

COMPLIANCE AUDIT

Coaldale Borough Non-Uniformed Pension Plan Schuylkill County, Pennsylvania For the Period January 1, 2018 to December 31, 2021

March 2023



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
Coaldale Borough
Schuylkill County
Coaldale, PA 18218

We have conducted a compliance audit of the Coaldale Borough Non-Uniformed Pension Plan for the period January 1, 2018 to December 31, 2021. 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; verifying the annual deposit date of state aid and determining whether deposits were made within 30 days of receipt for all years within the audit period.
- 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 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 both active employees employed during the audit period amounting to \$5,515, \$3,361, \$2,086 and \$1,221, for the years 2018, 2019, 2020 and 2021, respectively, made during the 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.

The Coaldale 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 Coaldale 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 Coaldale 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:

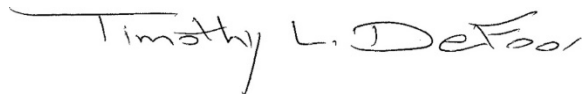
Finding No. 1 – Noncompliance With Prior Recommendation – Municipal Contributions Made In Excess Of Contributions Required To Fund The Plan

Finding No. 2 – Partial Compliance With Prior Recommendation – Allocation Of State Aid In Excess Of Entitlement

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 Coaldale Borough and, where appropriate, their responses have been included in the report.



Timothy L. DeFoor
Auditor General
March 8, 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 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 Coaldale 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 Coaldale Borough Non-Uniformed Pension Plan is a single-employer cash balance pension plan locally controlled by the provisions of Ordinance No. 2021-5 and a separately executed plan agreement with the plan custodian effective January 1, 2020, adopted pursuant to Act 15. Prior to January 1, 2020, the plan was locally controlled by the provisions of an Ordinance dated October 25, 2013, and an agreement effective January 1, 2014, adopted pursuant to Act 15. The plan is also affected by the provisions of collective bargaining agreements between the borough and its non-uniformed employees. The plan was established January 1, 2005. Active members are required to contribute one and one-half (1.5) percent of compensation to the plan and may contribute up to 10 percent of compensation. The municipality is required to contribute three (3.0) percent of each members compensation. As of December 31, 2021, the plan had one active member and two terminated members eligible for vested benefits in the future.

COALDALE BOROUGH NON-UNIFORMED PENSION PLAN
STATUS OF PRIOR FINDINGS

Partial Compliance With Prior Recommendation

Coaldale Borough has partially complied with the prior recommendation concerning the following:

· Receipt Of State Aid In Excess Of Entitlement

During the current audit period, the borough reimbursed \$2,743 to the Commonwealth for the excess allocation of state aid received and allocated to the plan during 2014 and 2015; however, plan officials again failed to reconcile the borough's annual state aid allocated to the pension plan with the plan's annual defined contribution pension costs as further discussed in the Findings and Recommendations section of this report.

Noncompliance With Prior Recommendation

Coaldale Borough has not complied with the prior recommendation concerning the following as further discussed in the Findings and Recommendations section of this report:

· Municipal Contributions Made In Excess Of Contributions Required To Fund The Plan

COALDALE BOROUGH NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Noncompliance With Prior Recommendation – Municipal Contributions Made In Excess Of Contributions Required To Fund The Plan

Condition: As disclosed in the prior audit report, the borough made contributions to the non-uniformed pension plan in excess of contributions required to fund the pension plan during the years 2014 through 2017. A similar condition occurred during the current audit period. The borough again made contributions to the non-uniformed pension plan in excess of contributions required to fund the pension plan, as illustrated below:

	<u>2018</u>	<u>2019</u>
Actual municipal pension costs	\$ 3,164	\$ 2,532
State aid allocated	<u>(3,000)</u>	<u>(3,124)</u>
Municipal contributions required to fund plan	<u>164</u>	<u>-</u>
Actual municipal contributions made	\$ 1,684	\$ 1,342
Municipal contributions required to fund plan	<u>(164)</u>	<u>-</u>
Excess municipal contributions	<u><u>\$ 1,520</u></u>	<u><u>\$ 1,342</u></u>

Criteria: Section 9.1(a) of the governing document states, in part:

The Municipality shall contribute 3.0% of each Member’s compensation.

