

COMPLIANCE AUDIT

Stewartstown Borough Non-Uniformed Pension Plan York 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
Stewartstown Borough
York County
Stewartstown, PA 17356

We have conducted a compliance audit of the Stewartstown 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 finding and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our finding 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.

The Stewartstown 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.

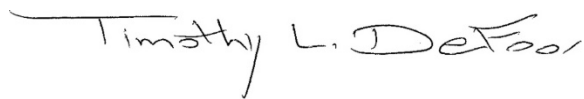
Borough officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Stewartstown Borough Non-Uniformed Pension Plan is administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local 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 Stewartstown 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 finding further discussed later in this report:

Finding – Receipt Of State Aid In Excess Of Entitlement And Municipal Contributions Made In Excess Of Contributions Required To Fund The Plan

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 Stewartstown 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 long horizontal line extending from the start of the name.

Timothy L. DeFoor
Auditor General
February 29, 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 Stewartstown 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 Stewartstown Borough Non-Uniformed Pension Plan is a single-employer cash balance pension plan locally controlled by the provisions of Ordinance No. 2020-01 and two separately restated plan agreements with the plan custodian effective January 1, 2020; one for non-uniformed employees hired on or before December 31, 2001 and one for employees hired on or after January 1, 2002, adopted pursuant to Act 15. Prior to January 1, 2020, the plan was locally controlled by the provisions of Ordinance No. 2012-03 and an agreement effective April 1, 2012, adopted pursuant to Act 15. The plan was established January 1, 1991. Active members are not required to contribute to the plan but may optionally contribute up to 20 percent of compensation. The municipality is required to contribute 10 percent of each member's compensation. As of December 31, 2022, the plan had eight active members, eight terminated members eligible for vested benefits in the future, and four retirees receiving pension benefits.

STEWARTSTOWN BOROUGH NON-UNIFORMED PENSION PLAN
FINDING AND RECOMMENDATION

Finding – 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 pension costs in 2018, 2019 and 2020, and also made municipal contributions in excess of those required to fund the plan in the years 2019, 2020, and 2021, as illustrated below:

	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
Actual municipal pension costs	\$ 27,462	\$ 30,260	\$ 27,465	\$ 31,536
Employee forfeitures available	<u>16,705</u>	<u>6,889</u>	<u>2,398</u>	<u>1,080</u>
Adjusted actual municipal pension costs	\$ 10,757	\$ 23,371	\$ 25,067	\$ 30,456
State aid allocation <i>(also see table below)</i>	<u>27,059</u>	<u>29,409</u>	<u>31,085</u>	<u>27,945</u>
Excess state aid received	<u>\$ 16,302</u>	<u>\$ 6,038</u>	<u>\$ 6,018</u>	<u>\$ -</u>
Actual municipal contributions made	\$ -	\$ 2,427	\$ 380	\$ 3,591
Municipal contributions required to fund plan	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,511</u>
Excess municipal contributions	<u>\$ -</u>	<u>\$ 2,427</u>	<u>\$ 380</u>	<u>\$ 1,080</u>

The borough participates in the Southern Regional Police Department (SRPD) and shares its percentage of the SRPD’s pension costs annually. During 2018 to 2021, the borough paid its share of the portion of the SRPD’s minimum municipal obligation (MMO) that was not funded by the Commonwealth in the amounts of \$8,795, \$3,486, \$3,934, and \$2,156 respectively. Therefore, taking the borough’s responsibility for its SRPD’s pension costs into consideration, the excess state aid allocations were further reduced as illustrated below:

	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
State aid allocation	\$ 27,059	\$ 29,409	\$ 31,085	\$ 27,945
State aid used for NUPP pension costs	(10,757)	(23,371)	(25,067)	(27,945)
State aid used for SRPD pension costs	<u>(8,795)</u>	<u>(3,486)</u>	<u>(3,934)</u>	<u>(2,156)</u>
Adjusted excess state aid received	<u>\$ 7,507</u>	<u>\$ 2,552</u>	<u>\$ 2,084</u>	<u>\$ -</u>

STEWARTSTOWN BOROUGH NON-UNIFORMED PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (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.

