required to contribute \$4,000 per plan member. As of December 31, 2022, the plan had two active members and one terminated member eligible for vested benefits in the future.

POLK BOROUGH POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Incorrect Data On Actuarial Valuation Report Resulting In An Overpayment Of State Aid

Condition: Actuarial valuation report form Type A, for the police pension plan, with a valuation date of January 1, 2021, submitted to Municipal Pension Reporting Program (MPRP), contained incorrect payroll for full time active members.

Criteria: Section 201(d) of Act 205 states:

Responsibility for preparation and filing of reports and investigations. The actuarial valuation report or experience investigation required pursuant to subsection (a) shall be prepared under the supervision and at the discretion of the chief administrative officer of the municipality, who shall be responsible for the filing of the document. The actuarial valuation report or experience investigation shall be signed by the chief administrative officer, indicating that to the extent of the understanding and knowledge of the officer, the report or investigation represents a true and accurate portrayal of the actuarial, financial, and demographic condition of the pension plan of the municipality.

Cause: The discrepancy occurred due to miscommunication between the borough and the custodian concerning the enrollment status of a member who became a full-time employee effective November 1, 2020. The data certified on the actuarial valuation report valued January 1, 2021, included the employee as a plan member but failed to include the corresponding payroll. In addition, there was a recent turnover in personnel responsible for administration of the plan and the borough lacked adequate internal control procedures to ensure the actuarial valuation report contained the correct data.

Effect: Because the municipality’s state aid allocations are determined, in part, by the information contained in the actuarial valuation report, the submission of incorrect data resulted in the municipality receiving a state aid allocation for the years 2022 and 2023 incorrectly based on a normal cost percentage of 25.685%, instead of 13.779%. As a result, the borough received excess state aid, calculated as follows:

Year	Normal Cost	Payroll	State Aid Entitlement	State Aid Allocated	Excess State Aid
2022	13.779%	\$ 88,090	\$ 12,138	\$ 19,674	\$ 7,536
2023	13.779%	87,910	12,113	22,579	10,466

It was noted that the borough also received state aid in excess of its pension costs in 2022, as further discussed in Finding No. 2.

POLK BOROUGH POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

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

Recommendation: We recommend that the total excess state aid, in the amount of \$18,002, 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 evidence of payment.

We also recommend that, in the future, plan officials review and verify all information submitted to the Municipal Pension Reporting Program so that future actuarial valuation reports properly reflect the status of the pension plan.

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

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.

Finding No. 2 – Receipt Of State Aid In Excess Of Entitlement

Condition: The borough received state aid in excess of the police pension plan’s defined contribution pension costs in the years 2019 and 2022, as illustrated below:

	<u>2019</u>	<u>2022</u>
State aid allocation	\$ 8,198	\$ 19,674
State aid overpayment (<i>Finding No. 1</i>)	-	(7,536)
State aid allocation entitlement	8,198	12,138
Actual municipal pension costs	(8,040)	(12,040)
Excess state aid	\$ 158	\$ 98

As disclosed in Finding No. 1, there was an additional state aid overpayment during 2022.

POLK BOROUGH POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

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.

Cause: There was a recent turnover in personnel responsible for administration of the plan and the borough lacked adequate internal control procedures to annually reconcile the borough's state aid allocation with the plan's actual defined contribution pension costs.

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 years 2019 and 2022 in the amount of \$256 must also be returned to the Commonwealth for redistribution.

Recommendation: We recommend that the municipality return the \$256 excess state aid received in the years 2019 and 2022 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.

Furthermore, we recommend that, in the future, plan officials reconcile the borough's annual state aid allocation 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: 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.

POLK BOROUGH POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – Incorrect Data On Certification Form AG 385 Resulting In A Net Overpayment Of State Aid

Condition: The borough understated payroll by \$297 on the Certification Form AG 385 filed in 2018 and overstated payroll by \$6,548 on the Certification Form AG 385 filed in 2021. The data contained on these certification forms is based on prior calendar year information.

Criteria: 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: There was a recent turnover in personnel responsible for the administration of the plan and 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 these certification forms is used, in part, to calculate the state aid due to the municipality for distribution to its pension plan. Because the borough’s state aid allocations were based on pension costs, the incorrect certification of pension data affected the borough’s state aid allocations, as identified below:

<u>Year</u>	<u>Normal Cost</u>	<u>Payroll Overstated (Understated)</u>	<u>State Aid Overpayment (Underpayment)</u>
2018	10.32%	\$ (297)	\$ (31)
2021	10.07%	6,548	<u>659</u>
Net Underpayment of State Aid			<u><u>\$ 628</u></u>

Recommendation: We recommend that the net overpayment of state aid, in the amount of \$628, 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.

