

COMPLIANCE AUDIT

Williamsburg Borough Non-Uniformed Pension Plan Blair County, Pennsylvania For the Period January 1, 2018 to December 31, 2022

May 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
Williamsburg Borough
Blair County
Williamsburg, PA 16693

We have conducted a compliance audit of the Williamsburg Borough Non-Uniformed Pension Plan for the period January 1, 2018 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 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.
- 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 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.

The Williamsburg 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 Williamsburg 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.

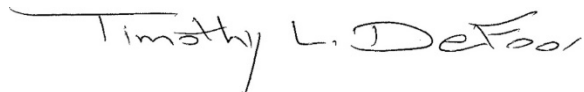
The results of our procedures indicated that, in all significant respects, the Williamsburg Borough Non-Uniformed Pension Plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies, except as noted in the following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

Finding No. 1 – Partial Compliance With Prior Recommendation – Receipt of State Aid In Excess Of Entitlement

Finding No. 2 – Inadequate Accounting/Reporting Over Activity Of The Pension Plan

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 Williamsburg 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
May 3, 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 Williamsburg 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 Williamsburg Borough Non-Uniformed Pension Plan is a single-employer cash balance pension plan locally controlled by the provisions of Ordinance No. 398, as amended, effective January 1, 2020, and a separately executed adoption agreement with the plan custodian, adopted pursuant to Act 15. Prior to January 1, 2020, the plan was locally controlled by the provisions of Ordinance No. 377 and an agreement also adopted pursuant to Act 15. The plan was established January 1, 1990. Active members are not required to contribute but may optionally contribute up to 20 percent of compensation to the plan. The municipality was required to contribute 15 percent of compensation per active member for the years 2018, 2019, 2020 and 2021. Effective January 1, 2022, the municipality was required to contribute 20 percent of compensation to the plan. As of December 31, 2022, the plan had four active members and one terminated member eligible for vested benefits in the future.

WILLIAMSBURG BOROUGH NON-UNIFORMED PENSION PLAN
STATUS OF PRIOR FINDINGS

Compliance With Prior Recommendations

Williamsburg Borough has complied with the prior recommendation concerning the following:

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

During the current audit period, municipal officials established complied with the instructions that accompany Certification Form AG 385 and accurately reported the required pension data; and

- Failure To Implement Mandatory Provisions of Act 205

The borough adopted procedures for the procurement of professional services through Resolution No. 2019-2 enacted on March 4, 2019, to comply with Act 205.

Partial Compliance With Prior Recommendation

Williamsburg 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 \$21,014 to the Commonwealth for excess state aid received in 2014, 2015, and 2017, which included appropriate interest. In addition, the borough received state aid in excess of costs during 2018, 2019 and 2020 but refunded the excess state aid to the Commonwealth accordingly. However, municipal officials again failed to correctly reconcile state aid allocated to the non-uniformed pension plan with the plan's annual defined contribution pension costs as further discussed in the Findings and Recommendations section of this report.

WILLIAMSBURG BOROUGH NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Partial Compliance With Prior Recommendation – Receipt 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 state aid received during 2014, 2015 and 2017, implementing procedures to reconcile the state aid allocated to the non-uniformed pension plan with the plan’s annual pension costs during 2018, 2019 and 2020, and returning the excess state aid received during those years, accordingly. However, the borough again received state aid in excess of the non-uniformed pension plan’s defined contribution pension costs in the years 2021 and 2022, as illustrated below:

	<u>2021</u>	<u>2022</u>
State aid allocation	\$ 38,378	\$ 41,444
Actual municipal pension costs	<u>(27,006)</u>	<u>(37,696)</u>
Excess state aid	<u>\$ 11,372</u>	<u>\$ 3,748</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.

Cause: Plan officials indicated that they do not have access to the excess state funds that were deposited with the plan custodian. Municipal officials have notified the plan custodian multiple times to request the funds but due to the custodian’s substantial software and accounting system upgrades, they were not able to process the funds to be reimbursed to the Commonwealth at this time.

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. Consequently, the overpayment of state aid in the years 2021 and 2022 must be returned to the Commonwealth for redistribution.

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

WILLIAMSBURG BOROUGH NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Recommendation: We recommend that the municipality return the \$15,120 of excess state aid received during the years 2021 and 2022 to the Commonwealth from the non-uniformed pension plan. A check in this amount, with interest compounded annually from date of receipt to date of repayment, at a rate earned by the plan, should be made payable to: Commonwealth of Pennsylvania and mailed to: Department of the Auditor General, Municipal Pension & Liquor Control Audits, 314 Finance Building, Harrisburg, PA 17120. A copy of the interest calculation must be submitted along with evidence of payment.

In addition, we recommend that, in the future, plan officials continue to annually reconcile the amount of state aid allocated to the non-uniformed pension plan with the pension plan's defined contribution pension costs and timely request reimbursement to the Commonwealth for any state aid deposited in excess of plan costs from the plan custodian, accordingly.

