

COMPLIANCE AUDIT

Midland Borough Non-Uniformed Pension Plan Beaver County, Pennsylvania For the Period January 1, 2018 to December 31, 2019

April 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
Midland Borough
Beaver County
Midland, PA 15059

We have conducted a compliance audit of the Midland Borough Non-Uniformed Pension Plan for the period January 1, 2018 to December 31, 2019. 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 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 determined that there were no benefit calculations prepared for the years covered by our audit period.
- We determined whether the January 1, 2019 actuarial valuation report was prepared and submitted by March 31, 2020, 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.

Midland Borough contracted with an independent certified public accounting firm for its basic financial statements which are available at the borough's offices. Those 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 Midland 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.

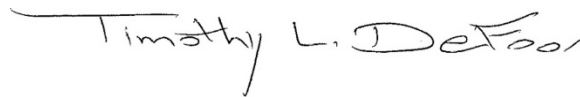
The results of our procedures indicated that, in all significant respects, the Midland Borough Non-Uniformed Pension Plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies, except as noted in the following findings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

Finding No. 1 – Failure To Fully Pay The Minimum Municipal Obligation Of
The Plan

Finding No. 2 – Untimely Deposit Of Member Contributions

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



Timothy L. DeFoor
Auditor General

March 23, 2021

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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 Midland 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 Midland Borough Non-Uniformed Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 683, as amended. The plan was established June 1, 1975. Active members are required to contribute \$0.55 per hour to the plan. As of December 31, 2019, the plan had no active members, 1 member eligible for vested benefits in the future, and 7 retirees receiving pension benefits from the plan. Effective December 31, 2016, the borough froze membership in the defined benefit non-uniformed pension plan, and existing employees and all new employees participate in a union administered, defined contribution plan.

MIDLAND BOROUGH NON-UNIFORMED PENSION PLAN
STATUS OF PRIOR AUDIT FINDINGS

Compliance With Prior Recommendations

Midland Borough has complied with the prior recommendations concerning the following:

- Failure To Timely File Certification Form AG 385 Resulting In An Untimely Receipt Of State Aid

The borough filed its Certification Forms AG 385 in 2018, 2019, and 2020 by the respective March 31 filing deadlines.

- Participation Agreement Not Adopted By Ordinance

The borough amended the plan with Ordinance No. 702. Effective December 31, 2016, the borough froze membership in its defined benefit non-uniformed pension plan. Existing members and all new members will participate in the union administered, defined contribution plan as outlined in Article XVIII of the collective bargaining agreement effective January 1, 2017.

- Failure To File Actuarial Valuation Report

The borough filed the outstanding January 1, 2017 actuarial valuation report in November 2018. Furthermore, the borough filed its January 1, 2019 actuarial valuation reports by the March 31 filing deadline.

- Failure To Maintain An Adequate Record-Keeping System

Municipal officials provided the annual custodial account statements, financial statements and valuation reports for the audit period.

MIDLAND BOROUGH NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Failure To Fully Pay The Minimum Municipal Obligation Of The Plan

Condition: The municipality did not fully pay the minimum municipal obligation (MMO) that was due to the non-uniformed pension plan for the years 2019 and 2020, as required by Act 205. Based upon an estimate prepared by this department, the municipality had an unpaid MMO balance of \$494 for the year 2019 and an unpaid MMO of \$21,044 for the year 2020.

Criteria: 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.

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. Payment of the minimum obligation of the municipality shall be made by the municipality prior to December 31.

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: Although municipal officials fully budgeted the MMOs in the annual borough budgets, plan officials indicated the borough did not have sufficient funds to pay the MMOs.

MIDLAND BOROUGH NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Furthermore, Section 10.01 of the plan document for non-uniformed office employees, adopted by Resolution No. 9148, as well as the plan document for non-uniformed union employees, adopted by Resolution No. 9150, states, in part:

The borough intends but does not guarantee to deposit with the Trustee or Insurer, whichever is applicable, from time to time such funds as are determined to be actuarially necessary to provide such benefits, in a manner consistent with the funding standards maintained by the Pennsylvania Municipal Pension Plan Funding Standard and Recovery Act (PA Act 205 of 1984), as amended.

Effect: The failure to fully pay the MMO could result in the plan not having adequate resources to meet current and future benefit obligations to its members. Due to the municipality's failure to pay the 2019 and 2020 MMOs by the respective December 31, deadlines, the municipality must add the 2019 and 2020 MMO balances to the current year's MMO and include interest, as required by Act 205. In addition, since the borough made payments on the 2019 MMO during 2020, interest is also due on those late payments.

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

Recommendation: We recommend that the municipality pay the MMO due to the non-uniformed pension plan for the years 2019 and 2020, with interest on all payments made after the respective December 31 due dates, in accordance with Section 302(e) of Act 205. A copy of the interest calculations must be maintained by the borough for examination during our next audit of the plan. Furthermore, we recommend that, in the future, plan officials timely and fully pay the MMO of the plan.

Management's Response: Municipal officials agreed with the finding without exception and indicated that they are working to make installment payments in order to fully pay the MMOs.

Auditor's Conclusion: Due to the potential withhold of state aid, 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 plan.

MIDLAND BOROUGH NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Untimely Deposit Of Member Contributions

Condition: Municipal officials failed to deposit member contributions for the years 2017 and 2018 into the plan until April 2019.

Criteria: Section 10.06 of Resolution No. 9150 regarding *Participant Contributions* for the borough's union employees, states:

A Participant shall be required to make personal contributions to the Plan commencing on the date he initially becomes a Participant in an amount equal to fifty-five cents (\$.55) per hour worked.

Article XVII of the collective bargaining agreement for the period January 1, 2017 to December 31, 2020, states, in part:

The current employee benefit under the current Municipal Non-Police Pension Plan shall be calculated as of December 31, 2016 and shall continue to be funded/maintained by the Borough to preserve the benefit for the current eligible employees with each current eligible full-time employee contributing \$.55 per hour worked for each year of this Agreement to help defray the cost to the Borough of the minimum municipal obligation (MMO). The contributions shall not increase the benefit to the employee which shall remain at the amount calculated as of December 31, 2016.

Cause: Municipal officials attributed the failure to deposit the member contributions into the pension plan to an oversight.

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

Recommendation: We recommend that the borough determine and pay interest due on the employee contributions from the dates of deduction to the date of deposit into the pension fund. A copy of the interest calculation must be maintained by the borough for examination during our next audit of the plan.

Management's Response: Municipal officials agreed with the finding without exception and indicated that effective January 1, 2021, the members will no longer be required to contribute to the plan.

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

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

A condition of a finding such as that reported by Finding No. 1 contained in this audit report may lead to a total withholding of state aid in the future unless that finding is corrected. However, such action will not be considered if sufficient written documentation is provided to verify compliance with this department's recommendation. Such documentation should be submitted to: Department of the Auditor General, Bureau of Municipal Pension & Liquor Control Audits, 314 Finance Building, Harrisburg, PA 17120.

MIDLAND 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	\$ 258,952	\$ 428,647	\$ 169,695	60.4%
01-01-17	254,512	405,465	150,953	62.8%
01-01-19	237,971	336,355	98,384	70.7%

MIDLAND 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.

MIDLAND 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
2014	\$ 26,089	100.0%
2015	26,508	100.0%
2016	29,935	100.0%
2017	30,871	100.0%
2018	42,696	100.0%
2019	44,126	98.9%

MIDLAND 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	6 years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return	3.0%

MIDLAND 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 Angela Adkins
Mayor

Mr. Daniel S. Onuska
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