In addition, Section 9.1 of the plan agreement effective April 1, 2012, and Section 3.01 of the plan agreements effective January 1, 2020, sets the municipal contribution rate at ten percent (10%) of each member's compensation.

Furthermore, Section 17.03 of the PMRS base plan document states:

Forfeitures and investment income attributable to contributions shall be used to reduce Municipality contributions and shall not be used hereunder to increase the benefit of any person.

Cause: Plan officials failed to establish adequate internal control procedures to ensure that available employee forfeitures were utilized in accordance with the provisions contained in the plan's governing document to offset municipal contributions and that state aid was limited to annual eligible aggregated pension plan costs in accordance with Act 205.

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 overpayments of state aid in the years 2018, 2019 and 2020 in the total amount of \$12,143, must be returned to the Commonwealth for redistribution.

In addition, as a result of the borough allocating excess state aid, making excess municipal contributions, and failing to use available forfeitures towards their 2018, 2019, 2020, and 2021 pension costs, an unallocated reserve fund in the amount of \$24,837 existed as of December 31, 2022.

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

STEWARTSTOWN BOROUGH NON-UNIFORMED PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

Recommendation: We recommend that the municipality return \$12,143 of excess state aid received in the years 2018, 2019, and 2020 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 the unallocated reserve fund maintained by the pension plan by transferring the assets which represent excess state aid and municipal contributions to the borough's general fund.

Furthermore, we recommend that plan officials establish adequate internal control procedures to reconcile the amount of state aid allocated to the borough, along with available forfeitures and municipal contributions made to the pension plan, with the plan's annual 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 the next audit of the plan.

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

The finding contained in this audit report cites an overpayment of state aid to the borough in the amount of \$12,143, 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 including 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.

STEWARTSTOWN 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	\$ 24,964	\$ 16,049	\$ 8,915	\$ 246,443	6.51%
2015	25,722	7,636	18,086	254,224	3.00%
2016	25,953	39,972	(14,019)	256,529	15.58%
2017	25,914	38,865	(12,951)	256,139	15.17%
2018	27,462	(2,253)	29,715	271,417	(0.83%)
2019	30,260	29,789	471	298,801	9.97%
2020	27,465	31,465	(4,000)	270,845	11.62%
2021	31,555	31,555	-	311,755	10.12%
2022	35,421	35,421	-	350,414	10.11%

* 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 Contribution 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 2014, the borough met the plan's \$24,964 funding requirement through the deposit of \$16,049 in state aid and \$1,266 in employer contributions and the allocation of \$7,649 in terminated employee forfeitures.

In 2015, the borough met the plan's \$25,722 funding requirement through the deposit of \$23,525 in state aid and \$2,197 in employer contributions.

In 2016, the borough met the plan's \$25,953 funding requirement through the deposit of \$25,953 in state aid.

In 2017, the borough met the plan's \$25,934 funding requirement through the deposit of \$25,703 in state aid and \$231 in employer contributions.

STEWARTSTOWN BOROUGH NON-UNIFORMED PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

In 2018, the borough met the plan's \$27,462 funding requirement through the deposit of \$10,757 in state aid and the allocation of \$16,705 in terminated employee forfeitures.

In 2019, the borough met the plan's \$30,260 funding requirement through the deposit of \$23,371 in state aid and the allocation of \$6,889 in terminated employee forfeitures.

In 2020, the borough met the plan's \$27,465 funding requirement through the deposit of \$25,067 in state aid and the allocation of \$2,398 in terminated employee forfeitures.

In 2021, the borough met the plan's \$31,536 funding requirement through the deposit of \$27,945 in state aid and \$2,511 in employer contributions and the allocation of \$1,080 in terminated employee forfeitures.

In 2022, the borough met the plan's \$35,421 funding requirement through the deposit of \$34,429 in state aid and \$992 in employer contributions.

STEWARTSTOWN 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 Brittany Barnette
Mayor

Ms. Pamela Almony
Council President

Ms. Stacy Myers
Chief Administrative Officer

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.