

# LIMITED PROCEDURES ENGAGEMENT

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## Dale Borough Employees Pension Plan Cambria County, Pennsylvania For the Period January 1, 2015 to December 31, 2018

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September 2019



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  
Dale Borough  
Cambria County  
Johnstown, PA 15902

We conducted a Limited Procedures Engagement (LPE) of the Dale Borough Employees Pension Plan for the period January 1, 2015 to December 31, 2018 to determine its compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies. We also evaluated compliance with some requirements subsequent to that period when possible. The LPE was conducted pursuant to authority derived from Section 402(j) of the Municipal Pension Plan Funding Standard and Recovery Act (P.L. 1005, No. 205, as amended, 53 P.S. § 895.101 et seq.) but was not conducted in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States. 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. We believe that the evidence obtained provides a reasonable basis to support our LPE results.

Our LPE was limited to determining the following:

- Whether municipal officials took appropriate corrective action to address the findings contained in our prior LPE report, by inquiring of plan officials and evaluating supporting documentation provided by officials evidencing that the suggested corrective action has been appropriately taken.
- 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 engagement period.
- 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.

- Whether retirement benefits calculated for the plan member who retired during the current engagement 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 recalculating the amount of the monthly pension benefit due to the retired individual and comparing this amount to supporting documentation evidencing the amount determined and actually paid to the recipient. Also, whether retirement benefits calculated for the plan member who elected to vest during the current engagement 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.
- 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.

Based on the results of our procedures performed during our LPE, nothing came to our attention indicating that the Dale Borough Employees Pension Plan was not being 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 LPE Report Recommendation – Failure To Appoint A Chief Administrative Officer

Finding No. 2 – Untimely Deposit Of State Aid

Finding No. 3 – Failure To Fully Pay The Minimum Municipal Obligation Of The Plan

Finding No. 4 – Failure To Implement Mandatory Provisions Of Act 205

Our determination to perform a LPE for this engagement period does not preclude the Department from conducting an audit in accordance with *Government Auditing Standards* of the pension plan in subsequent periods. The borough should continue to maintain documentation related to this pension plan.

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.

The contents of this report were discussed with officials of Dale Borough and, where appropriate, their responses have been included in this report. We would like to thank borough officials for the cooperation extended to us during the conduct of this LPE.

August 27, 2019

A handwritten signature in black ink, appearing to read "Eugene A. DePasquale", with a long horizontal flourish extending to the right.

EUGENE A. DEPASQUALE  
Auditor General

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DALE BOROUGH EMPLOYEES PENSION PLAN  
STATUS OF PRIOR FINDINGS

Compliance With Prior LPE Report Recommendation

Dale Borough has complied with the prior LPE report recommendation concerning the following:

- Incorrect Data On Certification Form AG 385 Resulting In A Net Underpayment Of State Aid

During the current engagement period, municipal officials complied with the instructions that accompany Certification Form AG 385 and accurately reported the required pension data.

Noncompliance With Prior LPE Report Recommendation

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

- Failure To Appoint A Chief Administrative Officer

DALE BOROUGH EMPLOYEES PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – Noncompliance With Prior LPE Report Recommendation – Failure To Appoint A Chief Administrative Officer**

Condition: As disclosed in the two prior reports, municipal officials have not appointed a chief administrative officer (CAO) for the pension plan by ordinance, resolution, or by a motion recorded in the minutes of a council meeting.

Criteria: Section 102 of Act 205 defines the CAO as “The person who has primary responsibility for the execution of the administrative affairs of the municipality in the case of the municipality, or of the pension plan in the case of the pension plan, or the designee of that person.”

Municipal officials may appoint two CAOs - one for the pension plan and one for the municipality - or appoint one person to fill both positions. Act 205 identifies specific duties for each position, as follows:

CAO Of The Municipality

- Supervise and direct the preparation of actuarial reports (Section 201(d));
- Certify and file actuarial valuation reports with the Public Employee Retirement Commission (Section 201(b)); and
- Make actuarial report information available to plan members (Section 201(e)).

