

COMPLIANCE AUDIT

Shippensburg Borough Non-Uniformed Pension Plan Cumberland County, Pennsylvania For the Period January 1, 2017 to December 31, 2019

March 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
Shippensburg Borough
Cumberland County
Shippensburg, PA 17257

We have conducted a compliance audit of the Shippensburg Borough Non-Uniformed Pension Plan for the period January 1, 2017 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 finding and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our finding 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. State aid allocations that were deposited into the pension plan for the years ended December 31, 2014 to December 31, 2019, are presented on the Summary of Deposited State Aid and Employer Contributions.
- 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, 2014 to December 31, 2019, are presented on the Summary of Deposited State Aid and Employer Contributions.
- 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 made during the audit period for all 8 active employees covered under the defined contribution features of the pension plan employed during 2017, amounting to \$7,875, all 6 active employees employed during 2018, amounting to \$6,111, and all 11 active employees employed during 2019, amounting to \$7,762.
- We determined whether retirement benefits calculated for plan members who retired or 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 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 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.

Shippensburg Borough contracted with an independent certified public accounting firm for annual audits of 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 Shippensburg 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.

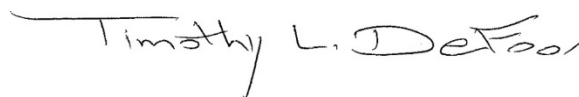
The results of our procedures indicated that, in all significant respects, the Shippensburg Borough Non-Uniformed Pension Plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies, except as noted in the following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

Finding – Partial Compliance with Prior Audit Recommendation – Failure
To Fund Members' Accounts

The finding contained in this audit report repeats a condition that was cited in our previous report that has not been corrected by borough officials. We are concerned by the borough's failure to correct this previously reported finding and strongly encourage timely implementation of the recommendation 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 Shippensburg 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

February 26, 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 Shippensburg 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 Shippensburg Borough Non-Uniformed Pension Plan is a single-employer pension plan that provides defined benefit features for employees hired on or before December 31, 2011, and defined contribution features for employees hired on or after January 1, 2012, locally controlled by the provisions of Ordinance 07-813, as amended. 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, 1973. Active members were required to contribute 2.5 percent of total earnings to the plan. The municipality is required to contribute \$3,000 per year for each member covered under the defined contribution features of the plan. As of December 31, 2019, the plan had 34 active members, 12 terminated members eligible for vested benefits in the future, and 22 retirees receiving pension benefits.

SHIPPENSBURG BOROUGH NON-UNIFORMED PENSION PLAN
STATUS OF PRIOR FINDING

Partial Compliance With Prior Recommendation

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

- Failure To Fund Members' Accounts

During the current audit period, the borough deposited outstanding contributions due amounting to \$12,000, plus interest, and allocated forfeitures amounting to \$3,000 to members' accounts for the years 2015 and 2016 in accordance with the plan document. However, a similar condition occurred during the current audit period as further discussed in the Finding and Recommendation section of this report.

SHIPPENSBURG BOROUGH NON-UNIFORMED PENSION PLAN
FINDING AND RECOMMENDATION

Finding – Partial Compliance with Prior Audit Recommendation – Failure To Fund Members’ Accounts

Condition: As disclosed in the Status of Prior Finding section of this report, the borough partially complied with the prior recommendation by depositing the outstanding contributions and allocating forfeitures to members’ accounts for the years 2015 and 2016 in accordance with the plan document. However, a similar condition occurred during the current audit period. Plan officials failed to properly fund the account of an employee who began employment with the borough on March 11, 2019, and worked the required number of hours (*1,222 during 2019 and 1,546 during 2020*), for participation in the plan and a contribution (\$3,000 per year) from the borough during the years 2019 and 2020 according to the plan document.

Criteria: Article 1.02 of the restated plan agreement, adopted through Ordinance No. 07-813, provides the following definitions:

Accrual 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.

Eligible Employee means any Employee of the Employer excluding police officer;

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.

Section 2.01(a) of Article II of the plan agreement, as amended through Ordinance No. 10-861, states:

An employee shall first become an active participant on the earliest monthly date on which he is an eligible employee. This date is his Entry Date.

Furthermore, Section 4.01 of Ordinance No. 13-894 states, in part:

For an Active Participant whose date of hire occurred on or after January 1, 2012, there shall be established by the Employer, a cash balance retirement account for each Participant...the Employer shall contribute to such cash balance retirement account on an annual basis, an amount equal to Three Thousand Dollars (\$3,000).

SHIPPENSBURG BOROUGH NON-UNIFORMED PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

Cause: Borough officials believed that funding for the plan only pertained to full-time employees and were unaware of their obligation to make a contribution for the newly hired employee under the plan agreement.

Effect: The failure to properly fund the plan resulted in an employee being denied benefits to which entitled in accordance with the plan’s governing document.

Due to the borough’s failure to properly fund a cash balance account for the employee, the borough must now pay interest on the delinquent contributions.

Recommendation: We recommend that the borough enroll the individual into the non-uniformed pension plan and deposit the outstanding contributions due for the years 2019 and 2020, \$6,000, with interest calculated from the date of deposit of the original 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, in the future, plan officials implement adequate internal control procedures to properly identify and ensure that all eligible employees meeting the criteria for plan participation are afforded the opportunity to participate in such pension plan in accordance with the governing document.

Management’s Response: The Borough Council has been made aware of these matters and appreciates the Department bringing them to our attention. While we disagree with the conclusions reached by the field auditor during the examination, we will immediately schedule a meeting with the Pension Committee, our outside consultants and our solicitor to further review facts and circumstances surrounding the concerns that have been raised.

As a result of that meeting and any necessary follow-up work, we will take the appropriate actions needed to carry out the recommendations of the Committee to appropriately address these concerns. Those actions will be communicated to the Department in writing in a timely manner.

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

SHIPPENSBURG 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	\$ 4,121,635	\$ 4,669,165	\$ 547,530	88.3%
01-01-17	4,438,431	4,924,708	486,277	90.1%
01-01-19	4,524,788	5,498,581	973,793	82.3%

SHIPPENSBURG 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.

SHIPPENSBURG 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	\$ 197,504	100.0%
2015	198,013	100.0%
2016	193,893	100.0%
2017	119,631	100.0%
2018	118,512	100.0%
2019	130,264	100.0%

SHIPPENSBURG 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	8 years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return	6.0%
Projected salary increases	4.5%
Cost-of-living adjustments	None assumed

SHIPPENSBURG BOROUGH NON-UNIFORMED PENSION PLAN
SUMMARY OF DEPOSITED STATE AID AND EMPLOYER CONTRIBUTIONS
DEFINED CONTRIBUTION FEATURES

Year Ended December 31	State Aid	Employer Contributions
2014	None	None
2015	None	\$ 6,000
2016	None	12,000
2017	\$ 18,000	None
2018	17,335	\$ 665
2019	7,989	15,354

Note: In 2019, the borough partially met the plan's \$33,000 funding requirement through the deposit of \$7,989 in state aid and \$15,354 in employer contributions and the allocation of \$6,657 in terminated employee forfeitures. However, as noted in the finding and recommendation of this report, the borough underfunded the plan by \$3,000 due an employee according to the plan document.

SHIPPENSBURG 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 Kathy Coy
Mayor

Mr. Bruce Hockersmith
Council President

Mr. Mitchell Burrows
Council Vice President

Mr. Keith Swartz
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Mr. Kevin L Platerer
Borough Manager

Ms. Nicole Bard
Assistant Manager

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