

# COMPLIANCE AUDIT

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## Clarion Borough General Employees' Defined Contribution Pension Plan

Clarion County, Pennsylvania  
For the Period  
January 1, 2016 to December 31, 2019

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June 2020



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 Borough Council  
Clarion Borough  
Clarion County  
Clarion, PA 16214

We have conducted a compliance audit of the Clarion Borough General Employees' Defined Contribution Pension Plan for the period January 1, 2016 to December 31, 2019. We also evaluated compliance with some requirements subsequent to that period when possible. The audit was conducted pursuant to authority derived from the Municipal Pension Plan Funding Standard and Recovery Act (Act 205 of 1984, as amended, 53 P.S. § 895.402(j)), which requires the Auditor General, as deemed necessary, to audit every municipality which receives general municipal pension system state aid and every municipal pension plan and fund in which general municipal pension system state aid is deposited. The audit was not required to be and was not conducted in accordance with Government Auditing Standards issued by the Comptroller General of the United States. We planned and performed the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our conclusions based on our audit objective.

The objective of the audit was to determine if the pension plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies.

Our audit was limited to the areas related to the objective identified above. To determine whether the pension plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies, our methodology included the following:

- We determined whether state aid was properly determined and deposited in accordance with Act 205 requirements by verifying the annual deposit date of state aid and determining whether deposits were made within 30 days of receipt for all years within the period under audit. State aid allocations that were deposited into the pension plan for the years ended December 31, 2014 to December 31, 2019, are presented on the Summary of Deposited State Aid and Employer Contributions.

- We determined whether annual employer contributions were calculated and deposited in accordance with the plan's governing document and applicable laws and regulations by examining the municipality's calculation of the plan's annual financial requirements and minimum municipal obligation (MMO) and comparing these calculated amounts to amounts actually budgeted and deposited into the pension plan as evidenced by supporting documentation. Employer contributions that were deposited into the pension plan for the years ended December 31, 2014 to December 31, 2019, are presented on the Summary of Deposited State Aid and Employer Contributions.
- We determined that there were no employee contributions required by the plan's governing document and applicable laws and regulations for the years covered by our audit period.
- We determined that there were no benefit calculations prepared for the years covered by our audit period.
- We determined whether the January 1, 2015, January 1, 2017 and January 1, 2019 actuarial valuation reports were prepared and submitted by March 31, 2016, 2018, and 2020, 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.

Clarion Borough contracted with an independent certified public accounting firm for annual audits of the Clarion Borough General Employees' Defined Contribution Pension Plan's basic financial statements for the years ended December 31, 2018, December 31, 2017 and December 31, 2016, which are available at the borough's offices. Those financial statements were not audited by us and, accordingly, we express no opinion or other form of assurance on them.

Borough officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Clarion Borough General Employees' Defined Contribution Pension Plan is administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies. As previously described, we tested transactions, interviewed selected officials, and performed procedures to the extent necessary to provide reasonable assurance of detecting instances of noncompliance with legal and regulatory requirements or noncompliance with provisions of contracts, administrative procedures, and local ordinances and policies that are significant within the context of the audit objective.

The results of our procedures indicated that, in all significant respects, the Clarion Borough General Employees' Defined Contribution Pension Plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies.

Effective January 1, 2019, the borough elected to cease contributions to the defined contribution plan and re-opened the borough's defined benefit plan (*see separate report for the defined benefit plan*) for participation by all eligible borough non-uniformed employees. Going forward, the department will report on the activity from the defined contribution features of the general employees' pension plan along with the defined benefit features of the plan in one consolidated report. Therefore, this report represents the last audit of the Clarion Borough General Employees' Defined Contribution Pension Plan.

The contents of this report were discussed with officials of Clarion 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.

May 27, 2020



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.

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 Clarion Borough General Employees' Defined Contribution Pension Plan is also governed by implementing regulations published at Title 16, Part IV of the Pennsylvania Code and applicable provisions of various other state statutes.

The Clarion Borough General Employees' Defined Contribution Pension Plan is a single-employer defined contribution pension plan for the borough's non-uniformed employees on regular full-time status hired on or after January 1, 2011 through December 31, 2018, and locally controlled by the provisions of Ordinance 2012-87. The plan is also affected by the provisions of collective bargaining agreements between the borough and its non-uniformed employees. The plan was established December 28, 1959. Active members are not required to contribute to the plan. The municipality is required to contribute 5.5 percent of compensation per member. Effective January 1, 2019, the borough elected to cease contributions to the defined contribution plan and re-opened the borough's defined benefit plan (*see separate report for the defined benefit plan*) for participation by all eligible non-uniformed employees. The borough also elected to transfer current defined contribution plan participants to the defined benefit plan with consent of the existing membership. As of December 31, 2019, the plan had no remaining active members; however, there remains account balances for 4 individuals who transferred to the defined benefit features of the plan and will also be eligible for future distributions from these defined contribution accounts. Going forward, the department will report the activity from the defined contribution and defined benefit features of the general employees' pension plan under one consolidated report.

CLARION BOROUGH GENERAL EMPLOYEES'  
 DEFINED CONTRIBUTION PENSION PLAN  
 SUMMARY OF DEPOSITED STATE AID AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid	Employer Contributions
2014	None	\$ 5,390
2015	None	7,581
2016	\$ 3,932	3,203
2017	6,946	992
2018	8,748	None
2019	None	None

CLARION BOROUGH GENERAL EMPLOYEES  
DEFINED CONTRIBUTION PENSION PLAN  
REPORT DISTRIBUTION LIST

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