POLK BOROUGH POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (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. 4 – Failure To Properly Fund Member Accounts

Condition: The borough did not fully fund the accounts of two members in 2021, as illustrated below:

<u>2021 Employees</u>	<u>Required Contributions</u>	<u>Actual Contributions</u>	<u>Contributions Due</u>
1	\$ 6,000	\$ 4,500	\$ 1,500
2	6,000	4,500	<u>1,500</u>
		Total	<u><u>\$ 3,000</u></u>

Criteria: Effective January 1, 2021, the borough amended the plan (*via Resolution No. 2023-09-05 refer to Finding No. 5 of this report*) to increase the employer contribution from \$1,250 per quarter per plan member to \$1,500 per quarter, per plan member.

Cause: The borough failed to ensure that eligible plan members’ accounts were properly funded in accordance with the revised provisions contained in the plan’s governing document.

Effect: The failure to properly fund the members’ accounts could result in plan members being denied benefits to which they are entitled in accordance with the plan’s governing document.

Furthermore, due to the borough’s failure to properly fund the accounts of the two members, the borough must now pay interest on the delinquent contributions.

POLK BOROUGH POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 4 – (Continued)

Recommendation: We recommend that the borough deposit the outstanding contributions due to the members' accounts for the year 2021, with interest. A copy of the interest calculations should be maintained by the borough for examination during our next audit of the plan.

Management's Response: Municipal officials agreed with the finding without exception. On October 27, 2023, the borough issued check number 10922 from the general fund along with supporting documentation in the amount of \$3,000 to the custodian representing the amount necessary to fully fund the member's accounts for the second quarter of 2021.

Auditor's Conclusion: Based on the management response, it appears municipal officials complied with the finding recommendation. Continued compliance will be evaluated during our next audit of the plan.

Finding No. 5 – Ordinance Improperly Amended By Resolution

Condition: The pension plan governing document, Ordinance No. 2009-11-05, was restated in its entirety by Resolution No. 2021-01-07, effective January 1, 2020.

Criteria: In Wynne v. Lower Merion Township, 181 Pa. Superior Ct., 524, the Pennsylvania Superior Court held that an ordinance may be amended only by another ordinance and not by a resolution.

Cause: Municipal officials acted upon guidance from their plan custodian, which provided the borough with a copy of the resolution and new plan agreement to be adopted by municipal officials.

Effect: The failure to properly adopt the restated plan document could result in inconsistent or improper benefit calculations and incorrect benefit payments from the pension plan.

Recommendation: We recommend that the borough amend the plan's governing document with a properly executed ordinance.

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.

POLK BOROUGH POLICE PENSION PLAN
POTENTIAL WITHHOLD OF STATE AID

Finding No. 1 contained in this audit report cites an overpayment of state aid to the borough in the amount of \$18,002 plus interest. A condition of this nature may lead to a total withholding of state aid in the future unless that finding is corrected. A check in this amount with interest, 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.

POLK BOROUGH POLICE PENSION PLAN
 SUPPLEMENTARY INFORMATION
 (UNAUDITED)

SCHEDULE OF CONTRIBUTIONS

Year Ended <u>December</u> <u>31</u>	Statutorily Required Contribution <u>(SRC)*</u>	Contributions in Relation to the SRC*	Contribution Deficiency (Excess)**	Covered- Employee Payroll	Contributions as a Percentage of Covered- Employee Payroll
2014	\$ 6,040	\$ 6,040	\$ -	\$ 73,408	8.23%
2015	7,240	7,275	(35)	75,315	9.66%
2016	8,040	8,040	-	77,473	10.38%
2017	8,040	8,040	-	76,023	10.58%
2018	8,040	8,118	(78)	79,438	10.22%
2019	8,040	8,040	-	87,068	9.23%
2020	9,227	9,227	-	79,729	11.57%
2021	12,040	12,040	-	86,590	13.90%
2022	12,040	12,040	-	***	***

* 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 PMRS. Deviation between these amounts may be due to contributions to or transfers from the municipal reserve account. In 2018, the borough made an additional contribution due to a negative municipal reserve fund balance.

*** Due to the timing of this audit, covered-employee payroll for 2022 was not provided in this schedule.

POLK 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 Dave Owens
Mayor

Mr. James Miller
Council President

Ms. Karen Wenner
Secretary

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

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