

# COMPLIANCE AUDIT

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## City of Monessen Police Pension Plan Westmoreland County, Pennsylvania For the Period January 1, 2015 to December 31, 2016

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July 2018



Commonwealth of Pennsylvania  
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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EUGENE A. DePASQUALE  
AUDITOR GENERAL

The Honorable Mayor and City Council  
City of Monessen  
Westmoreland County  
Monessen, PA 15062

We have conducted a compliance audit of the City of Monessen Police Pension Plan for the period January 1, 2015 to December 31, 2016. We also evaluated compliance with some requirements subsequent to that period when possible. The audit was conducted pursuant to authority derived from Section 402(j) of Act 205 and in accordance with the standards applicable to performance audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform our audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings 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 audit 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 whether municipal officials took appropriate corrective action to address the findings contained in our prior audit 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 designated 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 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 determined whether retirement benefits calculated for the 2 plan members who retired 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 monthly pension benefit due to the retired individuals and comparing these amounts to supporting documentation evidencing amounts determined and actually paid to the recipients. We also determined whether retirement benefits calculated for the plan member who elected to vest during the current audit period represent payments to all (and only) those entitled to receive them and were properly determined in accordance with the plan's governing document, applicable laws and regulations by recalculating the amount of the pension benefit due to the retired individual and comparing this amount to supporting documentation evidencing the amount determined.
- We determined whether the January 1, 2013, January 1, 2015, and January 1, 2017 actuarial valuation reports were prepared and submitted by March 31, 2014, 2016, and 2018, 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.
- We determined whether all annual special ad hoc postretirement reimbursements received by the municipality were authorized and appropriately deposited in accordance with Act 147 by tracing information to supporting documentation maintained by plan officials.
- We determined whether transfers were properly authorized, timely, and appropriately recorded by plan officials by examining supporting documentation for all of the transfers made during the audit period and through the completion of our fieldwork procedures.

The City of Monessen contracted with an independent certified public accounting firm for annual audits of its basic financial statements which are available at the city's offices. Those financial statements were not audited by us and, accordingly, we express no opinion or other form of assurance on them.

City officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the City of Monessen Police Pension Plan is administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies. In conducting our audit, we obtained an understanding of the city's internal controls as they relate to the city's compliance with those requirements and that we considered to be significant within the context of our audit objectives, and assessed whether those significant controls were properly designed and implemented. Additionally, and as previously described, we tested transactions, assessed official actions, performed analytical procedures, and interviewed selected officials 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 City of Monessen Police 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 – Incorrect Pension Benefit Calculation
- Finding No. 2 – Incorrect Data On Certification Form AG 385 Resulting In An Overpayment Of State Aid
- Finding No. 3 – Failure To Maintain Adequate Minutes Of Pension Board Meetings
- Finding No. 4 – Awarding Of Professional Services Contract Inconsistent With Provisions Of Act 44

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 funded status of the plan contained in the schedule of funding progress, included in this report, which indicates a decline of assets available to satisfy the long-term liabilities of the plan. **The plan's funded ratio went from 73.3% as of January 1, 2015, to a ratio of 68.4% as of January 1, 2017**, which is the most recent data available. We encourage city 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 City of Monessen and, where appropriate, their responses have been included in the report. We would like to thank city officials for the cooperation extended to us during the conduct of the audit.

July 9, 2018

A handwritten signature in black ink, appearing to read "Eugene A. DePasquale". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

EUGENE A. DEPASQUALE  
Auditor General

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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. Section 402(j) of Act 205 specifically requires the Auditor General, as deemed necessary, to make an audit of every municipality which receives general municipal pension system state aid and of every municipal pension plan and fund in which general municipal pension system state aid is deposited.

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 City of Monessen Police Pension Plan is also governed by implementing regulations adopted by the former Public Employee Retirement Commission 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 67 - The Third Class City Code, Act of November 24, 2015 (P.L. 242, No. 67), as amended, 11 Pa. C.S. § 10101 et seq.

Act 147 - Special Ad Hoc Municipal Police and Firefighter Postretirement Adjustment Act, Act of December 14, 1988 (P.L. 1192, No. 147), as amended, 53 P.S. § 896.101 et seq.

The City of Monessen Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 6 of 2000, as amended, adopted pursuant to Act 67. The plan is also affected by the provisions of collective bargaining agreements between the city and its police officers. The plan was established February 28, 1945. Active members are required to contribute 4.5 percent of their base salary plus \$12 a year for service increments to the plan. As of December 31, 2016, the plan had 10 active members, 1 terminated member eligible for vested benefits in the future, and 21 retirees receiving pension benefits from the plan.

## BACKGROUND – (Continued)

As of December 31, 2016, selected plan benefit provisions are as follows:

### Eligibility Requirements:

Normal Retirement	Age 50 and 20 years of service
Early Retirement	None
Vesting	Member is 100% vested after 12 years of service

### Retirement Benefit:

Benefit equals 50% of average compensation at retirement, plus a monthly service increment of 1/40 of normal retirement benefit for each year of service in excess of 20 years, up to a maximum increment of \$100 per month.

