

# COMPLIANCE AUDIT

---

## Masontown Borough Non-Union Service Employees' Pension Plan

Fayette County, Pennsylvania  
For the Period  
January 1, 2019 to December 31, 2022

---

April 2024



Commonwealth of Pennsylvania  
Department of the Auditor General

Timothy L. DeFoor • Auditor General

---



**Commonwealth of Pennsylvania  
Department of the Auditor General  
Harrisburg, PA 17120-0018  
Facebook: Pennsylvania Auditor General  
Twitter: @PAAuditorGen  
www.PaAuditor.gov**

**TIMOTHY L. DEFOOR  
AUDITOR GENERAL**

The Honorable Mayor and Borough Council  
Masontown Borough  
Fayette County  
Masontown, PA 15461

We have conducted a compliance audit of the Masontown Borough Non-Union Service Employees' Pension Plan for the period January 1, 2019 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 findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings 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. Employer contributions that were deposited into the pension plan for the years ended December 31, 2019 to December 31, 2022, 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, 2019 and January 1, 2021 actuarial valuation reports were prepared and submitted by March 31, 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.
- We determined whether the terms of the plan’s unallocated insurance contract, including ownership and any restrictions, were in compliance with plan provisions, investment policies, and state regulations by comparing the terms of the contract with the plan’s provisions, investment policies, and state regulations.

Borough officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Masontown Borough Non-Union Service Employees’ 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.

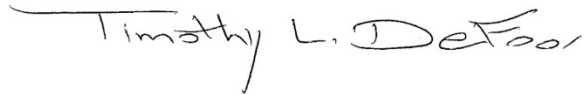
The results of our procedures indicated that, in all significant respects, the Masontown Borough Non-Union Service Employees’ Pension Plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies, except as noted in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

Finding No. 1 – Failure To Properly Fund Member’s Account

Finding No. 2 – Incorrect Data Certified On Actuarial Valuation Report Resulting In An Overpayment Of State Aid

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 Masontown 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  
April 18, 2024

## CONTENTS

	<u>Page</u>
Background.....	1
Findings and Recommendations:	
Finding No. 1 – Failure To Properly Fund Member’s Account.....	2
Finding No. 2 – Incorrect Data Certified On Actuarial Valuation Report Resulting In An Overpayment Of State Aid.....	3
Supplementary Information .....	5
Summary of Deposited State Aid and Employer Contributions.....	9
Report Distribution List .....	10

## 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 Masontown Borough Non-Union Service Employees' 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 Masontown Borough Non-Union Service Employees' Pension Plan is a single-employer defined benefit plan locally controlled by provisions of Resolution No. D-1/2-22-05, as amended. Effective for 2019, the borough enacted defined contribution features for its pension plan for all employees hired on or after May 1, 2019, through the adoption of Ordinance No. D2-10-08-19, as amended. The plan was established January 1, 1974. Active members participating in the defined contribution plan features of the plan are not required to contribute to the plan. The municipality is required to contribute \$4,000 per member. During October and December 2019, the borough purchased annuities to pay all subsequent pension benefit obligations due the three remaining members of the borough's defined benefit features of the pension plan. As of December 31, 2022, the plan had one active member participating in the defined contribution features of the pension plan.

MASONTOWN BOROUGH NON-UNION SERVICE EMPLOYEES' PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – Failure To Properly Fund Member’s Account**

Condition: The borough did not properly fund the account of an active plan member who began employment with the borough on January 1, 2019, during the years 2021, 2022 and 2023, as follows.

<u>Year</u>	<u>Actual Contributions</u>	<u>Required Contributions</u>	<u>Contributions In Excess/(Due)</u>
2021	\$ -	\$ 4,000	\$ (4,000)
2022	5,000	4,000	1,000
2023	5,000	4,000	1,000
		Total	<u>\$ (2,000)</u>

Criteria: Section 14.04(b) of the plan’s governing document, Ordinance No. D2-10-08-19, as amended, sets the municipal contribution rate at \$4,000 per calendar year per full-time employee.

