

COMPLIANCE AUDIT

Terre Hill Borough Non-Uniformed Pension Plan Lancaster County, Pennsylvania For the Period January 1, 2017 to December 31, 2020

August 2021



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
Terre Hill Borough
Lancaster County
Terre Hill, PA 17581

We have conducted a compliance audit of the Terre Hill 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 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 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 reports were prepared and submitted by March 31, 2018 and 2020, 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 Terre Hill 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 objectives.

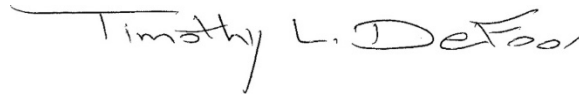
The results of our procedures indicated that, in all significant respects, the Terre Hill Borough Non-Uniformed Pension Plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies, except as noted in the following findings further discussed later in this report:

- Finding No. 1 – Partial Compliance With Prior Recommendation – Failure To Timely Submit And Pay The Minimum Municipal Obligation Of The Plan
- Finding No. 2 – Partial Compliance With Prior Recommendation – Late Filing Of Actuarial Valuation Reports

The findings contained in this audit report repeat conditions that were cited in our previous report that have not been corrected by borough officials. We are concerned by the borough's failure to correct those previously reported 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 Terre Hill 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 to the left of the first letter.

Timothy L. DeFoor
Auditor General

August 9, 2021

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ABBREVIATION

PSABMRT - Pennsylvania State Association of Boroughs Municipal Retirement Trust

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 Terre Hill 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 Terre Hill Borough Non-Uniformed Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 1984-2, as amended, and a joinder agreement with PSABMRT. The plan was established January 1, 1984. Active members are not required to contribute to the plan. As of December 31, 2020, the plan had 2 active members, 2 terminated members eligible for vested benefits in the future, and 2 retirees receiving pension benefits from the plan.

TERRE HILL BOROUGH NON-UNIFORMED PENSION PLAN
STATUS OF PRIOR FINDINGS

Partial Compliance With Prior Recommendations

Terre Hill Borough has partially complied with the prior recommendations concerning the following:

- Failure To Determine, Submit, Budget, And Pay The Financial Requirements And Minimum Municipal Obligation Of The Plan

The chief administrative officer determined the financial requirements of the plan and minimum municipal obligation (MMO) of the pension plan for the years 2016 and 2017, submitted the calculations to the governing body, and paid the outstanding MMOs due to the non-uniformed pension plan, with interest, in accordance with Section 302(e) of Act 205 as previously recommended. However, a similar condition occurred during the current audit period, as further discussed in the Findings and Recommendations section of this report.

It should also be noted that an Order To Show Cause had previously been issued by our department due to the borough's failure to comply with the prior finding, resulting in the borough's 2018, 2019, and 2020 state aid allocations being withheld. Since the borough has now provided documentation that the 2016 and 2017 MMOs have been paid, with interest in accordance with Act 205, the borough's 2018, 2019, and 2020 state aid allocations will be released.

- Failure To File Actuarial Valuation Report

During the current audit period, borough officials submitted the actuarial valuation report for the valuation date of January 1, 2015. However, the actuarial valuation reports for the valuation dates of January 1, 2017 and January 1, 2019 were not submitted by the respective March 31, 2018 and March 31, 2020 deadlines, as further discussed in the Findings and Recommendations section of this report.

TERRE HILL BOROUGH NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Partial Compliance With Prior Recommendation – Failure To Timely Submit And Pay The Minimum Municipal Obligation Of The Plan

Condition: As disclosed in the Status of Prior Findings section of this report, the borough partially complied with the prior recommendation; however, during the current audit period, borough officials failed to timely submit the 2017, 2018, and 2019 MMO calculations by their respective September 30th deadlines and failed to pay the 2017 and 2020 MMOs by their respective December 31 deadlines as required by Act 205. However, it should be noted that the 2017 MMO was eventually paid in 2018, with interest, and the 2020 MMO was paid during 2021, with interest, in accordance with Act 205.

Criteria: With regard to the financial requirements of the plan, Section 302(b) of Act 205 states, in part:

Annually, the chief administrative officer of the pension plan shall determine the financial requirements of the pension plan for the following plan year.

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.

Further, Section 304 of Act 205 states, in part:

The chief administrative officer of each pension plan shall submit the financial requirements of the pension plan and the minimum obligation of the municipality with respect to the pension plan, with appropriate documenting detail, to the governing body of the municipality on or before the last business day in September, annually.

Section 302(d) of Act 205 states:

Annually, the municipality shall provide for the full amount of the minimum obligation of the municipality in the budget of the municipality. The minimum obligation of the municipality shall be payable to the pension plan from the revenue of the municipality.

TERRE HILL BOROUGH NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

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

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 at a rate equal to the interest assumption used for the actuarial valuation report or the discount rate applicable to treasury bills issued by the Department of Treasury of the United States with a six-month maturity as of the last business day in December of the plan year in which the obligation was due, whichever is greater, expressed as a monthly rate and compounded monthly.

Cause: Municipal officials indicated that checks for payments of the 2017 and 2020 MMOs were dated and mailed in late December of both years; however, due to staffing shortages and oversight, borough officials did not realize the checks had not been deposited into the pension plan account, and new checks were issued later in 2018 and 2021. This staffing shortage plus some additional unusual circumstances caused the remaining staff member to unintentionally miss the filing deadlines.

