

COMPLIANCE AUDIT

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

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
Mount Joy Borough
Lancaster County
Mount Joy, PA 17552

We have conducted a compliance audit of the Mount Joy 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 finding 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 finding 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 whether retirement benefits calculated for plan members who elected to vest and a plan member who separated employment and received a lump-sum distribution during the current audit period, and through the completion of our fieldwork procedures, represent payments to all (and only) those entitled to receive them and were properly determined and/or 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 and/or payable to the recipients.
- 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.

Mount Joy Borough contracted with an independent certified public accounting firm for annual audits of its basic financial statements for the years ending December 31, 2018 and 2017, 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 Mount Joy 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.

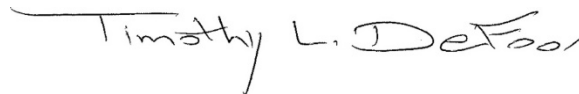
The results of our procedures indicated that, in all significant respects, the Mount Joy Borough Non-Uniformed Pension Plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies, except as noted in the following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

Finding No. 1 – Failure To Include Eligible Employees In The Pension Plan

Finding No. 2 – Failure To Implement Mandatory Act 44 Procedures For The Procurement Of Professional Services

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 Mount Joy 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.



Timothy L. DeFoor
Auditor General

April 16, 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 Mount Joy 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 Mount Joy Borough Non-Uniformed Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 3-13. The plan was established February 1, 1965. Active members are not required to contribute to the plan. As of December 31, 2020, the plan had 13 active members, 13 terminated members eligible for vested benefits in the future, and 6 retirees receiving pension benefits from the plan.

MOUNT JOY BOROUGH NON-UNIFORMED PENSION PLAN
STATUS OF PRIOR FINDING[S]

Compliance With Prior Recommendations

Mount Joy Borough has complied with the prior recommendations concerning the following:

- Incorrect Data On Certification Form AG 385 Resulting In An Underpayment Of State Aid

During the current audit period, municipal officials complied with the instructions accompanying Certification Form AG 385 and accurately reported the required pension data.

MOUNT JOY BOROUGH NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Failure To Include Eligible Employees In The Pension Plan

Condition: Plan officials did not properly identify and include two employees who met the eligibility criteria established by the borough for participation in the pension plan according to the plan document. The two employees worked in excess of the required minimum hours of service prescribed in the plan document during the audit period for participation in the borough’s pension plan, as illustrated below:

<u>Employee Hire Date</u>	<u>Hours Of Service</u>	<u>2018 Gross Wages</u>	<u>Vesting Service</u>
03/01/2016	1,423	\$ 20,661	1
<u>Employee Hire Date</u>	<u>Hours Of Service</u>	<u>2019 Gross Wages</u>	<u>Vesting Service</u>
03/01/2016	1,390	\$ 20,110	1
01/14/2019	1,202	22,468	1
<u>Employee Hire Date</u>	<u>Hours Of Service</u>	<u>2020 Gross Wages</u>	<u>Vesting Service</u>
01/14/2019	1,236	\$ 23,575	1

Criteria: Article 1.02 of the borough’s separately executed pension plan agreement adopted by Ordinance No. 3-2013, states the following:

Eligible Employee means any Employee of the Employer other than police person.

Accrual Service means one year of service for each Plan Year on or after January 1, 1995 in which an Employee has at least 1,000 hours of service with the Employer.

Vesting service means one year of service for each Plan year in which an employee has at least 1,000 hours-of-service with the Employer.

Year of Service means an Employee’s Vesting Service disregarding any modifications, which exclude service.

MOUNT JOY BOROUGH NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

In addition, **Article II Participation** Section 2.01(a)(1)-Active Participant, states, in part:

An Employee shall first become an Active Participant (begin active participation in the Plan) on the earliest Monthly Date on which he is an Eligible Employee and has met the eligible requirement set forth below. This date is his Entry Date.

Cause: Plan officials were unaware of the eligibility provisions currently prescribed in the plan’s governing document for participation in the borough’s non-uniformed pension plan. In addition, the borough lacked adequate internal control procedures to timely identify and enroll all employees satisfying the eligibility requirements and participation in its pension plan in accordance with the plan document.

Effect: The failure to properly identify and enroll all employees meeting the plan’s participation criteria could result in the denial of benefits to which eligible employees are entitled to under provisions of the plan document.

Recommendation: We recommend that the borough, after consulting its solicitor, take appropriate action to ensure that the aforementioned employees are afforded the opportunity to participate in the borough’s non-uniformed pension plan and receive all benefits due in accordance with the plan document at its earliest opportunity to do so.

We also recommend that in the future, the borough establish adequate internal control procedures to timely identify and enroll all subsequent employees meeting the eligibility provisions for participation in the borough’s pension plan in accordance with the pension plan document.

Management’s Response: Municipal officials disagreed with the recommendation and provided the following response:

The Mount Joy Borough Non-Uniformed Pension Plan has and will continue to be a benefit offered for full-time employees only. From the time the plan was established on February 1, 1965 to present day the borough has never funded nor intended to fund for part-time employee benefits.

The borough recognizes the language in the plan document. The process of amending the plan document has already commenced, specifically stating only full-time employees are eligible for benefits. This will eliminate the confusion on who is eligible for the plan. Precedent was set in prior audits, funding requirements and valuation reports that the borough has never considered/intended part-time employees to be included.

MOUNT JOY BOROUGH NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

In an effort to maintain consistency with regard to historical action/decision making processes by prior auditors and audits conducted by the Auditor General’s auditing staff, the Borough asks for this finding to be rescinded.

