

# COMPLIANCE AUDIT

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## Mechanicsburg Non-Uniformed Defined Contribution Pension Plan Cumberland County, Pennsylvania For the Period January 1, 2019 to December 31, 2023

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December 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  
Mechanicsburg Borough  
Cumberland County  
Mechanicsburg, PA 17055

We have conducted a compliance audit of the Mechanicsburg Non-Uniformed Defined Contribution Pension Plan for the period January 1, 2019 to December 31, 2023. 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 objective. We believe that the evidence obtained provides a reasonable basis for our finding and conclusions based on our audit objective.

The objective of the audit was 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 objective identified above. 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.

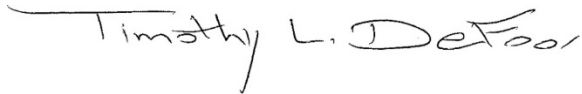
- We determined whether annual employer contributions were calculated and deposited in accordance with the plan's governing document and applicable laws and regulations by examining the municipality's calculation of the plan's annual financial requirements and minimum municipal obligation (MMO) and comparing these calculated amounts to amounts actually budgeted and deposited into the pension plan as evidenced by supporting documentation. Employer contributions that were deposited into the pension plan for the years ended December 31, 2019 to December 31, 2023, 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 the 2 active employees employed during the year 2019, amounting to \$187, all 4 active employees employed during the year 2020, amounting to \$2,776, all 9 active employees employed during the year 2021, amounting to \$5,988, all 10 active employees employed during the year 2022, amounting to \$8,512, and all 12 active employees employed during the year 2023, amounting to \$10,618.
- We determined whether retirement benefits calculated for plan members who elected to vest, 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 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, 2021 and January 1, 2023 actuarial valuation reports were prepared and submitted by March 31, 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 Mechanicsburg Non-Uniformed Defined Contribution 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 objective.

The results of our procedures indicated that, in all significant respects, the Mechanicsburg Non-Uniformed Defined Contribution 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 – Incorrect Data On Certification Form AG 385 Resulting In An Underpayment Of State Aid

The contents of this report were discussed with officials of Mechanicsburg 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 horizontal line above the first name.

Timothy L. DeFoor  
Auditor General  
October 23, 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 Mechanicsburg Non-Uniformed Defined Contribution 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 Mechanicsburg Non-Uniformed Defined Contribution Pension Plan is a single-employer defined contribution pension plan locally controlled by the provisions of Ordinance No. 1163 and a separately executed joinder agreement with Pennsylvania State Association of Boroughs Municipal Retirement Trust (PSABMRT), effective January 1, 2019. 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, 2019 for non-uniformed employees hired on or after January 1, 2019. Active members are not required to contribute to the plan but may make voluntary contributions. According to the joinder agreement, the municipality is required to contribute 1 percent of employee compensation and a match of voluntary employee contributions as follows: 0 percent of the employee contribution on the first 1 percent of compensation, 100% of the employee contribution on the next 2 percent of compensation, and 50 percent of the employee contribution on the next 2 percent of compensation. As of December 31, 2023, the plan had 11 active members and 3 terminated members eligible for vested benefits in the future.

MECHANICSBURG BOROUGH  
NON-UNIFORMED DEFINED CONTRIBUTION PENSION PLAN  
FINDING AND RECOMMENDATION

**Finding – Incorrect Data On Certification Form AG 385 Resulting In An Underpayment Of State Aid**

Condition: The borough failed to certify an eligible non-uniformed employee (1 unit) and understated payroll by \$26,077 on the Certification Form AG 385 filed in 2022 and failed to certify the same eligible non-uniformed employee (1 unit) and understated payroll by \$34,105 on the Certification Form AG 385 filed in 2023. The borough also failed to certify an eligible police officer (2 units) and understated payroll by \$33,576 on the Certification Form AG 385 filed in 2023. The data contained on these certification forms is based on prior calendar year information.

Criteria: Pursuant to Act 205, at Section 402(e)(2), an employee who has been employed on a full-time basis for at least six consecutive months and has been participating in a pension plan during the certification year is eligible for certification. The applicable number of units attributable to each eligible recipient city, borough, incorporated town, and township shall be two units for each police officer and firefighter and one unit for each employee other than police officer or firefighter.

Cause: Plan officials failed to establish adequate internal control procedures to ensure the accuracy of the data certified which resulted in the borough omitting the eligible non-uniformed employee and police officer.

Effect: The data submitted on these certification forms is used, in part, to calculate the state aid due to the municipality for distribution to its pension plans. Because the borough’s state aid allocations were based on unit value, the borough received an underpayment of state aid as identified below:

<u>Year</u>	<u>Type of Plan</u>	<u>Units Understated</u>	<u>Unit Value</u>	<u>State Aid Underpayment</u>
2022	Non-Uniformed	1	\$ 5,180	<u>\$ 5,180</u>
2023	Police	2	\$ 5,828	\$ 11,656
	Non-Uniformed	1	5,828	<u>5,828</u>
			Total	<u>\$ 17,484</u>
			Total Underpayment Of State Aid	<u>\$ 22,664</u>

MECHANICSBURG BOROUGH  
NON-UNIFORMED DEFINED CONTRIBUTION PENSION PLAN  
FINDING AND RECOMMENDATION

**Finding – (Continued)**

Although the additional state aid will be allocated to the borough, the full amount of the 2022 and 2023 state aid allocations was not available to be deposited timely and therefore was not available to pay operating expenses or for investment.

Recommendation: We recommend that in the future, plan officials establish adequate internal control procedures, such as having at least two people review the data certified, to ensure compliance with the instructions that accompany Certification Form AG 385 to assist them in accurately reporting the required pension data.

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

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



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

Year Ended December 31	State Aid	Employer Contributions
2019	None	\$ 293
2020	None	2,565
2021	None	5,816
2022	None	8,642
2023	None	14,634

Note: In 2020, the borough met the plan’s \$2,764 funding requirement through the deposit of \$2,565 in employer contributions and the allocation of \$199 in terminated employee forfeitures.

In 2021, the borough met the plan’s \$5,987 funding requirement through the deposit of \$5,816 in employer contributions and the allocation of \$1,811 in terminated employee forfeitures. There was an excess of municipal contributions in the amount of \$1,640.

In 2022, the borough met the plan’s \$7,291 funding requirement through the deposit of \$7,001 in employer contributions and the allocation of \$3,094 in terminated employee forfeitures. There was an excess of municipal contributions in the amount of \$2,804.

In 2023, the borough met the plan’s \$14,634 funding requirement through the deposit of \$10,327 in employer contributions, the utilization of \$3,674 of previous years’ excess municipal contributions, and the allocation of \$633 in terminated employee forfeitures.

MECHANICSBURG BOROUGH  
NON-UNIFORMED DEFINED CONTRIBUTION PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

**The Honorable Joshua D. Shapiro**  
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Commonwealth of Pennsylvania

**The Honorable Jack C. Ritter**  
Mayor

**Mr. Kyle L. Miller**  
Council President

**Mr. John Anthony**  
Council Vice President

**Mr. Layne Thompson**  
Borough Manager

**Ms. Danielle James**  
Treasurer

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