### Survivor Benefit:

Killed in Service	A monthly benefit equal to 50% of average compensation is payable to spouse until death. Upon death of spouse (or no spouse is alive when participant dies), each of the participant's dependent children will receive an equal share of the benefit until age 18.
Non-Service Related Death Before 10 Years of Service	A monthly benefit equal to 25% of average compensation, payable to spouse until the youngest child attains age 18, then the benefit drops to ½ of that amount, and is payable until the spouse's death. If the spouse dies prior to the youngest child attaining 18, the children will share the 25% of average compensation benefit until the youngest attains age 18, at which time no further benefits will be payable.
Non-Service Related Death After 10 Years of Service but Before Retirement Eligibility	Same as before 10 years of service, but monthly benefit is 50% of average compensation.
Non-Service Related Death After Retirement Eligibility	A monthly benefit equal to 50% of the pension the participant was receiving or entitled to receive on the day of death is payable to the spouse for life. Upon death of spouse, each of the participant's dependent children will receive an equal share of the benefit until age 18.



## **BACKGROUND – (Continued)**

### Service Related Disability Benefit:

For total and permanent disablement, a monthly benefit equal to 50% of average compensation is payable.

### Non-Service Related Disability Benefit:

After completion of 10 years of service, a monthly benefit equal to 50% of compensation is payable. Prior to the completion of 10 years of service, 25% of compensation is payable.

CITY OF MONESSEN POLICE PENSION PLAN  
STATUS OF PRIOR FINDING

Compliance With Prior Audit Recommendation

The City of Monessen has complied with the prior audit recommendation concerning the following:

- Incorrect Data On Certification Form AG 64 Resulting In An Excess Reimbursement For Special 2002 Ad Hoc Postretirement Adjustment

During the current audit period, the city reimbursed \$125 to the Commonwealth for excess reimbursement of the Special 2002 Ad Hoc Postretirement Adjustment.

CITY OF MONESSEN POLICE PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – Incorrect Pension Benefit Calculation**

Condition: Plan officials improperly determined and granted a monthly pension benefit to a former police officer who elected to retire on April 1, 2016, after obtaining age 57 and 13 years of service but had not yet reached eligibility in order to qualify and receive full retirement benefits in accordance with the plan’s governing document and the Third Class City Code. Furthermore, plan officials included a \$100 service increment in addition to the calculated monthly pension benefit, of which the member was not eligible for based upon the individual’s age and service with the city. A total monthly pension benefit in the amount of \$3,399 was paid to the member from April 2016 until July 2017, when the city suspended payments.

Criteria: Ordinance No. 9 of 2006, at Section 1.23, states, in part:

“Normal Retirement Age” shall mean the date on which a Participant attains age fifty (50) and completes at least twenty (20) Years of Credited Service.

Also, Ordinance No. 6 of 2000, as amended, at Section 4.04, states, in part:

Service Increment Benefit – Notwithstanding anything contained herein to the contrary, a Participant who shall retire after completion of more Years of Credited Service than the number required for attainment of Normal Retirement Age may be entitled to receive a monthly Service Increment Benefit provided, however, that the Participant shall have accrued sufficient service credit pursuant to this section 4.04. ...in no event shall the monthly amount of Service Increment Benefit exceed one hundred dollars (\$100.00).

Furthermore, Ordinance No. 6 of 2000, as amended, at Section 8.03, states, in part:

Deferred Retirement Benefit - A Participant who shall have completed at least twelve (12) Years of Credited Service and whose Employment shall terminate for any reason other than due to death or Total and Permanent Disability prior to attainment of Normal Retirement Age shall be entitled to elect to receive a deferred retirement benefit in lieu of a distribution of Accumulated Contributions.... Such deferred retirement benefit shall be equal to the Participant’s Accrued Benefit as of the date Employment terminates and shall commence ... not earlier than the date which would be the Participant’s Normal Retirement Date under the Plan if the Participant remained in Employment until such date.

CITY OF MONESSEN POLICE PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – (Continued)**

Finally, Section 14302(a) of the Third Class City Code, states:

With regard to continuous service and minimum retirement age requirements, the ordinance establishing the police pension fund shall prescribe as follows:

- (1) A minimum period of continuous service of not less than 20 years.
- (2) If a minimum retirement age is prescribed, a minimum age of 50 years.

Cause: Plan officials failed to establish adequate internal control procedures to ensure the pension benefit was properly determined in accordance with the plan’s governing document. However, the city provided a letter dated February 19, 2016, signed by a member of the Police Pension Fund stating that three members of the Police Pension Fund, including the City Clerk, met on such date and unanimously voted to accept the retirement of and pension figures for the aforementioned member. It should be noted that certain municipal officials dispute whether or not the meeting actually took place.

Effect: The plan paid pension benefits to a retiree in excess of those authorized by the plan’s governing document. This amounted to a total overpayment of pension benefits in the amount of \$54,390 from April 2016 until payments were suspended by the city in July 2017.

Recommendation: We recommend that plan officials recalculate the vested member’s pension benefit in accordance with the provisions contained in the plan’s governing document. In addition, we recommend that the police pension plan be reimbursed for the improper pension benefits totaling \$54,390, plus interest, compounded annually from date of disbursement through the date of repayment, at a rate earned by the pension plan. Finally, we recommend that plan officials implement adequate and consistent internal control procedures to ensure that future pension benefits are properly determined in accordance with the plan’s governing document.