Cause: Due to a recent turnover in individuals responsible for the administration of the plan, the specific cause was uncertain, but the borough lacked adequate internal control procedures to ensure that the plan member’s account was properly funded in accordance with the plan document.

Effect: The failure to properly fund the plan could result in plan members being denied benefits to which they were entitled in accordance with the plan’s governing document.

Due to borough’s failure to properly fund the referenced member’s account, the borough must now pay interest on the delinquent contribution.

Recommendation: We recommend that the borough deposit the remaining contribution due to the member’s account, with interest, from the date of deposit of the municipal contributions which were made in that year to the date of deposit of the amount in arrears. 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 implement adequate internal control procedures to ensure that members’ accounts are properly funded in accordance with the provisions contained in the plan’s governing document.

Management Response: Municipal officials agreed with the finding without exception.

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

MASONTOWN BOROUGH NON-UNION SERVICE EMPLOYEES' PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 2 – Incorrect Data Certified On Actuarial Valuation Report Resulting In An Overpayment Of State Aid**

Condition: Actuarial valuation report form 203A, for the non-uniformed service employees' pension plan, with a valuation date of January 1, 2021, submitted to the Municipal Pension Reporting Program (MPRP), contained incorrect information. The borough incorrectly reported \$5,000 for the annual municipal contribution rate (per member) when the actual annual amount of municipal contributions (per member) was \$4,000 according to the plan document.

Criteria: Section 201(d) of Act 205 states:

Responsibility for preparation and filing of reports and investigations. The actuarial valuation report or experience investigation required pursuant to subsection (a) shall be prepared under the supervision and at the discretion of the chief administrative officer of the municipality, who shall be responsible for the filing of the document. The actuarial valuation report or experience investigation shall be signed by the chief administrative officer, indicating that to the extent of the understanding and knowledge of the officer, the report or investigation represents a true and accurate portrayal of the actuarial, financial and demographic condition of the pension plan of the municipality.

Cause: Due to a recent turnover in individuals responsible for the administration of the plan, the cause was uncertain, but the borough lacked adequate procedures to ensure the data reported to MPRP on the actuarial valuation report of 2021 was accurate and in accordance with provisions of the plan document.

Effect: Because the municipality's state aid allocations are determined, in part, by the information contained in the actuarial valuation report, the submission of incorrect data resulted in the municipality receiving state aid allocations for the years 2022 and 2023 incorrectly based on a normal cost percentage of 18.1859%, instead of 17.8573%. As a result, the borough received excess state aid, as calculated below:

<u>Year</u>	<u>Normal Cost</u>	<u>Payroll</u>	<u>State Aid Entitlement</u>	<u>State Aid Received</u>	<u>Excess State Aid</u>
2022	17.8573%	\$ 299,155	\$ 53,421	\$ 54,404	\$ 983
2023	17.8573%	\$ 309,533	55,274	56,291	1,017
		Total	<u>\$ 108,695</u>	<u>\$ 110,695</u>	<u>\$ 2,000</u>



MASONTOWN BOROUGH NON-UNION SERVICE EMPLOYEES' PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 2 – (Continued)**

In addition, the borough used the overpayments of state aid to pay the minimum municipal obligations (MMOs) to the pension plans; therefore, if the reimbursement to the Commonwealth is made from the pension plans, the plan's MMOs will not be fully paid.

Recommendation: We recommend that the total excess state aid, in the amount of \$2,000, be returned 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 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 evidence of payment.

In addition, if the reimbursement to the Commonwealth is made from pension plan funds, we recommend that any resulting MMO deficiencies be paid to the pension plan with interest, at a rate earned by the pension plan.

Furthermore, we recommend that, in the future, the borough establish adequate internal control procedures to ensure all information submitted to the MPRP on future actuarial valuation reports properly reflects the status and provisions of the pension plan.

Management's Response: Municipal officials agreed with the finding without exception.

Auditor's Conclusion: The borough's compliance with the finding recommendation will be monitored subsequent to the release of the audit report and through our next audit of the pension plan.

