

# COMPLIANCE AUDIT

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## State College Borough Non-Uniformed Defined Contribution Pension Plan Centre County, Pennsylvania For the Period January 1, 2017 to December 31, 2018

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December 2019



Commonwealth of Pennsylvania  
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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EUGENE A. DePASQUALE  
AUDITOR GENERAL

The Honorable Mayor and Borough Council  
State College Borough  
Centre County  
State College, PA 16801

We have conducted a compliance audit of the State College Borough Non-Uniformed Defined Contribution Pension Plan for the period January 1, 2017 to December 31, 2018. We also evaluated compliance with some requirements subsequent to that period when possible. The audit was conducted pursuant to authority derived from Section 402(j) of Act 205 and in accordance with the standards applicable to performance audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform our audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our 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 finding contained in our prior audit 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 finding contained in our prior audit 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. State aid allocations that were deposited into the pension plan for the years ended December 31, 2015 to December 31, 2018, 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, 2018, 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 17 of 81 active employees employed during 2017 amounting to \$35,053 of the total 2017 employee contributions of \$149,844, and 18 of 85 active employees during 2018 amounting to \$39,095 of the total 2018 employee contributions of \$190,799.<sup>1</sup>
- We determined whether retirement benefits calculated for all 8 of the plan members who terminated employment and elected a lump-sum form of pension benefit 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 comparing the distributed amounts to supporting documentation evidencing amounts determined and actually paid to recipients.
- We determined whether the January 1, 2017 actuarial valuation report was prepared and submitted 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.

Borough officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the State College Borough Non-Uniformed Defined Contribution Pension Plan is administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies. In conducting our audit, we obtained an understanding of the borough's internal controls as they relate to the borough's compliance with those requirements and that we considered to be significant within the context of our audit objectives, and assessed whether those significant controls were properly designed and implemented. Additionally and as previously described, we tested transactions, assessed official actions, performed analytical procedures, and interviewed selected officials to provide reasonable

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<sup>1</sup> We selected employees randomly in order to obtain a representative selection of active plan members during the current audit period. While the results of representative selections may be projected to their respective population, the characteristics present in the population may differ from the characteristics of the items selected.

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 State College Borough Non-Uniformed Defined Contribution Pension Plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies.

The contents of this report were discussed with officials of State College 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.

November 21, 2019

A handwritten signature in black ink, appearing to read "Eugene A. DePasquale", with a long horizontal flourish extending to the right.

EUGENE A. DEPASQUALE  
Auditor General

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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. Section 402(j) of Act 205 specifically requires the Auditor General, as deemed necessary, to make an audit of every municipality which receives general municipal pension system state aid and of every municipal pension plan and fund in which general municipal pension system state aid is deposited.

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 State College Borough Non-Uniformed Defined Contribution Pension Plan is also governed by implementing regulations adopted by the former Public Employee Retirement Commission 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 177 - General Local Government Code, Act of December 19, 1996 (P.L. 1158, No. 177), as amended, 53 Pa.C.S. § 101 et seq.

The State College Borough Non-Uniformed Defined Contribution Pension Plan is a single-employer defined contribution governmental money purchase pension plan locally controlled by the provisions of Ordinance No. 1956, as amended, for non-uniformed employees hired on or after January 1, 2011. The plan is also affected by the provisions of collective bargaining agreements between the borough and its non-uniformed defined contribution employees. The plan was established January 1, 2011. Active members are required to contribute 4.5 percent of compensation to the plan. The municipality is also required to contribute 4.5 percent of compensation to the plan. As of December 31, 2018, the plan had 77 active members and 10 terminated members eligible for vested benefits in the future.

STATE COLLEGE BOROUGH NON-UNIFORMED  
DEFINED CONTRIBUTION PENSION PLAN  
STATUS OF PRIOR FINDING

Compliance With Prior Audit Recommendation

State College Borough has complied with the prior audit recommendation concerning the following:

- Incorrect Data On Certification Form AG-385 Resulting In An Overpayment Of State Aid

During the current audit period, the borough reimbursed \$5,293 to the Commonwealth for the excess state aid received in 2016 and complied with the instructions accompanying Certification Form AG 385s and accurately reported the required data.

STATE COLLEGE BOROUGH NON-UNIFORMED  
 DEFINED CONTRIBUTION PENSION PLAN  
 SUMMARY OF DEPOSITED STATE AID AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid	Employer Contributions
2015	None	\$ 69,700
2016	None	111,753
2017	None	116,899
2018	None	171,288

In 2015, the borough met the plan’s funding requirement through the deposit of \$69,700 in employer contributions and \$30,768 in terminated employee forfeitures.

In 2016, the borough met the plan’s funding requirement through the deposit of \$111,753 in employer contributions and \$9,900 in terminated employee forfeitures.

In 2017, the borough met the plan’s funding requirement through the deposit of \$116,899 in employer contributions and \$32,988 in terminated employee forfeitures.

In 2018, the borough met the plan’s funding requirement through the deposit of \$171,288 in employer contributions and \$20,218 in terminated employee forfeitures.

*The Department typically presents this data for the past six consecutive fiscal years. Since six years of data were not yet available, this will be done prospectively.*



STATE COLLEGE BOROUGH NON-UNIFORMED  
DEFINED CONTRIBUTION PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

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