Management’s Response: The city’s response was provided by the city’s solicitor and is included in its entirety as follows:

Although the City does not disagree with the finding of an incorrect pension benefit calculation, it does disagree with your office’s finding relating to the cause of the miscalculation. Once it was discovered that the retired employee was erroneously receiving the pension, the City terminated those benefits. Therefore, the City conducted an internal investigation only to discover that the protocols in place were circumvented to perpetrate a fraud upon the City. After the investigation was complete, my office, under the direction of the City contacted your office by letter on December 28, 2017, to request an audit of the City’s Police Pension based on the internal investigation. After a review of the preliminary findings by your office, it appears that our evidence was ignored and as a consequence, your office’s findings are deeply flawed.

CITY OF MONESSEN POLICE PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – (Continued)**

The City's pension Board functions as the plan administrator and is the body which confirms the years of service, age of the employee and the pension benefits to be received. Council is then provided a letter from the Board detailing this information for a vote and to process the pension documents.

As your office is aware, this meeting upon which the pension member was granted a pension, never took place. Instead, Council was provided a letter dated February 19, 2016, signed by a pension board member, which stated that this meeting took place and that the pension board took a vote to accept the employee's retirement and to provide him with a full pension. The letter is affirmative evidence that the signatory perpetrated a fraud wherein he misled City Officials and City Council into providing the retired employee with full pension benefits. The City Clerk at the time orchestrated the entire process because she was wrongfully acting as the pension plan administrator. City Council took this recommendation and approved the pension board's alleged decision.

From the City's perspective, the findings of your office with regard to Finding Number One are flawed. The City implemented adequate internal controls to ensure that pension benefits were properly determined in accordance with the plan's governing document. The cause of the illegal pension was due to the individuals who were entrusted with ensuring that those protocols were followed. Instead, these individuals made fraudulent statements, which lead to a substantial detriment to the City.

The City will repay the pension plan the improper reimbursement totaling \$54,390.00 upon the final audit findings. Additionally, the City will pursue criminal charge and possible civil actions against all of the individuals involved in an attempt to limit their liability. Based on this information, the City requests that your office refer this matter to the Pennsylvania Attorney General's Office.

Further, it is believed that the current Mayor continues to provide information regarding the situation to individuals responsible for providing the illegal pension benefits. In fact, shortly after the City's exit interviews with your office held on April 4, 2018, the individual who received the benefit appeared at City Hall and then sent correspondence from an attorney inquiring into the termination of his pension benefits. This individual had his pension benefits terminated in July 2017.

CITY OF MONESSEN POLICE PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – (Continued)**

Auditor's Conclusion: Our Department is unable to affirm or disaffirm the city's allegation that a fraud was perpetrated in the awarding and payment of an unauthorized monthly pension benefit to a plan member who terminated employment prior to obtaining the appropriate age and years of service required for a normal retirement benefit. *Government Auditing Standards*, issued by the Comptroller General of the United States, state that fraud involves obtaining something of value through willful misrepresentation, and whether an act is, in fact, fraud is a determination to be made through the judicial or other adjudicative system and is beyond auditors' professional responsibility. Additionally, this department does not have law enforcement authority. However, auditors are responsible for being aware of vulnerabilities to fraud associated with the area being audited in order to be able to identify indications that fraud may have occurred. Our above finding, along with the other findings contained in this report, disclose instances of noncompliance with applicable laws, regulations, administrative provisions, etc., which indicates that sufficient internal controls were not in place, which in turn could allow errors, irregularities, fraud, and/or abuse to occur and remain undetected..

As we noted above, internal controls were not adequate to ensure that pension benefits were properly determined in accordance with the plan's governing document in this case. It appears that the pension board (Board), while properly functioning within its authority as the plan administrator according to Article IX of Ordinance No. 6 of 2000 of the City, and more specifically, the city clerk, who was officially appointed as the chief administrator of the City of Monessen's pension plans according to Resolution No. 4 of 2010, failed to properly confirm the years of service, age of the employee, and the pension benefits to be received. Additionally, City Council, which is responsible for the overall fiduciary responsibility for the administration of the pension plan according to the Third Class City Code, did not verify the contents of the actual pension benefit calculation prepared. Instead it relied upon the certification of the Board in authorizing the approval of the processing of the unauthorized pension benefit. Therefore, internal controls were not adequate to prevent the unauthorized benefit from being paid. However, once the impropriety was discovered by city officials, the city's procedures for discontinuing the unauthorized benefit were adequate as the payment of the unauthorized benefit was discontinued accordingly, as of July 2017.

If the city believes that the granting of the benefit was not within the realm of the authority of the pension board and the individuals who approved the benefit through signatory acceptance were not representing the pension board in its capacity, the city should consider contacting local law enforcement who has the authority to enforce the parameters of the law. Furthermore, the city's future state aid allocations may be withheld until the finding recommendation is complied with. The city's compliance with the finding recommendation will be monitored subsequent to the release of the audit report and through our next audit of the plan.

