

COMPLIANCE AUDIT

Youngsville Borough Police Pension Plan Warren County, Pennsylvania For the Period January 1, 2019 to December 31, 2022

May 2024



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
Youngsville Borough
Warren County
Youngsville, PA 16371

We have conducted a compliance audit of the Youngsville Borough Police 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 conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our 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 for the years covered by our audit period due to the fact that employee contributions were appropriately waived by the municipality.
- We determined that there were no benefit calculations prepared for the years covered by our audit period.
- We determined whether the January 1, 2019, January 1, 2021, and January 1, 2023 actuarial valuation reports were prepared and submitted by March 31, 2020, 2022, and 2024 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.

Borough officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Youngsville Borough Police 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 Youngsville Borough Police Pension Plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies.

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 Youngsville 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
March 14, 2024

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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 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 Youngsville Borough Police 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 37 - The Borough Code, Act of April 18, 2014 (P.L. 432, No. 37), Chapter 11, Subchapter F Police Pension Fund in Boroughs Having a Police Force of Less Than Three Members, as amended, 8 Pa. C.S. § 1131 et seq.

Act 177 - General Local Government Code, Act of December 19, 1996 (P.L. 1158, No. 177), as amended, 53 Pa.C.S. § 101 et seq.

The Youngsville Borough Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 600, and a separately executed joinder agreement with the plan custodian, effective January 1, 2020. Prior to January 1, 2020, the pension plan was governed by the provisions of Ordinance No. 551, and an agreement with the custodian. The plan is also affected by the provisions of collective bargaining agreements between the borough and its police officers. The plan was established July 6, 1970. Active members are required to contribute five percent of compensation to the plan; however, member contributions are currently waived. As of December 31, 2022, the plan had two active members, no terminated members eligible for vested benefits in the future, and two retirees receiving pension benefits from the plan.

YOUNGSVILLE BOROUGH POLICE PENSION PLAN
STATUS OF PRIOR FINDING

Status Of Prior Recommendation

· Provision Of Benefits In Excess Of Act 37

As disclosed in the five prior audit reports, the borough adopted a home rule charter pursuant to the Home Rule Charter and Optional Plans Law, 53 Pa.C.S. § 101 *et seq.* The plan's governing plan document, a separately executed joinder agreement adopted by Ordinance No. 551, granted a survivor benefit that was not authorized by Act 37 (*formerly Act 581*).

Section 4.01 of the joinder agreement provided that the normal form of retirement benefit shall be a life annuity with 120 months certain, with optional forms additionally provided. Some of the optional forms provide for contingent annuitant benefits ranging from 50 percent to 100 percent of the member's retirement benefit.

It was recommended that the borough comply with Act 37 upon the renewal, extension, or renegotiation of the collective bargaining agreement.

Effective January 1, 2020, the borough amended the plan with Ordinance No. 600 which adopted an updated joinder agreement with the plan custodian to adhere to Act 37.

Section 4.01 of the updated joinder agreement provides that the normal form of retirement benefit shall be: For employees hired on or after January 1, 2020, a single life annuity. (*Other optional forms of contingent benefits are not available.*)

On February 1, 2021, the plan commenced payment of a monthly benefit to the survivor of a retired police officer, who was employed on April 22, 1985, retired December 31, 2005, and subsequently died on January 23, 2021. Since the borough's Home Rule Charter and the officer's date of hire predated January 24, 2001¹, the survivor was entitled to the pension benefit under the plan document, accordingly.

We determined that the inclusion of an unauthorized survivor benefit provision for employees hired on or after January 24, 2001 (the date *Monroeville* was issued) and prior to January 1, 2020 (*the date enacted in the updated plan agreement*) did not have an impact on the borough's state aid allocations for the years 2019, 2020, 2021, 2022 and subsequently in 2023, since the borough received state aid based on unit value. However, such continued inclusion

¹ On January 24, 2001, the Commonwealth Court of Pennsylvania issued its opinion in *Municipality of Monroeville v. Monroeville Police Department Wage Policy Committee*. Therein, the court held that Section 2962(c)(5) of the Home Rule Charter and Optional Plans Law, 53 Pa. C.S. § 2962(c)(5), "clearly precludes home rule municipalities from providing pension benefits different from those prescribed in general law including Act 600."

YOUNGSVILLE BOROUGH POLICE PENSION PLAN
STATUS OF PRIOR FINDING

Status Of Prior Recommendation – (Continued)

increases required municipal pension costs and could result in the receipt of state aid attributable to the excess benefits provided. The Department will continue to monitor the impact of such benefits during the next audit of the plan. If it is determined the unauthorized benefits had an impact on subsequent state aid allocations, the plan's actuary would be required to contact the department to verify the overpayment of state aid received and the borough would be required to reimburse any overpayment to the Commonwealth.

YOUNGSVILLE BOROUGH POLICE 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, 2019, 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)
01-01-19	\$ 460,517	\$ 593,433	\$ 132,916	77.6%
01-01-21	525,791	699,106	173,315	75.2%
01-01-23	601,989	791,094	189,105	76.1%

YOUNGSVILLE BOROUGH POLICE 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.

YOUNGSVILLE BOROUGH POLICE 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>
2014	\$ 37,131	\$ 37,131	\$ -	\$ 78,930	47.04%
2015	32,828	32,828	-	93,382	35.15%
2016	41,714	41,714	-	96,000	43.45%
2017	41,032	41,032	-	91,686	44.75%
2018	43,262	43,262	-	98,450	43.94%
2019	43,781	43,781	-	101,706	43.05%
2020	47,425	47,425	-	104,486	45.39%
2021	48,064	48,064	-	108,500	44.30%
2022	53,526	53,526	-	120,000	44.61%

YOUNGSVILLE BOROUGH POLICE 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, 2023
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	11 years
Asset valuation method	The assets of the Plan are valued on an Adjusted Market basis. The corridor is 80% and 120% of Market Value.
Actuarial assumptions:	
Investment rate of return	7.0%
Projected salary increases	4.5%

YOUNGSVILLE BOROUGH POLICE PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Joshua D. Shapiro
Governor
Commonwealth of Pennsylvania

The Honorable Scott Nelson
Mayor

Ms. Wendy Wilcox
Borough Manager

Ms. Alexandra Benedict
Secretary

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.