Since state aid allocated to a pension plan must be expended on pension costs, it is the opinion of this department that where municipal contributions and state aid are both deposited into a pension plan, the state aid is expended first to fund pension costs.

Cause: The borough did not have adequate internal control procedures in place to ensure that municipal contributions would not exceed the required contributions outlined in the plan’s governing document.

Effect: As a result of the borough making contributions to the non-uniformed pension plan in excess of contributions required to fund the pension plan, overall municipal reserve funds increased by \$2,862 and as of December 31, 2021, the municipal reserve fund balance totaled \$10,409.

It is the opinion of this department that the borough’s failure to withdraw excess municipal contributions made in prior years does not preclude the borough from withdrawing the municipal contributions maintained in the unallocated reserve fund at this time.

COALDALE BOROUGH NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Recommendation: We again recommend that the borough liquidate the unallocated reserve fund maintained by the non-uniformed pension plan by transferring the assets which represent nonstate aid funds, to the borough’s general fund. In addition, any interest income earned on assets held in the reserve fund to the date of transfer should also be transferred to the general fund.

We also recommend that, in the future, plan officials reconcile the amount of state aid allocated to the non-uniformed pension plan and municipal contributions made to the pension plan with the pension plan’s annual defined contribution pension costs.

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.

Finding No. 2 – Partial Compliance With Prior Recommendation – Allocation Of State Aid In Excess Of Entitlement

Condition: As disclosed in the Status of Prior Findings section of this report, the borough partially complied with the prior recommendation by reimbursing the Commonwealth for the excess allocation of state aid received during 2014 and 2015. However, plan officials again failed to reconcile the borough’s annual state aid allocation and municipal contributions made to the pension plan with the plan’s annual defined contribution pension and allocated state aid in excess of the non-uniformed pension plan’s defined contribution pension costs in the year 2019, as illustrated below:

State aid allocation	\$ 3,124
Actual municipal pension costs	<u>(2,532)</u>
Excess state aid	<u>\$ 592</u>

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.

COALDALE BOROUGH NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Cause: Plan officials failed to timely implement adequate internal control procedures to reconcile the borough's state aid allocation with the plan's actual defined contribution pension costs during 2019 and ensure compliance with the prior recommendation.

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; however, the borough does have the option to allocate the excess state aid to its defined benefit pension plan.

Recommendation: We recommend that municipal officials re-allocate the \$592 of excess state aid to the borough's defined benefit pension plan.

In addition, we again recommend that, in the future, plan officials reconcile the amount of state aid allocated to the non-uniformed pension plan and municipal contributions made to the pension plan with the pension plan's defined contribution pension costs.

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.

COALDALE 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	\$ 1,516	\$ 648	\$ 868	\$ 53,662	1.21%
2015	1,637	1,432	205	59,608	2.40%
2016	1,500	1,571	(71)	48,652	3.23%
2017	3,022	434	2,588	99,398	0.44%
2018	3,164	4,684	(1,520)	104,126	4.50%
2019	2,522	4,804	(2,282)	82,089	5.85%
2020	1,263	1,263	-	40,084	3.15%
2021	1,568	1,569	(1)		

* 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 were provided by the custodian. Deviation between these amounts may be due to contributions to or transfers from the municipal reserve account. In 2014, 2015 and 2017, the borough transferred \$868, \$205, and \$2,588, respectively, from the municipal reserve account. In 2016, 2018 and 2019, the borough deposited in excess, \$71, \$1,520, and \$2,282, respectively, into the municipal reserve account (*refer to Finding No. 1, for 2019, excess also includes excess state aid refer to Finding No. 2*).

** Due to the timing of this audit, covered-employee payroll for 2021 was not provided in this schedule.

COALDALE 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 Herbert Whildin
Mayor

Ms. Angela Krapf
Council President

Ms. Suzanne Whildin
Borough Secretary

Ms. Lacey Gonzalez
Borough Treasurer

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

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