CAO Of The Pension Plan

- Annually, determine and submit to the governing body of the municipality the financial requirements of the pension plan and minimum municipal obligation (Section 302(b), Section 302(c), Section 303(b), Section 303(c) and Section 304); and
- Provide the governing body of the municipality with a cost estimate of the effect of any proposed benefit plan modification (Section 305(a)).

We note that the Public Employee Retirement Commission cited above has been replaced by the Municipal Pension Reporting Program.

Cause: Municipal officials again failed to establish adequate internal control procedures to ensure compliance with this Department’s prior recommendation.

DALE BOROUGH EMPLOYEES PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 - (Continued)**

Effect: The failure to formally appoint a CAO could result in important filing deadlines being overlooked, state aid being adversely affected or delayed, and investment opportunities being lost.

Recommendation: Because of the significance of the CAO's responsibilities to the municipality and pension plan, we again recommend that the CAO be formally appointed by ordinance, resolution, or motion recorded in the minutes of a council meeting. Such ordinance, resolution, or motion should detail the CAO's responsibilities and be filed with other plan documents.

Management's Response: Municipal officials provided the following response:

The audit finding stated that there was no proof of a Chief Administrative Officer appointment being made by the Borough of Dale. We believe that we had completed and approved by Borough Council in response to the prior audit finding. The Borough did not show the approval in the minutes. The Borough of Dale will make the appointment at the August 13, 2019 Borough Council Meeting.

The borough provided the Department with a copy of its borough council meeting minutes dated August 13, 2019. A motion was carried to appoint the current borough treasurer as the Chief Administrative Officer of the pension fund.

Auditor's Conclusion: Municipal officials have complied with the finding recommendation.

**Finding No. 2 – Untimely Deposit Of State Aid**

Condition: The municipality did not deposit its 2015, 2016, 2017, and 2018 state aid allocations into the pension plan within the 30 day grace period allowed by Act 205 as follows:

<u>Year</u>	<u>State Aid Allocation</u>	<u>State Aid Received Date</u>	<u>Pension Plan Deposit Date</u>
2015	\$ 5,402	September 30, 2015	December 31, 2015
2016	5,693	September 23, 2016	October 31, 2016
2017	2,303	September 27, 2017	November 30, 2017
2018	4,684	September 20, 2018	October 31, 2018



DALE BOROUGH EMPLOYEES PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 2 - (Continued)**

Criteria: Section 402(g) of Act 205 states, in part:

. . . the total amount of the general municipal pension system State aid received by the municipality shall, within 30 days of receipt by the treasurer of the municipality, be deposited in the pension funds or the alternate funding mechanisms applicable to the pension plan.

Cause: The 2015, 2016, 2017, and 2018 state aid was not deposited timely into the municipality's pension plan because internal control procedures were not in effect to ensure the timely deposit of state aid.

Effect: Although the state aid was deposited into the plan, the interest earned beyond the 30 day grace period was not deposited into the plan. When state aid is not deposited into a pension plan account in a timely manner, the funds are not available to pay operating expenses or for investment and the risk of misapplication is increased.

Recommendation: We recommend that the municipality pay the employees pension plan the interest earned during the period beyond the 30 day grace period allowed by Act 205. A copy of the interest calculation must be maintained by the borough for examination during our next engagement of the plan.

We also recommend that plan officials develop and implement adequate internal control procedures to ensure that future state aid allocations are deposited timely in accordance with Act 205 requirements.

Management's Response:

Municipal officials agreed with the finding without exception.

Auditor's Conclusion: Compliance will be evaluated during our next engagement of the plan.

DALE BOROUGH EMPLOYEES PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 3 – Failure To Fully Pay The Minimum Municipal Obligation Of The Plan**

Condition: The municipality did not fully pay the minimum municipal obligation (MMO) that was due to the employees pension plan for the year 2016, as required by Act 205. The municipality had an unpaid MMO balance of \$352 for the year 2016.

