

COMPLIANCE AUDIT

Port Allegany Borough Police Pension Plan McKean County, Pennsylvania

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 Police 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 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 whether 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 area 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:

- For the period January 1, 2023 to December 31, 2023, we determined whether state aid was properly determined and deposited in accordance with Act 205 requirements by verifying the deposit date of state aid and determining whether deposits were made within 30 days of receipt.

- For the period January 1, 2023 to December 31, 2023, we determined whether 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 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.
- For the period January 1, 2023 to December 31, 2023, we determined that there were no employee contributions made due to the fact that employee contributions were waived by the municipality.
- For the period January 1, 2023 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 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 objective.

The results of our procedures indicated that, in all significant respects, the Port Allegany Borough Police 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:

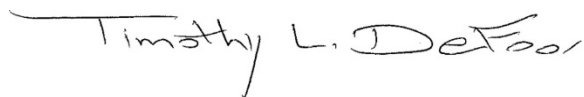
Finding - Failure To Implement Act 44 Mandatory Distressed Provisions

As previously noted, the objective of our audit of the Port Allegany Police 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 50.6% as of January 1, 2019, to a ratio of 49.6% 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 non-uniformed 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 police 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 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 600 - Police Pension Fund Act, Act of May 29, 1956 (P.L. 1804, No. 600), as amended, 53 P.S. § 767 et seq.

The Port Allegany Borough Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Resolution 89-25, as amended, and a separately executed plan agreement with the plan's custodian effective January 1, 1986, adopted pursuant to Act 600. The plan is also affected by the provisions of collective bargaining agreements between the borough and its police officers. The plan was established December 4, 1975. Active members are required to contribute five percent of compensation to the plan; however, member contributions were eliminated for the years 2019 to 2023. As of December 31, 2023, the plan had three active members, no terminated members eligible for vested benefits in the future, and three retirees receiving pension benefits from the plan.

PORT ALLEGANY BOROUGH POLICE 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 50.6% as of January 1, 2019, in aggregation with the funded ratio of the municipality’s non-uniformed 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 58.6% as of January 1, 2021, in aggregation with the funded ratio of the municipality’s non-uniformed 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 49.6% as of January 1, 2023, in aggregation with the funded ratio of the municipality’s non-uniformed 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 POLICE 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 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	\$ 616,620	\$ 1,219,213	\$ 602,593	50.6%
01-01-21	857,122	1,461,888	604,766	58.6%
01-01-23	803,925	1,620,106	816,181	49.6%

PORT ALLEGANY 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.

PORT ALLEGANY 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	\$ 28,811	\$ 28,811	\$ -	\$ 153,853	18.73%
2015	41,117	41,117	-	158,447	25.95%
2016	43,155	43,155	-	174,270	24.76%
2017	54,684	54,684	-	168,679	32.42%
2018	56,542	56,542	-	182,436	30.99%
2019	77,394	77,394	-	196,062	39.47%
2020	78,650	78,650	-	204,829	38.40%
2021	99,656	99,656	-	197,808	50.38%
2022	103,393	103,393	-	219,301	47.15%
2023	109,683	109,683	-	210,580	52.09%

PORT ALLEGANY 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	13 years
Asset valuation method	Fair value
Actuarial assumptions:	
Investment rate of return	7.0%
Projected salary increases *	4.0%
Cost-of-living adjustments	3.0%

* Includes inflation at 3.0%

PORT ALLEGANY 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 George Riley
Mayor

Mr. Sam Dynda
Council President

Mr. Jeremy S. Morey
Borough Manager

Ms. Heather Szuba
Secretary

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