CITY OF MONESSEN POLICE PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 2 – Incorrect Data On Certification Form AG 385 Resulting In An Overpayment Of State Aid**

Condition: The city certified an ineligible police officer and overstated payroll by \$30,136 on the Certification Form AG 385 filed in 2016. The data contained on this certification form is based on prior calendar year information.

Criteria: Pursuant to Act 205, at Section 402(e)(2), in order to be eligible for certification, an employee must have been employed on a full-time basis for at least six consecutive months and must have been participating in a pension plan during the certification year.

Cause: Plan officials failed to establish adequate internal control procedures to ensure the accuracy of the data certified.

Effect: The data submitted on this certification form is used, in part, to calculate the state aid due to the municipality for distribution to its pension plans. Because the city’s state aid allocation was based on unit value, the incorrect certification of pension data affected the city’s state aid allocation, as identified below:

<u>Year</u>	<u>Units Overstated</u>	<u>Unit Value</u>	<u>State Aid Overpayment</u>
2016	2	\$ 4,375	\$ 8,750

In addition, the city used the overpayment of state aid to pay the minimum municipal obligation (MMO) due to the police pension plan; therefore, if the reimbursement to the Commonwealth is made from the pension plan, the plan’s MMO will not be fully paid.

Recommendation: We recommend that the total excess state aid, in the amount of \$8,750, plus interest, be returned to the Commonwealth. A check in this amount, with interest compounded annually from date of receipt to date of repayment, 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 & Fire Relief Programs Unit, 321 Finance Building, Harrisburg, PA 17120. A copy of the interest calculation must be submitted along with the check.

We also recommend that in the future, plan officials establish adequate internal control procedures, such as having at least 2 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.

CITY OF MONESSEN POLICE PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 2 – (Continued)**

In addition, if the reimbursement to the Commonwealth is made from police pension plan funds, we recommend that any resulting MMO deficiency be paid to the pension plan with interest, at a rate earned by the pension plan.

Management’s Response: The city’s response was provided by the city’s solicitor and is included in its entirety as follows:

The City agrees to this finding and will provide payment immediately upon the final finding report.

Auditor’s Conclusion: Based on the management response, it appears the city intends to comply with the finding recommendation. Compliance will be monitored subsequent to the release of the audit report and through our next audit of the plan.

**Finding No. 3 – Failure To Maintain Adequate Minutes Of Pension Board Meetings**

Condition: The municipality failed to hold meetings and/or maintain adequate written minutes of pension board meetings in accordance with provisions contained in the plan’s governing document.

Criteria: Maintaining documentation of pension board meetings is a prerequisite for the sound administration of pension plans.

Sections 9.01 and 9.02 of Ordinance No. 6 of 2000, as amended, state, in part:

Plan Administrator - The Pension Plan Board shall be the Plan Administrator and shall have the power and authority to do all acts and to execute, acknowledge and deliver all instruments necessary to implement and effectuate the purpose of this Plan.

Pension Plan Board - The Pension Plan Board shall consist of the members of the Board of Directors of the Police Pension Fund Association of the City of Monessen, Pennsylvania.

The Pension Plan Board... shall meet at least one time in each Plan Year, and it shall maintain and keep such records as are necessary for the efficient operation of the Plan and preservation of the Pension Fund or as may be required by any applicable law, regulation or ruling, and shall provide for the preparation and filing of such forms, reports or documents as may be required. . . .



CITY OF MONESSEN POLICE PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 3 – (Continued)**

Section 9.03 specifies the duties and responsibilities of the Pension Plan Board to include the authorization to:

- Determine all questions affecting the eligibility of Employee participation
- Compute the amount and source of any benefit payable hereunder to any Participant or Beneficiary
- Authorize any and all disbursements
- Appoint and retain any individual to assist in the administration of the Plan including such legal, clerical, accounting, actuarial and investment services as may be required by any applicable law or laws.

Cause: Plan officials were unaware of their fiduciary responsibilities: including but not limited to holding pension board meetings and maintaining detailed minutes therefrom.

Effect: The failure to maintain adequate minutes of pension board meetings led to errors and/or improprieties in plan transactions, such as authorizing pension disbursements as previously disclosed in Finding No. 1. In addition, the failure to maintain adequate minutes of pension board meetings prevented the department from verifying that pension plan transactions were properly approved by the pension plan board and city council, including the change in plan administrators as disclosed in Finding No. 4.

Recommendation: We recommend that plan officials hold pension plan meetings in accordance with the plan's governing document and maintain a permanent record of all pension board meetings. These minutes should include an adequate record of all financial-related business conducted by the pension plan board as well as approvals of all transactions by appropriate authorizing officials.

Management's Response: The city's response was provided by the city's solicitor and is included in its entirety as follows:

The city agrees with this finding and the minutes of the Pension Board meetings will be completed by the officer serving as Secretary of the Board. However, it should be noted that the City is not the responsible party to ensure compliance, rather the Board itself was to implement the keeping of minutes. Specifically, the position of secretary is to be held by a police officer who is to transcribe the minutes in accordance with the pension plan documents. However, due to the events

CITY OF MONESSEN POLICE PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 3 – (Continued)**

relating to the cause of Finding Number 3, the City Administrator will likely be the person tasked with completing the minutes of pension board meetings. Under this design, the City will be able to prevent fraudulent and illegal granting of pension benefits.

