

# COMPLIANCE AUDIT

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## Clearfield Borough Non-Uniformed Pension Plan Clearfield County, Pennsylvania For the Period January 1, 2013 to December 31, 2015

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October 2016



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  
Clearfield Borough  
Clearfield County  
Clearfield, PA 16830

We have conducted a compliance audit of the Clearfield Borough Non-Uniformed Pension Plan for the period January 1, 2013 to December 31, 2015. 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 if municipal officials took appropriate corrective action to address the finding 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 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, 2010 to December 31, 2015, 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, 2010 to December 31, 2015, are presented on the Summary of Deposited State Aid and Employer Contributions.
- We determined whether annual employee contributions were calculated, deducted, and deposited into the pension plan in accordance with the plan's governing document and applicable laws and regulations by testing members' contributions on an annual basis using the rates obtained from the plan's governing document in effect for all years within the period under audit and examining documents evidencing the deposit of these employee contributions into the pension plan. We also tested individual employee contributions for all 11 active employees employed during the audit period amounting to \$21,899, \$21,818, and \$23,055, for the years 2013, 2014, and 2015, respectively, made during the audit period.
- We determined whether retirement benefits calculated for the plan member who terminated employment and elected a lump-sum form of pension benefit during the current audit period 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 comparing the distributed amount to supporting documentation evidencing the amount determined and actually paid to the recipient. 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 and January 2015 actuarial valuation reports were prepared and submitted to the Public Employee Retirement Commission (PERC) by March 31, 2014 and 2016, 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.

Clearfield Borough contracted with an independent certified public accounting firm for annual audits of its basic financial statements for the years ended December 31, 2013 and 2014, 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 Clearfield Borough Non-Uniformed 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 borough's internal controls as they relate to the borough'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 Clearfield Borough Non-Uniformed 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 – Noncompliance With Prior Audit Recommendation – Failure To Fully Fund Members' Accounts
- Finding No. 2 – Incorrect Data On Certification Form AG 385 Resulting In An Overpayment Of State Aid
- Finding No. 3 – Custodial Account Records Not Maintained By The Municipality

Finding No. 1 contained in this audit report repeats a condition that was cited in two previous audit reports that has not been corrected by borough officials. We are concerned by the borough's failure to correct this previously reported audit finding and strongly encourage timely implementation of the recommendations noted in this audit report.

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

October 7, 2016



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 Clearfield Borough Non-Uniformed Pension Plan is also governed by implementing regulations adopted by the Public Employee Retirement Commission published at Title 16, Part IV of the Pennsylvania Code and applicable provisions of various other state statutes.

The Clearfield Borough Non-Uniformed Pension Plan is a single-employer defined contribution pension plan locally controlled by the provisions of Ordinance No. 1181, 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 April 1, 1966. Active members are required to contribute 5 percent of compensation to the plan. The municipality is required to contribute 7 percent of each member's compensation. As of December 31, 2015, the plan had 10 active members, 1 terminated member eligible for vested benefits in the future, and no retirees receiving pension benefits.

CLEARFIELD BOROUGH NON-UNIFORMED PENSION PLAN  
STATUS OF PRIOR FINDING

Noncompliance With Prior Audit Recommendation

Clearfield Borough has not complied with the prior audit recommendation concerning the following as further discussed in the Findings and Recommendations section of this report:

- Failure To Fully Fund Members' Accounts

CLEARFIELD BOROUGH NON-UNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – Noncompliance With Prior Audit Recommendation – Failure To Fully Fund Members’ Accounts**

Condition: As disclosed in two prior audit reports, plan officials failed to fully fund the member accounts of 2 plan members for the year 2012, as illustrated below:

<u>2012 Employees</u>	<u>Required Contributions</u>	<u>Actual Contributions</u>	<u>Contributions Due</u>
1	\$ 2,349	\$ 2,200	\$ 149
2	1,892	1,751	141
		Total	<u><u>\$ 290</u></u>

Criteria: The plan’s governing document, Ordinance No. 1181, as amended by Ordinance No. 1234, Article III Section 3.01, establishes a municipal contribution rate of 7 percent of each eligible participant’s compensation.

Cause: Plan officials again failed to establish adequate internal control procedures to ensure that all members’ accounts were properly funded.

Effect: The failure to properly fund the members’ accounts could result in plan members receiving an underpayment of pension benefits.

Furthermore, due to the borough’s failure to properly fund the members’ accounts, the borough must now pay interest on the delinquent contributions due.

Recommendation: We again recommend that the borough deposit the contributions due to the members’ accounts for the year 2012, with interest. A copy of the interest calculation must be maintained by the borough for examination during our next audit of the plan.

We also again recommend that plan officials establish adequate internal control procedures to ensure that all eligible plan members’ accounts are properly funded.

