

# COMPLIANCE AUDIT

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## Port Allegany Borough Non-Uniformed Pension Plan McKean County, Pennsylvania

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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  
Port Allegany Borough  
McKean County  
Port Allegany, PA 16743

We have conducted a compliance audit of the Port Allegany Borough Non-Uniformed Pension Plan 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 findings 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 findings 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:

- For the period January 1, 2022 to December 31, 2023, 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 the period January 1, 2022 to December 31, 2023, 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. In addition, employer contributions that were deposited into the pension plan for employees hired on or after January 1, 2012, for the years ended December 31, 2018 to December 31, 2023, are presented on the Summary of Deposited State Aid and Employer Contributions.
- For the period January 1, 2022 to December 31, 2023, we determined that there were no employee contributions required by the plan's governing document and applicable laws and regulations.
- For the period January 1, 2022 to December 31, 2023, and through the completion of our fieldwork procedures, we determined that there were no benefit calculations prepared.
- We determined whether the January 1, 2023 actuarial valuation report was prepared and submitted by March 31, 2024 in accordance with Act 205 and whether selected information provided on this report 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.
- We determined whether the pension plan is in compliance with Act 205 for distressed municipalities through inquiry of plan officials and evaluation of the recovery remedies implemented during the period January 1, 2023 to December 31, 2023, and through the completion of our fieldwork procedures.

Borough officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Port Allegany 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 Port Allegany Borough Non-Uniformed Pension Plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies for the periods noted above, except as noted in the following finding further discussed later in this report:

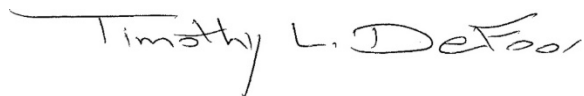
Finding – Failure To Implement Act 44 Mandatory Distressed Provisions

As previously noted, one of the objectives of our audit of the Port Allegany Non-Uniformed Pension Plan was to determine compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies. Act 205 was amended on September 18, 2009, through the adoption of Act 44 of 2009. Among several provisions relating to municipal pension plans, the act provides for the implementation of a distress recovery program. Three levels of distress have been established:

<u>Level</u>	<u>Indication</u>	<u>Funding Criteria</u>
I	Minimal distress	70-89%
II	Moderate distress	50-69%
III	Severe distress	Less than 50%

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. However, we are extremely concerned about the historical trend information contained in the schedule of funding progress included in this report which indicates a continued decline of assets available to satisfy the long-term liabilities of the plan. **The plan’s funded ratio went from 74.6% as of January 1, 2021, to a ratio of 66.3% as of January 1, 2023**, which is the most recent data available. **Based on the plan’s funded ratio as of January 1, 2023, in aggregation with the funded ratio of the municipality’s police pension plan, the Municipal Pension Reporting Program issued a notification in 2024 that the borough is currently in Level II moderate distress status.** We encourage borough officials to monitor the funding of the non-uniformed pension plan to ensure its long-term financial stability.

The contents of this report were discussed with officials of Port Allegany 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  
December 11, 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 Port Allegany 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 Port Allegany Borough Non-Uniformed Pension Plan is a single-employer defined benefit pension plan for borough non-uniformed employees hired prior to January 1, 2012, establishes a cash balance retirement account for those non-uniformed employees hired on or after January 1, 2012, and is locally controlled by the provisions of Ordinance No. 453, 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 May 5, 1975. Active members are not required to contribute to the plan. For active participants hired after January 1, 2012 and subject to the cash balance retirement account, the borough is required to contribute five percent of compensation. As of December 31, 2023, for borough non-uniformed employees hired prior to January 1, 2012, the pension plan had four active participants, one terminated member eligible for vested benefits in the future and seven retirees receiving pension benefits from the plan. For those non-uniformed employees hired on or after January 1, 2012 participating in the cash balance retirement account, there were six active members and no members eligible for vested benefits in the future or currently receiving pension benefits as of December 31, 2023.

PORT ALLEGANY BOROUGH NON-UNIFORMED PENSION PLAN  
STATUS OF PRIOR FINDINGS

Compliance With Prior Recommendations

Port Allegany Borough has complied with the prior recommendations concerning the following:

· Incorrect Data Supplied To Actuary For Actuarial Valuation Report Preparation

Beginning with the January 1, 2019 actuarial valuation report, municipal officials began filing separate reports for the defined benefit and cash balance retirement accounts; and

· Withdrawal Of Plan Assets Prior To Retirement

During the current period subject to audit, there were no withdrawals of assets prior to retirement.

PORT ALLEGANY BOROUGH NON-UNIFORMED PENSION PLAN  
FINDING AND RECOMMENDATION

**Finding – Failure To Implement Act 44 Mandatory Distressed Provisions**

**Condition:** During the prior audit, a verbal observation was issued to plan officials recommending that the municipality implement the remaining mandatory distress remedy applicable to Level II pursuant to Act 44 of 2009. However, the municipality has failed to implement the mandatory remedy.

