

COMPLIANCE AUDIT

Shinglehouse Borough Non-Uniformed Pension Plan Potter County, Pennsylvania For the Period January 1, 2017 to December 31, 2020

February 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
Shinglehouse Borough
Potter County
Shinglehouse, PA 16748

We have conducted a compliance audit of the Shinglehouse Borough Non-Uniformed Pension Plan for the period January 1, 2017 to December 31, 2020. 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 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, 2015 to December 31, 2020, 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, 2015 to December 31, 2020, are presented on the Summary of Deposited State Aid and Employer Contributions.
- 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 that there were no benefit calculations prepared for the years covered by our audit period.
- We determined whether the January 1, 2017 and January 1, 2019 actuarial valuation report was prepared and submitted by March 31, 2018 and 2020 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.
- We determined whether the terms of the plan's allocated insurance contracts, including ownership and any restrictions, were in compliance with plan provisions, investment policies, and state regulations by comparing the terms of the contracts with the plan's provisions, investment policies, and state regulations.

The borough has elected to purchase allocated insurance contracts to fund the pension benefits for plan members. Under an allocated funding arrangement, the insurer receives and retains consideration in exchange for a legally enforceable obligation to pay future benefits. In accordance with Statement No. 67 of the Governmental Accounting Standards Board, allocated insurance contracts are excluded from the pension plan's assets. Consequently, the plan has an immaterial amount of reportable assets.

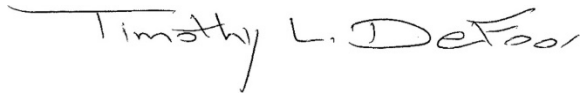
Borough officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Shinglehouse Borough Non-Uniformed Pension Plan is administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local 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 Shinglehouse 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 – Failure To Deposit The Full Amount Of State Aid Into An Eligible Pension Plan

Finding No. 2 – Failure To Properly Fund Member's Account

The contents of this report were discussed with officials of Shinglehouse 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 name.

Timothy L. DeFoor
Auditor General
January 31, 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 Shinglehouse 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 Shinglehouse Borough Non-Uniformed Pension Plan is a single-employer pension plan locally controlled by the provisions of Resolution No. 2-00-001. The plan was established January 1, 1974. Active members are not required to contribute to the plan. The municipality maintains a pension plan with no defined contributions and variable pension or retirement benefits provided, usually through discretionary purchases of insurance or annuity contracts. As of December 31, 2020, the plan had two active members.

SHINGLEHOUSE BOROUGH NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Failure To Deposit The Full Amount Of State Aid Into An Eligible Pension Plan

Condition: The municipality did not deposit the full amount of its 2018, 2019, 2020 and 2021 state aid allocations into an eligible pension plan or alternate mechanism applicable to the pension plan in accordance with Act 205. The borough received its 2018, 2019, 2020 and 2021 state aid allocations and designated the following amounts for its non-uniformed pension plan; \$3,523, \$5,347, \$8,805 and \$6,544, on September 21, 2018, September 23, 2019, September 30, 2020 and September 30, 2021 respectively; however, as of the date of this report, only state aid totaling \$17,533 was actually deposited and maintained in the non-uniformed pension plan as of the date of this report.

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 fund or the alternate funding mechanism applicable to the pension plan.

Cause: The full amounts of the borough's annual state aid allocations were initially deposited into the borough's police and non-uniformed pension plans; however, a portion of the state aid deposited into the non-uniformed pension plan was subsequently transferred into a general savings account maintained by the borough for the benefit of a plan member who did not yet have an established pension plan account, as more fully described in Finding No. 2 of this report.

Effect: When state aid is not deposited into an eligible pension plan or an alternate funding mechanism applicable to the pension plan, the funds are not available for benefits and/or for investment and the risk of misapplication is increased. Furthermore, the borough's future state aid allocations may be withheld until the finding recommendation is complied with.

Recommendation: We recommend that the municipality deposit the outstanding state aid amounting to \$6,686, plus interest earned during the period beyond the 30 day grace period allowed by Act 205, compounded annually into an eligible pension plan or an alternate funding mechanism applicable to the pension plan. A copy of the interest calculation must be maintained by the borough for examination during our next audit of the plan.

We also recommend that plan officials develop and implement procedures to ensure that future state aid is deposited in accordance with Act 205.

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.

SHINGLEHOUSE BOROUGH NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Failure To Properly Fund Member’s Account

Condition: The municipality did not properly fund the account of a plan member who began employment with the borough on January 1, 2018, during the years 2018, 2019, 2020, and 2021. The borough improperly deposited the individual’s contributions, consisting of state aid, into a general municipal savings account maintained by the borough (*refer to Finding No. 1*) which is not an appropriate use of funds under Act 20.

Criteria: Section 102 of Act 205 provides the following definitions:

“Pension Plan.” The various aspects of the relationship between a municipality and its employees with respect to the retirement coverage provided by a municipality to the employees.

“Benefit Plan.” That portion of a pension plan which deals specifically with the retirement annuity and benefit coverage provided by the pension plan, including, but not limited to, the types of coverage, the eligibility for and entitlement to retirement annuities and benefits, and the amount of retirement annuities and benefits.

“Pension Fund.” The entity which is the repository for the assets amassed by a pension plan as reserves for present and future periodic retirement payments and benefits of active and retired members of the pension plan.

Consequently, general municipal savings accounts maintained by a municipality are not eligible repositories for funds issued under the state aid program.

Cause: Municipal officials were advised by their plan consultant that an initial \$10,000 contribution was required in order to purchase an allocated contract for the plan member. As such, the borough was unaware that accumulating assets in a general municipal savings account for the eventual purchase of an investment for the individual was contrary to Act 205.

Effect: Maintaining state aid in an account other than a designated municipal pension account could result in the inadvertent distribution of state aid towards other general municipal purposes and plan member being denied benefits to which entitled under Act 205 and the plan’s governing document.

SHINGLEHOUSE BOROUGH NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No.2 – (Continued)

Recommendation: We recommend that plan officials either transfer the state aid improperly allocated into the borough's general municipal savings account on behalf of an individual during the years 2018, 2019, 2020, and 2021, in the total amount \$6,686, into an eligible funding mechanism of the non-uniformed pension plan or the borough's police pension plan or return the state aid to the Commonwealth. In the latter case, 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. A copy of the interest calculation must be submitted along with the check.

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.

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

A condition 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.

SHINGLEHOUSE BOROUGH NON-UNIFORMED PENSION PLAN
SUMMARY OF DEPOSITED STATE AID AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid	Employer Contributions
2015	\$ 2,603	None
2016	3,851	None
2017	4,046	None
2018	2,582	None
2019	3,919	None
2020	6,445	None

SHINGLEHOUSE BOROUGH NON-UNIFORMED PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

The Honorable Eric McKean
Mayor

Mr. Barry Church
Council President

Ms. Chelsie Duell
Secretary/Treasurer

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.