Management’s Response: At the exit conference held on September 1, 2016, management indicated that they would provide a written response to this finding within 10 days; however, as of the date of this report, no written response has been provided.

Auditor’s Conclusion: We are concerned that the municipality has not complied with the prior audit recommendation or provided a written response to the audit finding and encourage compliance at the earliest opportunity to do so.

CLEARFIELD BOROUGH NON-UNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

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

Condition: The borough certified 1 ineligible police officer (2 units) on the Certification Form AG 385 filed in 2014. The borough also certified 1 ineligible police officer (2 units) and certified 1 ineligible non-uniformed employee (1 unit) on the Certification Form AG 385 filed in 2015. The data contained on these certification forms 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 these certification forms is used, in part, to calculate the state aid due to the municipality for distribution to its pension plans. Because the borough’s state aid allocations were based on unit value, the incorrect certification of pension data affected the borough’s state aid allocations, as identified below:

<u>Year</u>	<u>Type Of Plan</u>	<u>Units Overstated</u>	<u>Unit Value</u>	<u>State Aid Overpayment</u>
2014	Police	2	\$ 3,873	\$ 7,746
2015	Police	2	3,921	7,842
	Non-Uniformed	1	3,921	<u>3,921</u>
Total Overpayment of State Aid				<u><u>\$ 19,509</u></u>

In addition, the borough used the overpayments of state aid to pay the minimum municipal obligations (MMOs) due to the police and non-uniformed pension plans; therefore, if the reimbursement to the Commonwealth is made from the pension plan, the plans’ MMOs will not be fully paid.

Furthermore, the borough’s future state aid allocations may be withheld until the finding recommendation is complied with.

CLEARFIELD BOROUGH NON-UNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 2 – (Continued)**

Recommendation: We recommend that the total excess state aid, in the amount of \$19,509, be returned to the Commonwealth from the borough's general fund. 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.

Management's Response: At the exit conference held on September 1, 2016, management indicated that they would provide a written response to this finding within 10 days; however, as of the date of this report, no written response has been provided.

Auditor's Conclusion: Due to the potential withhold of state aid, the borough'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.

**Finding No. 3 – Custodial Account Records Not Maintained By The Municipality**

Condition: The municipality did not maintain adequate financial records or statements of the money purchase accounts of the non-uniformed pension plan sufficient to effectively monitor the activity in this account.

Criteria: Assets held in money purchase accounts for the purpose of plan management are to be governed by the terms and provisions of the account contract, provided that the terms and provisions of the contract are within the parameters of all prevailing pension legislation. Although the municipality may contract with a trustee to administer the financial management of the plan, the fiduciary responsibility for the plan remains with the municipality.

Cause: Plan officials were not aware of their fiduciary responsibility to monitor the money purchase accounts.

CLEARFIELD BOROUGH NON-UNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 3 – (Continued)**

Effect: Inadequate monitoring of the non-uniformed pension plan account could lead to undetected errors or improprieties in account transactions as well as deficiencies in authorizing and implementing pension plan policies and procedures.

Recommendation: We recommend that the municipality obtain annual financial statements of transactions in the money purchase accounts of the non-uniformed pension plan and monitor the statements as to the accuracy and propriety of the transactions. The minimum steps that should be applied by a municipality to adequately monitor the custodial account are:

- Verify the mathematical accuracy of the account statements;
- Reconcile the Commonwealth, municipal and members' contributions shown on the account statements to the municipality's records;
- Review investment income for accuracy and reasonableness;
- Reconcile any large or material receipt, other than contributions, shown on the account statements to the municipality's records;
- Determine if investments are in accordance with applicable laws, regulations and policies. Reconcile investment income to the related investments;
- Review custodial statements at pension board meetings;
- Reconcile pension payments shown on the account statements to the municipality's records; and
- Reconcile any large or material disbursement, shown on the account statements to the municipality's records.

Management Response: At the exit conference held on September 1, 2016, management indicated that they would provide a written response to this finding within 10 days; however, as of the date of this report, no written response has been provided.

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

CLEARFIELD BOROUGH NON-UNIFORMED PENSION PLAN  
POTENTIAL WITHHOLD OF STATE AID

Finding No. 2 contained in this audit report cites an overpayment of state aid to the borough in the amount of \$19,509. A condition of this nature may lead to a total withholding of state aid in the future unless that finding is corrected. A check in this amount with interest, 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.

CLEARFIELD BOROUGH NON-UNIFORMED PENSION PLAN  
SUMMARY OF DEPOSITED STATE AID AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid	Employer Contributions
2010	\$ 10,392	\$ 9,971
2011	24,669	None
2012	12,019	14,614
2013	20,761	9,893
2014	30,356	None
2015	21,779	9,696

CLEARFIELD BOROUGH NON-UNIFORMED PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

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Borough Manager

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