Act 205 was amended on September 18, 2009, through the adoption of Act 44 of 2009. Among several provisions relating to municipal pension plans, the act provides for the implementation of a distress recovery program. Three levels of distress have been established:

<u>Level</u>	<u>Indication</u>	<u>Funding Criteria</u>
I	Minimal distress	70-89%
II	Moderate distress	50-69%
III	Severe distress	Less than 50%

Based on the plan’s funded ratio of 60.3% as of January 1, 2019, in aggregation with the funded ratio of the municipality’s police pension plan, the Municipal Pension Reporting Program (MPRP) issued a notification in 2020 that the borough was in Level II moderate distress status. Based on the plan’s funded ratio of 74.6% as of January 1, 2021, in aggregation with the funded ratio of the municipality’s police pension plan, the MPRP issued a notification in 2022 that the borough was in Level II moderate distress status. Based on the plan’s funded ratio of 66.3% as of January 1, 2023, in aggregation with the funded ratio of the municipality’s police pension plan, the MPRP issued a notification in 2024 that the borough is currently in Level II moderate distress status.

Included with the determination notices, the MPRP sent the municipality the Act 205 Recovery Program Election Form outlining the mandatory remedies that must be implemented and the voluntary remedies that the municipality could elect to implement. This form was required to be signed by the plan’s Chief Administrative Officer and returned to the MPRP.

The municipality did submit a plan for administrative improvement in 2019 in response to the notification issued in 2018 of the borough’s Level II moderate distress status based on the plans’ funded ratios as of January 1, 2017, but failed to aggregate its pension plans.



PORT ALLEGANY BOROUGH NON-UNIFORMED PENSION PLAN  
FINDING AND RECOMMENDATION

**Finding – (Continued)**

Criteria: Act 205, amended by Act 44, at Section 605(a), states:

Recovery program level II.

- (a) Mandatory remedies. Any municipality to which level II of the recovery program applies shall utilize the following remedies:
- (1) The aggregation of trust funds pursuant to section 607(b).
  - (2) The submission of a plan for administrative improvement pursuant to section 607(i).

Cause: Municipal officials failed to implement the mandatory distress remedy after it was disclosed as a verbal observation during the prior audit. Currently, the borough is under new management that was unaware of the requirement.

Effect: The municipality is not in compliance with the Act 44 mandatory distress remedy provisions applicable to Level II which are designed to improve the funding status and administrative efficiency of its pension plans.

Recommendation: We recommend that municipal officials contact the Municipal Pension Reporting Program for guidance in the implementation of the mandatory distress remedies applicable to Level II pursuant to Act 44 of 2009.

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.

PORT ALLEGANY BOROUGH NON-UNIFORMED PENSION PLAN  
 SUPPLEMENTARY INFORMATION  
 (UNAUDITED)

DEFINED BENEFIT PLAN

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	\$ 1,022,870	\$ 1,696,400	\$ 673,530	60.3%
01-01-21	1,402,597	1,879,087	476,490	74.6%
01-01-23	1,229,442	1,854,505	625,063	66.3%

PORT ALLEGANY 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.

PORT ALLEGANY BOROUGH NON-UNIFORMED PENSION PLAN  
 SUPPLEMENTARY INFORMATION  
 (UNAUDITED)

DEFINED BENEFIT PLAN

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	\$ 77,616	\$ 85,378	\$ (7,762)	\$ 439,936	19.41%
2015	72,539	72,539	-	409,596	17.71%
2016	64,594	64,594	-	232,515	27.78%
2017	77,306	77,306	-	237,398	32.56%
2018	77,835	77,835	-	244,904	31.78%
2019	114,686	114,871	(185)	249,435	46.05%
2020	116,032	116,032	-	262,072	44.27%
2021	110,604	110,604	-	269,448	41.05%
2022	110,069	110,069	-	262,294	41.96%
2023	80,216	80,216	-	259,522	30.91%

PORT ALLEGANY BOROUGH NON-UNIFORMED PENSION PLAN  
SUPPLEMENTARY INFORMATION  
NOTES TO SUPPLEMENTARY SCHEDULES  
(UNAUDITED)

DEFINED BENEFIT PLAN

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	Fair value
Actuarial assumptions:	
Investment rate of return	7.0%
Projected salary increases	4.0%

PORT ALLEGANY BOROUGH NON-UNIFORMED PENSION PLAN  
SUMMARY OF DEPOSITED STATE AID AND EMPLOYER CONTRIBUTIONS  
(UNAUDITED)

CASH BALANCE ACCOUNT

Year Ended December 31	State Aid	Employer Contributions
2018	None	\$ 13,845
2019	None	10,987
2020	None	13,208
2021	None	15,051
2022	None	14,827
2023	None	15,708

PORT ALLEGANY BOROUGH NON-UNIFORMED PENSION PLAN  
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This report was initially distributed to the following:

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**Mr. Jeremy S. Morey**  
Borough Manager

**Ms. Heather Szuba**  
Secretary

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