Management's Response: The borough provided the following response:

Williamsburg Borough understands that excess state funds must be returned to the Auditor General's office. Back in January 2022, we emailed PMRS requesting that excess state aid funds be returned to us in the amount of \$11,371.91 plus any interest accrued. PMRS did not return those funds. E-mails were sent and phone calls were done requesting those funds throughout 2022. PMRS stated in September 2022 by email that the request would take some time since they were just processing 2020/2021 financials. But, to date, we still have not received those funds.

In February 2023, we requested by email that state aid pension funds in the amount of \$3,747.98 plus any interest be returned to us so we can forward to your office. So far, we have not received those funds.

We wanted to note that we did request and try to receive those state aid excess funds for 2021 and 2022, but they have not been returned to us. We will continue to contact PMRS until the funds are returned so we can forward onto the AG's office.

Auditor's Conclusion: The department acknowledges the township's position and as noted in *Finding No. 2*, is aware that the plan custodian went through a substantial upgrade to the plan administration software and implemented a new accounting system resulting in unforeseen delays processing transactions by them. 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.

WILLIAMSBURG BOROUGH NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Inadequate Accounting/Reporting Over Activity Of The Pension Plan

Condition: The municipality’s accounting/reporting system did not provide effective control over the transactional activity of the pension plan during the year 2022. Municipal officials were unable to furnish annual financial statements or custodial account statements summarizing the financial activity of its pension plan.

Criteria: An adequate system of accounting and record keeping is a prerequisite for sound administration of pension plans. In addition, assets held in a custodial account for the purpose of plan management are to be governed by the terms and provisions of the account contract, provided that the terms and provisions of the contract are within the parameters of all prevailing pension legislation. Although the municipality may contract with a trustee to administer the financial management of the plan, the fiduciary responsibility for the plan remains with the municipality.

Cause: Municipal officials did not maintain a separate detailed accounting of pension plan transactions which, among other things, helps assure the production of proper financial statements to effectively monitor the annual activity of the pension plan. Additionally, municipal officials indicated that the plan’s custodian failed to provide copies of the custodial account transaction statements summarizing activity of the pension plan account for the year 2022.

Effect: Although we were able to obtain alternate documentation from the municipality to evidence the propriety of individual transactions tested during performance of the audit, the failure to maintain annual financial and/or account transaction statements prohibits municipal officials from effectively monitoring the plan’s financial operations and could lead to undetected errors or improprieties in account transactions.

Recommendation: We recommend that municipal officials establish and maintain a financial accounting and reporting system that allows the municipality to effectively monitor the plan’s financial operations, even in the absence of statements from the plan custodian. Municipal officials should refer to the Auditor General’s Bulletin No. 2-88 entitled “Preparation, Maintenance and Auditability of Financial Records,” for further guidance in establishing adequate accounting and record-keeping procedures. In addition, we recommend that municipal officials contact the plan custodian and obtain annual financial statements of the custodial account for its pension plan for the year 2022 to ensure the accuracy and propriety of the transaction activity.

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

Auditor’s Conclusion: It was noted that the plan custodian went through a substantial upgrade to the plan administration software and implemented a new accounting system. The modernization process, along with the COVID-19 pandemic, resulted in unforeseen delays in the year-end reporting process for financial statements and GASB 68 reports. The custodian expects 2022 financial reports to be distributed before the end of 2023. Compliance with the finding recommendation will be evaluated during our next audit of the plan.

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

Finding No. 1 contained in this audit report cites an overpayment of state aid to the borough in the amount of \$15,120, plus interest. A condition of this nature may lead to a total withholding of state aid in the future unless that finding is corrected. A check in this amount with interest, 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 & Liquor Control Audits, 314 Finance Building, Harrisburg, PA 17120.

WILLIAMSBURG 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***
2015	\$ 15,072	\$ 29,169	\$ (14,097)	\$ 99,948	29.18%
2016	18,541	23,556	(5,015)	123,210	19.12%
2017	20,789	21,487	(698)	137,924	15.58%
2018	22,362	7,425	14,937	148,546	5.00%
2019	24,158	26,755	(2,597)	160,384	16.68%
2020	25,322	39,491	(14,169)	168,141	23.49%
2021	27,007	38,378	(11,371)	179,376	21.40%
2022	37,696	41,444	(3,748)		

* 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 provided by PMRS.

** The SRC and the actual Contributions in Relation to the SRC were provided by PMRS. Deviation between these amounts may be due to contributions to or transfers from the municipal reserve account and/or deposits of excess state funds that were returned or disclosed as needing to be returned as noted in the findings and recommendations section of the report.

*** Due to the timing of this audit, covered-employee payroll for 2022 was not provided in this schedule.

WILLIAMSBURG 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 Theodore Hyle
Mayor

Mr. Donald Zimmerman
Council President

Mr. Joseph Lansberry
Borough Manager

Ms. Lisa Dishong
Office Manager

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

This report is a matter of public record and is available online at 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.