Auditor's Conclusion: Based on the management response, it appears the city intends to comply with the finding recommendation. Compliance will be evaluated during our next audit of the plan.

**Finding No. 4 – Awarding of Professional Services Contract Inconsistent With Provisions Of Act 44**

Condition: In June 2017, the City of Monessen requested information through issuance of a Request for Proposal (RFP) regarding asset management services as well as custodial work for the City of Monessen's Pension Plans. Two firms responded, hereafter referred to as Firm A (the successful bidding firm) and Firm B (the unsuccessful bidding firm) and submitted their bids to the city solicitor's office by the July 11, 2017, deadline as outlined in the RFP. However, the following inconsistencies were noted in the city's application of its procedures relative to the procurement of professional investment and advisory services for the city's pension plans and the awarding of the professional services contract as follows:

- Both firms met separately with city council prior to its July 25, 2017 finalist presentation interview and award date but not for technical clarification as outlined in the RFP.
- The contract for professional services was not awarded on July 25, 2017 as specified in the RFP. Moreover, the contract was not awarded until December 19, 2017, well after its published award date.
- The city and/or pension plan board did not provide evidence of the review and evaluation of the competing firms' qualifications, experience and expertise and fees to be charged.
- The city failed to adequately make all applications and disclosure forms available to the public except for proprietary information or other information protected by law.

CITY OF MONESSEN POLICE PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 4 – (Continued)**

- The city did not summarize in a written statement the relevant factors that resulted in the award of the professional services contract to Firm A, and as such, this written summary was not included in or attached to the document awarding the contract to Firm A as required.
  
- The original application, the summary of the basis for the award (as noted above) and all of the required disclosure forms were not transmitted to Firm B within 10 days of the award of the professional services contract and/or posted on the city’s pension system’s internet website.
  
- The pension plan board did not maintain minutes of meetings held (see also Finding No. 3 above) to review and consider the firms’ proposals to provide services and/or their recommendations submitted to city council for consideration based on their review of the proposals. Although we inquired of pension plan board officials who indicated that the board did meet and voted on proposals during two separate meetings, there was no formal documentation available to support their response.

Additionally, it was noted that one of the partners functioning as managing director for bidding Firm A is a brother to one of the partners in the law firm that serves as the solicitor for the City of Monessen. This firm was responsible for receiving and reviewing the competing bids.

Criteria: Section 701-A of Act 205, as amended by Act 44, defines a “Professional Services Contract”, as follows:

“Professional services contract.” A contract to which the municipal pension system is a party that is:

- (1) for the purchase or provision of professional services, including investment services, legal services, real estate services and other consulting services; and
- (2) not subject to a requirement that the lowest bid be accepted.

In addition, Section 702-A (a) of Act 205 states in part:

Each municipal pension system ... shall develop procedures to select the most qualified person to enter into a professional services contract. The procedures shall ensure that the availability of a professional services contract is advertised to potential participants in a timely and efficient manner. Procedures shall include applications and disclosure forms to be used to submit a proposal for review and to receive the award of a professional services contract.

CITY OF MONESSEN POLICE PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 4 – (Continued)**

Additionally, Section 702-A (c), (e), (f) and (h) state, in part:

**Review.** Procedures to select the most qualified person shall include a review of the person's qualifications, experience and expertise and the compensation to be charged.

**Conflict of interest** – The municipal pension system shall adopt policies relating to potential conflicts of interest in the review of a proposal or the negotiation of a contract.

**Public information.** Following the award of a professional services contract, all applications and disclosure forms shall be public except for proprietary information or other information protected by law.

**Notice and summary.** The relevant factors that resulted in the award of the professional services contract must be summarized in a written statement to be included in or attached to the documents awarding the contract. Within ten days of the award of the professional services contract, the original application, a summary of the basis for the award and all required disclosure forms must be transmitted to all unsuccessful applications and posted on the municipal pension system's Internet website, if an Internet website is maintained, at least seven days prior to the execution of the professional services contract.

Section 703-A (c) states in part:

Upon the advertisement for a professional services contract by the municipal pension system, the contractor may not cause or agree to allow a third party to communicate with officials or employees of the municipal pension system except for requests for technical clarification.

Furthermore, Resolution No. 7 of 2011, enacted May 18, 2011, by the city established procedures for the procurement of professional services for the municipal pension system and included the following:

- Collect and review proposals to select the most qualified person, taking into account the person's qualifications, experience, expertise and the fees to be charged.

CITY OF MONESSEN POLICE PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 4 – (Continued)**

- Make all applications and disclosure forms public (except for proprietary information and information protected by law) and subject to the Right To Know Act after award of the contract.
- Summarize the relevant factors that resulted in the award of the contract in a written statement to be included in or attached to the documents awarding the contract.
- Within 10 working days of awarding the contract, transmit the original application form, a summary of the basis for the award, and required disclosure form to all unsuccessful applicants and post on the municipal pension system's website at least 7 days prior to the execution of the contract.

Cause: Plan officials failed to properly follow and document adherence with each requirement prescribed under Act 44 and the city's own procedures in the awarding of the professional services contract for the investment and advisory services for the city's pension plans including, but not limited to the city's issuance of a termination of services letter to the former service provider, who is also the unsuccessful bidding firm in this case, with the information required by Act 44 and the city's procedures.