The Borough thanks you for your time and consideration regarding this matter as we strive for consistency and uniformity across prior and future audit periods.

Auditor’s Conclusion: The department acknowledges the borough’s disagreement with the disclosure. However, since the documentation provided by the borough does not identify or clearly define full-time within the prescribed documentation provided by officials, but merely states the minimum number of hours required for participation in its pension plan, the department cannot opine as to the borough’s intent; simply compliance with the provisions as they appear in the formal written documentation provided by the borough. As such, the issue remains as stated and compliance will be evaluated during our next audit of the pension plan.

Finding No. 2 – Failure To Implement Mandatory Act 44 Procedures For The Procurement Of Professional Services

Condition: During the prior audit, a verbal observation was issued to plan officials notifying them of the passage of Act 44 of 2009, which effectively amended Act 205 for the procurement of professional services contracts, and recommending that the borough adopt the mandatory provisions, accordingly. However, during the current engagement period, the municipality again failed to adopt such mandatory provisions.

Criteria: Section 701-A of Act 205, as amended by Act 44 of 2009, defines a “Professional Services Contract”, as follows:

“Professional services contract.” A contract to which the municipal pension system is a party that is:

- (1) for the purchase or provision of professional services, including investment services, legal services, real estate services and other consulting services; and
- (2) not subject to a requirement that the lowest bid be accepted.

MOUNT JOY BOROUGH NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

In addition, Section 702-A (a) of Act 205 states in part:

Each municipal pension system ... shall develop procedures to select the most qualified person to enter into a professional services contract. The procedures shall ensure that the availability of a professional services contract is advertised to potential participants in a timely and efficient manner. Procedures shall include applications and disclosure forms to be used to submit a proposal for review and to receive the award of a professional services contract.

Additionally, Section 702-A (c), (e), (f) and (h) state, in part:

Review. Procedures to select the most qualified person shall include a review of the person's qualifications, experience and expertise and the compensation to be charged.

Conflict of interest. The municipal pension system shall adopt policies relating to potential conflicts of interest in the review of a proposal or the negotiation of a contract.

Public information. Following the award of a professional services contract, all applications and disclosure forms shall be public except for proprietary information or other information protected by law.

Notice and summary. The relevant factors that resulted in the award of the professional services contract must be summarized in a written statement to be included in or attached to the documents awarding the contract. Within ten days of the award of the professional services contract, the original application, a summary of the basis for the award and all required disclosure forms must be transmitted to all unsuccessful applications and posted on the municipal pension system's Internet website, if an Internet website is maintained, at least seven days prior to the execution of the professional services contract.

Cause: Plan officials failed to establish adequate internal controls procedures to ensure compliance with provisions of Act 205 as previously recommended.

Effect: The borough's failure to comply in all respects with the previous recommendation and the provisions stipulated in Act 205 regarding the procurement of professional investment and advisory services for the borough's pension plan could result in a general lack of overall transparency of the actions taken by plan officials relative to the awarding of investment and advisory services contracts for the borough's pension plan.

MOUNT JOY BOROUGH NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Recommendation: We recommend that municipal officials obtain a comprehensive understanding of Act 205 provisions for the procurement of professional services and develop and implement formal written procedures to ensure compliance with these provisions while maintaining appropriate and sufficient supporting documentation evidencing every phase of the process in the awarding of future professional services contracts for the pension plan, including authorizations/approvals of borough officials in the official minutes of formal board meetings and the required notifications and disclosure responsibilities to ensure the transparency of the actions taken by plan officials relative to the awarding of such professional services contracts.

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

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

MOUNT JOY 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	\$ 1,651,595	\$ 1,700,757	\$ 49,162	97.1%
01-01-17	1,939,988	2,149,337	209,349	90.3%
01-01-19	2,067,032	2,380,933	313,901	86.8%

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 5-year averaging period, which will be limited to a maximum of 120 percent and a minimum of 80 percent of the market value of the plans assets. These methods will lower contributions in years of less than expected returns and increase the 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.

MOUNT JOY 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.

MOUNT JOY BOROUGH NON-UNIFORMED PENSION PLAN
 SUPPLEMENTARY INFORMATION
 (UNAUDITED)

SCHEDULE OF CONTRIBUTIONS

<u>Year Ended December 31</u>	<u>Actuarially Determined Contribution</u>	<u>Actual Contributions</u>	<u>Contribution Deficiency (Excess)</u>	<u>Covered- Employee Payroll*</u>	<u>Contributions as a Percentage of Covered- Employee Payroll*</u>
2011	\$ 83,928	\$ 83,928	\$ -	\$ 605,346	13.9%
2012	83,465	83,465	-	685,708	12.2%
2013	66,875	66,875	-	510,703	13.1%
2014	75,813	75,813	-	513,303	14.8%
2015	79,385	79,385	-	547,362	14.5%
2016	69,957	69,957	-	516,741	13.5%
2017	81,555	81,555	-	624,939	13.1%
2018	107,983	107,983	-	658,221	16.4%
2019	108,568	138,949	(30,381)	663,549	20.9%
2020	124,682	124,682	-		

* Due to the timing of this audit, covered-employee payroll for 2020 was not provided in this schedule.

MOUNT JOY 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	11 years
Asset valuation method	5-year smoothing – the actuarial value of assets will be limited to a maximum of 120% and a minimum of 80% the fair market value of assets.
Actuarial assumptions:	
Investment rate of return	7.75%
Projected salary increases	5.00%
Cost-of-living adjustments	None assumed

MOUNT JOY 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 Timothy D. Bradley
Mayor

Mr. William A. Hall
Council President

Ms. Jill Frey
Interim Borough Manager

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