Effect: Due to the municipality's failure to timely pay the 2017 and 2020 MMOs by the December 31 deadlines, the municipality was required to include additional interest that would otherwise not have been required had the MMOs been paid timely in accordance with Act 205 requirements. In addition, the borough's 2018, 2019, and 2020 state aid allocations were withheld due to the borough's failure to comply with the prior recommendation and subsequent failure to timely submit evidence of compliance to this department when compliance was effected. Although the allocations will now be released to the borough, the borough did not have the state aid allocations available timely to use for operating expenses and investment opportunity.

Recommendation: We again recommend that plan officials establish adequate internal control procedures, which could include a written procedure manual, to assist them in complying with Act 205 funding requirements, scheduling timely reconciliation of borough checking accounts, and ensuring that future MMOs are paid timely in accordance with Act 205 requirements.

Management's Response: Municipal officials agreed with the finding without exception and indicated the borough is currently recruiting additional borough staff.

Auditor's Conclusion: Compliance will be evaluated during our next audit of the plan.

TERRE HILL BOROUGH NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Partial Compliance With Prior Recommendation – Late Filing Of Actuarial Valuation Reports

Condition: As disclosed in the Status of Prior Findings section of this report, the borough partially complied with the prior recommendation in October 2018 by filing the actuarial valuation report for the non-uniformed pension plan with a valuation date of January 1, 2015. However, the borough failed to ensure that subsequent actuarial filing deadlines were met. The actuarial valuation reports with valuation dates of January 1, 2017 and January 1, 2019 were not submitted to the Municipal Pension Reporting Program (MPRP) (formerly the Public Employee Retirement Commission) until October 9, 2018 and July 13, 2020, respectively. These reports were due to the MPRP by March 31, 2018 and March 31, 2020, respectively.

Criteria: Section 201(a) of Act 205 states, in part:

Each municipality which has established or maintains a pension plan for its employees, including any municipality which participates in the Pennsylvania Municipal Retirement System, shall cause to be made actuarial valuation reports. Actuarial valuation reports shall be made biennially, unless the applicable municipality is applying or has previously applied for supplemental State assistance pursuant to Section 603, whereupon actuarial valuation reports shall be made annually.

Furthermore, Section 201(b) of Act 205 states, in part:

The biennial actuarial valuation report required pursuant to subsection (a) shall be made as of the beginning of each plan year occurring in an odd-numbered calendar year and shall be filed with the executive director of the commission no later than the last business day of March occurring in the following calendar year.

In addition, Section 204 of Act 205 provides:

If a complete actuarial valuation report or experience investigation is not filed in a timely fashion, any and all financing which is provided to the municipality by the Commonwealth and is dedicated for pension plan purposes shall be withheld until the report or investigation is filed.

TERRE HILL BOROUGH NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Finally, Section 402(e)(7) of Act 205 states, in part:

Any municipality which has not filed with the commission on a timely basis, pursuant to the applicable municipal pension plan actuarial reporting law, an actuarial report for each of the municipal pension plans which it has established or maintains shall be entitled to receive as general municipal pension system State aid, at such time as compliance with the actuarial reporting requirement occurs, the adjusted amount of general municipal pension system State aid per unit

Cause: Municipal officials indicated the untimely submission of the actuarial valuation reports occurred due to staffing shortages and oversights. This staff shortage plus some additional unusual circumstances caused the remaining staff member to unintentionally miss the filing deadlines.

Effect: Due to the late filing of the January 1, 2015 actuarial valuation report, the borough's 2016 and 2017 state aid allocations were not released until December 12, 2018, after the necessary report was filed. Consequently, the borough did not have the state aid allocations available timely to use for operating expenses and investment opportunity. Although the borough's 2018, 2019, and 2020 state aid allocations were withheld for a different reason (see Finding No. 1), when those allocations are calculated they may be less than the borough would have received had the January 1, 2017 and January 1, 2019 actuarial valuation reports been submitted in a timely manner. In addition, the borough may receive a reduced amount of state aid in the future if future reports are not submitted by the filing deadline.

Recommendation: To ensure that future actuarial filing deadlines are met in a timely manner and to improve pension plan administration, we again recommend that plan officials develop and implement internal control procedures, such as a calendar listing the various reporting and filing deadlines required by Act 205, including the actuarial valuation report filing date.

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.

TERRE HILL BOROUGH NON-UNIFORMED 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, 2015, 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)
01-01-15	\$ 471,762	\$ 534,383	\$ 62,621	88.3%
01-01-17	535,295	612,789	77,494	87.4%
01-01-19	579,935	646,593	66,658	89.7%

Note: The market values of the plan’s assets at 01-01-15, 01-01-17, and 01-01-19 have been adjusted to reflect the smoothing of gains and/or losses over a 4-year averaging period, which will be limited to a maximum of 120 percent and a minimum of 80 percent of the fair market value of assets. This method will lower contributions in the years of less than expected returns and increase contributions in years greater than expected returns. The net effect over long periods of time is to have less variance in contribution levels from year to year.

TERRE HILL BOROUGH NON-UNIFORMED 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.

TERRE HILL BOROUGH NON-UNIFORMED PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER
AND OTHER CONTRIBUTING ENTITIES

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2015	\$ 25,989	100.0%
2016	25,950	100.0%
2017	31,747	100.0%
2018	24,898	100.0%
2019	20,954	100.0%
2020	17,862	100.0%

TERRE HILL BOROUGH NON-UNIFORMED 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, 2019
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	10 years
Asset valuation method	4-year smoothing – the actuarial value of assets will be limited to a maximum of 120% and a minimum of 80% of the fair market value of assets
Actuarial assumptions:	
Investment rate of return	6.75%
Projected salary increases	4.00%
Cost-of-living adjustments	None assumed

TERRE HILL 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 Robert R. Rissler
Mayor

Mr. Robert Wenger
Council President

Ms. Valerie Gregory
Chief Administrative Officer

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