Effect: We were unable to determine whether the city complied in all respects with the provisions stipulated in Act 44 and its own governing policies and procedures regarding the procurement of professional investment and advisory services for the city's pension plans. Also, by failing to maintain appropriate supporting documentation evidencing the review of the submitted proposals taking into account: the bidding firms' qualifications, experience, expertise, and the fees to be charged; the corresponding documentation summarizing the relevant factors that resulted in the award of the contract, the proper notification, and inclusion of the required disclosure forms to the unsuccessful applicant; and the making of these applications and disclosure forms public (except for proprietary information and information protected by law) after awarding the contract, it denotes a general lack of overall transparency of the actions taken by municipal officials and/or the pension plan board relative to the awarding of the contract for investment and advisory services for the city's pension plans.

Recommendation: We recommend the city follow procedures developed and implemented by the city in Resolution No. 7 of 2011 for the procurement of professional services for the city's pension plans and ensure compliance with Act 44 provisions while maintaining appropriate and sufficient supporting documentation. This documentation should evidence every phase of the process in accordance with the city's policies and procedures in the awarding of future professional services contracts for the city's pension plans.

CITY OF MONESSEN POLICE PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 4 – (Continued)**

In addition, since we were unable to conclude whether the city complied in all respects with the provisions stipulated in Act 44 and its own governing policies and procedures relative to the procurement of the professional investment and advisory services contract awarded in 2017 for the city’s pension plans, we recommend that the members of the pension plan board, along with current city officials, collectively review the Act 44 process and familiarize themselves with the procedures enacted by the city. Members should closely examine the inconsistencies disclosed in the Condition section above, relative to the awarding of this particular contract, and identify ways to improve the process as a whole. This will ensure transparency for plan members as well as the citizens of the City of Monessen and avoid future accusations and innuendos of non-transparency and/or allegations of wrong-doing by representatives responsible for safeguarding the city’s pension plans.

Management’s Response: The city’s response was provided by the city’s solicitor based on preliminary disclosures provided to officials during the exit conference and is included in its entirety as follows:

The City disagrees with the finding, recommendation and the conclusion in Finding Number 4 that there was a lack of transparency and any allusion that facts contained in the finding warrant a State Ethics Commission investigation. While the findings denoted several procedural deficiencies, there is no tangible evidence that suggests any City official violated their ethical responsibilities. Further, based on information conveyed by your office during the exit interviews, the City believes that this audit was not conducted on an impartial basis and political bias has confounded the conclusions in Finding Number 4. *(Auditor Note: Submission of this report to agencies such as the State Ethics Commission was initially discussed in the preliminary draft version of the report presented to officials; however, this reference was removed from the body of this finding in the final released version of the report after receipt of this response.)*

When City officials questioned what evidence potential ethical violations occurred, members of your office stated “we don’t know because Harrisburg wrote this finding.” Because the report itself remains silent on any ethical concerns, the City cannot formulate a response to address that finding, nor can they provide your office with any recommended administrative accommodations.

All that your office conveyed was that they received a letter and numerous phone calls from the current Mayor. Upon information and belief, the Mayor sent a letter to your office dated, January 3, 2018, containing information regarding the transfer of the police pension. The timing of this was concerning being that the Mayor had only been in office for a period of less than twenty-four (24) hours. To this date, the remainder of City Council has no knowledge as to what information was contained in this letter, because the Mayor never consulted any members of Council or City officials.

CITY OF MONESSEN POLICE PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 4 – (Continued)**

With regard to the finding of the condition concerning the award of the contract after July 25, 2017, the City withheld awarding the project because they were unable to provide both Firm A and Firm B with interviews that were equal in length of time. Unfortunately, the vote was delayed due to extenuating circumstances, including a personnel matter involving maternity leave, and questions concerning existence of the pension board and governing ordinance. It was at this time that the City in coordination with their Solicitor's office reconvened the City's Pension Board in order for them to provide input into the proposed pension switch. The City took this action to be as transparent as possible.

The City further disagrees with the finding that states there was a lack of evidence concerning a review and evaluation of the finalists. In fact, City Councilman provided the proposals and relating information to members of the Pension Board and Council. Every member of Council had the opportunity to review these items prior to making the switch. Even though the pension documents denote that Council has the ultimate authority, this information was provided to the pension board so that the board was able to provide their input. The City took this action in order to promote transparency and to make an informed decision.

The City also disagrees with the condition that the City did not make bidding information to the public. The entirety of the bidding process was conducted publicly. The request for proposal ("RFP") was advertised in accordance with the applicable laws. The City provided a copy of the advertisement to your office. Additionally, the City made copies of the RPF (*sic*) available and easily accessible by keeping copies in the same area where copies of Council meeting minutes are kept for public access.

With regard to the condition that the City failed to notify Firm B of the switch, the City denies these findings. On December 29, 2017, the City notified Firm B in writing, of Council's decision to switch pension providers.