MASONTOWN BOROUGH NON-UNION SERVICE EMPLOYEES' 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, 2017, 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)
01-01-17	\$ 261,565	\$ 249,502	\$ (12,063)	104.8%
01-01-19	238,010	212,062	(25,948)	112.2%

Notes: The market value of the plan's assets at 01-01-17 and 01-01-19 have been adjusted to reflect the smoothing of gains and losses over a 5-year averaging period, as described in Section 210 of Act 205, as amended. This method will lower contributions in years of less than expected returns and increase contributions in years of greater than expected returns. The net effect over long periods of time is to have less variance in contribution levels from year to year.

As of 12-13-2019, there are no longer any active members participating in the defined benefit features of the pension plan (*refer to Background section of the report*). Accordingly, the actuarial valuation report filed with a valuation date of January 1, 2021, disclosed no reportable demographic or actuarial financial data or plan assets relative to the defined benefit features of the pension plan.

MASONTOWN BOROUGH NON-UNION SERVICE EMPLOYEES' 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.

MASONTOWN BOROUGH NON-UNION SERVICE EMPLOYEES' PENSION PLAN  
 SUPPLEMENTARY INFORMATION  
 DEFINED BENEFIT FEATURES  
 (UNAUDITED)

SCHEDULE OF CONTRIBUTIONS

Year Ended December 31	Actuarially Determined Contribution	Actual Contributions	Contribution Deficiency (Excess)	Covered- Employee Payroll	Contributions as a Percentage of Covered- Employee Payroll
2010	\$ -	\$ -	\$ -	\$ 40,109	-
2011	-	-	-	41,050	-
2012	-	-	-	42,222	-
2013	4,223	4,223	-	43,155	9.79%
2014	7,991	7,991	-	44,833	17.82%
2015	8,439	8,439	-	53,476	15.78%
2016	8,132	60,269	(52,137)	87,716	68.71%
2017	15,534	15,534	-	48,586	31.97%
2018	7,618	7,618	-	48,140	15.82%
2019	7,151	7,151	-	*	*

\* As of 12-13-2019, there are no longer any active members participating in the defined benefit features of the pension plan.

MASONTOWN BOROUGH NON-UNION SERVICE EMPLOYEES' PENSION PLAN  
 SUPPLEMENTARY INFORMATION  
 NOTES TO SUPPLEMENTARY SCHEDULES  
 DEFINED BENEFIT FEATURES  
 (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, 2021*
Actuarial cost method	Entry age normal
Amortization method	None assumed
Remaining amortization period	None assumed
Asset valuation method	5-year smoothing as described in IRS Rev. Proc. 2000-40; asset corridor = +/-20% of the fair market value of assets.
Actuarial assumptions:	
Investment rate of return	3.00%
Projected salary increases	2.50%

\* As disclosed earlier in this report, as of 12/13/2019, there are no longer any active members or eligible recipients participating in the defined benefit features of the pension plan.

MASONTOWN BOROUGH NON-UNION SERVICE EMPLOYEES' PENSION PLAN  
SUMMARY OF DEPOSITED STATE AID AND EMPLOYER CONTRIBUTIONS  
DEFINED CONTRIBUTION FEATURES

Year Ended December 31	State Aid	Employer Contributions
2019	None	\$ 4,000
2020	None	4,000
2021	None	None
2022	None	5,000

Note: In 2019 and 2020, the borough met the plan's \$4,000 funding requirements through the allocation of forfeitures. *(The borough did not properly fund member's account in 2021, 2022 and 2023 refer to Finding No. 1).*

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

MASONTOWN BOROUGH NON-UNION SERVICE EMPLOYEES' PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

**The Honorable Joshua D. Shapiro**  
Governor  
Commonwealth of Pennsylvania

**The Honorable Toni Petrus**  
Mayor

**Mr. Bruce Cochrane**  
Council President

**Ms. Karen S. Caringola**  
Secretary

This report is a matter of public record and is available online at [www.PaAuditor.gov](http://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](mailto:news@PaAuditor.gov).