With regard to the remainder of the conditions relating procedural errors stemming from the City's departure of their Resolution No. 7 of 2011, the City did not have knowledge that such resolution existed. The reason for this is that the resolution was passed by a former administration. Once the former administration left office, the City Administrator resigned and the City's documents were left in a state of disarray. When the pension was switched, the acting administration followed City Code and the Pension Plan Agreement. To remedy another instance of this confusion, the City intends on amending the pension ordinance to reference Resolution 7 of 2011.

CITY OF MONESSEN POLICE PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 4 – (Continued)**

Further, and as stated above, the City strongly believes that conclusions drawn in Finding Number 4 brings into question the independent nature of the entire audit. As stated, the current Mayor first reached out to your office regarding the transfer of the City’s police pension by letter dated January 3, 2018. It is impractical that the Mayor had accurate information given that he was in office for less than twenty-four hours prior to sending the letter, nor did he have any conversations with any Councilmen or City officials. Additionally, at the exit interviews, it was noted that the Mayor had direct contact with your office on more than one occasion about Finding Number 4. At the exit interview, the Mayor did not deny that these conversations have taken place.

Auditor’s Conclusion: As previously stated in this report, our audit was conducted pursuant to authority derived from Section 402(j) of Act 205 and in accordance with the standards applicable to performance audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform our audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. Our routinely scheduled audit was already underway when our Department began receiving written and telephone correspondence from various municipal officials and members of the city’s police pension plan regarding the matters addressed in this report and other concerns involving the city’s pension plans. Interviewing municipal, as well as pension plan officials, is a routine procedure during an audit of any municipal pension plan.

As noted in the finding above, we were unable to adequately conclude whether or not the awarding of the city’s procurement of professional investment and advisory services for the city’s pension plans was performed in accordance with the provisions of Act 44 and the plans’ governing documents because there was a general lack of sufficient documentation maintained evidencing adherence to all applicable provisions. In particular, the city and/or pension plan board did not provide our department with written evidence of the review and evaluation process performed by those tasked with such responsibilities of reviewing and evaluating the competing firms’ qualifications, experience, and expertise, and fees. Nor did they provide a written statement summarizing the relevant factors that resulted in the awarding of the professional services contract to the winning firm or verify that this formal written summary was included in or attached to and transmitted appropriately to the non-winning firm, along with all of the other required disclosure forms required under Section 702-A. As such, we were unable to conclude from the evidence provided whether or not the process resulting in the awarding of the professional services contract for the city’s pension plans was carried out in accordance with the applicable act and/or local ordinances and policies. It was this lack of sufficient evidential documentation that denotes a general lack of overall transparency of the actions taken by the city and/or the pension plan board relative to the awarding of the contract for professional services for the city’s pension plans.



CITY OF MONESSEN POLICE PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 4 – (Continued)**

Therefore, since we were unable to conclude whether the city complied in all respects with the provisions stipulated in Act 44 and its own governing policies and procedures relative to the procurement of the professional investment and advisory services contract awarded in 2017 for the city's pension plans, we again recommend that city/plan officials provide evidence that the relevant factors that resulted in the awarding of the professional services contract were formally summarized in a written statement and included in or attached to the documents awarding the contract and noting that within ten days of the award of the professional services contract, the original application, a summary of the basis for the award and all required disclosure forms were transmitted to the unsuccessful applicant and posted on the municipal pension system's Internet website at least seven days prior to the execution of the professional services contract. Absent the existence of such evidence, we recommend the city rebid the Request for Proposal (RFP) regarding asset management services as well as custodial work for the city's pension plans. Furthermore, the city's future state aid allocations may be withheld until the finding recommendation is complied with. The city's compliance with the finding recommendation will be monitored subsequent to the release of the audit report and through our next audit of the plan.

In addition, based on the responses provided above and in the response to Finding No. 1, we will provide the results of this audit to the Westmoreland County Pennsylvania District Attorney's Office to determine whether any criminal laws of this Commonwealth have been violated and/or for whatever action it may deem appropriate and necessary, and to the State Ethics Commission to determine whether any ethical standards and/or financial disclosure requirements have been violated and/or for whatever action it may deem appropriate and necessary.

CITY OF MONESSEN POLICE PENSION PLAN  
POTENTIAL WITHHOLD OF STATE AID

Conditions such as those reported by Finding Nos. 1 and 4 contained in this audit report may lead to a total withholding of state aid in the future unless those findings are corrected. However, such action will not be considered if sufficient written documentation is provided to verify compliance with this department's recommendation. Such documentation should be submitted to: Department of the Auditor General, Bureau of Municipal Pension & Liquor Control Audits, 314 Finance Building, Harrisburg, PA 17120.

CITY OF MONESSEN POLICE PENSION PLAN  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

The supplementary information contained on Pages 21 through 23 reflects the implementation of GASB Statement No. 67, *Financial Reporting for Pension Plans*. The objective of this statement is to improve financial reporting by state and local governmental pension plans.

SCHEDULE OF CHANGES IN THE NET PENSION  
LIABILITY AND RELATED RATIOS  
FOR THE YEARS ENDED DECEMBER 31, 2014, 2015, AND 2016

	<u>2014</u>	<u>2015</u>	<u>2016</u>
Total Pension Liability			
Service cost	\$ 96,419	\$ 118,004	\$ 123,904
Interest	379,262	398,953	407,894
Difference between expected and actual experience	-	132,422	-
Benefit payments, including refunds of member contributions	<u>(333,757)</u>	<u>(401,777)</u>	<u>(405,580)</u>
Net Change in Total Pension Liability	141,924	247,602	126,218
Total Pension Liability - Beginning	<u>5,124,280</u>	<u>5,266,204</u>	<u>5,513,806</u>
Total Pension Liability - Ending (a)	<u>\$ 5,266,204</u>	<u>\$ 5,513,806</u>	<u>\$ 5,640,024</u>
Plan Fiduciary Net Position			
Contributions - employer	\$ 276,090	\$ 276,263	\$ 232,385
Contributions - member	27,768	28,539	26,835
Net investment income	140,298	(80,748)	289,358
Benefit payments, including refunds of member contributions	<u>(333,757)</u>	<u>(401,777)</u>	<u>(405,580)</u>
Administrative expense	<u>(57,557)</u>	<u>(41,061)</u>	<u>(44,589)</u>
Net Change in Plan Fiduciary Net Position	52,842	(218,784)	98,409
Plan Fiduciary Net Position - Beginning	<u>3,939,457</u>	<u>3,992,299</u>	<u>3,773,515</u>
Plan Fiduciary Net Position - Ending (b)	<u>\$ 3,992,299</u>	<u>\$ 3,773,515</u>	<u>\$ 3,871,924</u>
Net Pension Liability - Ending (a-b)	<u>\$ 1,273,905</u>	<u>\$ 1,740,291</u>	<u>\$ 1,768,100</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	75.8%	68.4%	68.7%
Estimated Covered Employee Payroll	\$ 656,595	\$ 663,990	\$ 646,191
Net Pension Liability as a Percentage of Covered Employee Payroll	194.0%	262.1%	273.6%

CITY OF MONESSEN POLICE PENSION PLAN  
 SUPPLEMENTARY INFORMATION  
 (UNAUDITED)

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the city as of December 31, 2015, and 2016, calculated using the discount rate of 7.50%, as well as what the city's net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower or 1 percentage-point higher than the current rate:

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Net Pension Liability - 12/31/15	\$ 2,328,403	\$ 1,740,291	\$ 1,241,565
Net Pension Liability - 12/31/16	\$ 2,372,769	\$ 1,768,100	\$ 1,255,313

The discount rate of 7.50% was used in the preparation of the city's December 31, 2016, GASB 67 report. This rate differs from the 7.25% reported in the Notes to Supplementary Schedules on page 25 of this report.

CITY OF MONESSEN POLICE PENSION PLAN  
 SUPPLEMENTARY INFORMATION  
 (UNAUDITED)

SCHEDULE OF CONTRIBUTIONS

Year Ended December 31	Actuarially Determined Contribution	Actual Contributions	Contribution Deficiency (Excess)	Covered- Employee Payroll	Contributions as a Percentage of Covered- Employee Payroll
2007	\$ 287,370	\$ 287,370	\$ -		
2008	258,683	258,683	-	\$ 631,214	41.0%
2009	248,740	248,740	-		
2010	238,973	238,973	-	668,759	35.7%
2011	281,340	236,266	45,074		
2012	291,417	245,854	45,563	724,727	33.9%
2013	292,522	292,522	-		
2014	276,090	276,090	-	656,595	42.0%
2015	276,263	276,263	-	663,990	41.6%
2016	232,385	232,385	-	646,191	36.0%

\* Due to GASB Statement No. 67, *Financial Reporting for Pension Plans*, being implemented only recently, the amount of Covered-Employee Payroll was not provided for odd years prior to 2014.

For 2011 and 2012, the contribution deficiency reflects the 25 percent reduction to the plan's amortization contribution elected by the municipality under Act 44 for distressed municipalities which allows for such reduction.

SCHEDULE OF INVESTMENT RETURNS

Annual Money-Weighted Rate of Return, Net of Investment Expense:

2016	8.27%
2015	(2.15%)
2014	3.74%

CITY OF MONESSEN 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, 2011, 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)
01-01-13	\$ 3,581,611	\$ 4,967,729	\$ 1,386,118	72.1%
01-01-15	3,956,273	5,398,626	1,442,353	73.3%
01-01-17	4,077,093	5,959,847	1,882,754	68.4%

Note: The market values of the plan’s assets at 01-01-13, 01-01-15, and 01-01-17 have been adjusted to reflect the smoothing of gains and/or losses over a 4-year averaging period. This method will lower contributions in years of less than expected returns and increase contributions in years of greater than expected returns. The net effect over long periods of time is to have less variance in contribution levels from year to year.

CITY OF MONESSEN 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.

CITY OF MONESSEN 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, 2017
Actuarial cost method	Entry age normal
Amortization method	Level dollar, open
Remaining amortization period	12 years (aggregate)
Asset valuation method	4-year smoothing
Actuarial assumptions:	
Investment rate of return	7.25%
Projected salary increases *	4.25%

\* Includes inflation at 2.75%



CITY OF MONESSEN POLICE PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

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Councilman

**Ms. Judith Taylor**  
City Administrator

**Mr. Wayne Vlastic**  
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