Criteria: With regard to the MMO, Section 302(c) of Act 205 states, in part:

Annually, the chief administrative officer of the pension plan shall determine the minimum obligation of the municipality with respect to the pension plan for the following plan year.

Section 302(d) of Act 205 states, in part:

The minimum obligation of the municipality shall be payable to the pension plan from the revenue of the municipality.

Furthermore, Section 302(e) of Act 205 states:

Any amount of the minimum obligation of the municipality which remains unpaid as of December 31 of the year in which the minimum obligation is due shall be added to the minimum obligation of the municipality for the following year, with interest from January 1 of the year in which the minimum obligation was first due until the date the payment is paid at a rate equal to the interest assumption used for the actuarial valuation report or the discount rate applicable to treasury bills issued by the Department of Treasury of the United States with a six-month maturity as of the last business day in December of the plan year in which the obligation was due, whichever is greater, expressed as a monthly rate and compounded monthly.

Cause: Plan officials did not comply with the Act 205 requirements because internal control procedures were not in effect to ensure full payment of the MMO due to the plan.

Effect: The failure to fully pay the MMO could result in the plan not having adequate resources to meet current and future benefit obligations to its members.

Due to the municipality's failure to fully pay the 2016 MMO by the December 31, 2016, deadline, the municipality must add the 2016 MMO balance to the current year's MMO and include interest, as required by Act 205.

DALE BOROUGH EMPLOYEES PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 3 - (Continued)**

Recommendation: We recommend that the municipality pay the MMO due to the employees' pension plan for the year 2016, with interest, in accordance with Section 302(e) of Act 205. A copy of the interest calculation must be maintained by the borough for examination during our next engagement of the plan.

Furthermore, we recommend that, in the future, plan officials pay the full MMO due the plan.

Management's Response: Municipal officials agreed with the finding without exception.

Auditor's Conclusion: Compliance will be evaluated during our next engagement of the plan.

**Finding No. 4 – Failure To Implement Mandatory Provisions Of Act 205**

Condition: During the prior engagement, a verbal observation was issued to plan officials notifying them of the passage of Act 44 of 2009, which effectively amended Act 205 for the procurement of professional services contracts, and recommending that the borough adopt the mandatory provisions, accordingly. However, during the current engagement period, the municipality again failed to adopt such mandatory provisions.

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.

DALE BOROUGH EMPLOYEES 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 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.

Cause: Plan officials failed to establish adequate procedures to ensure compliance with provisions of Act 205 as previously recommended.

Effect: The borough's continued failure to comply with the adoption of required provisions stipulated in Act 205 regarding the procurement of professional investment and advisory services for the borough's pension plan could result in a lack of overall transparency of proposed actions to be taken by plan officials relative to the contracting for investment and advisory services for the plan.

DALE BOROUGH EMPLOYEES PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 4 - (Continued)**

Recommendation: We recommend that municipal officials obtain a comprehensive understanding of Act 205 provisions for the procurement of professional services and develop and implement formal written procedures to ensure compliance with these provisions. Such procedures should include the maintaining of appropriate and sufficient supporting documentation evidencing every phase of the process to ensure the transparency of the actions taken by plan officials relative to the awarding of any future professional services contracts for its pension plan.

Management's Response:

Municipal officials agreed with the finding without exception.

Auditor's Conclusion: Compliance will be evaluated during our next engagement of the plan.

DALE BOROUGH EMPLOYEES 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, 2013, 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	\$ 54,846	\$ 69,204	\$ 14,358	79.3%
01-01-15	71,458	79,425	7,967	90.0%
01-01-17	80,828	98,692	17,864	81.9%

DALE BOROUGH EMPLOYEES 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.

DALE BOROUGH EMPLOYEES PENSION PLAN  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER  
AND OTHER CONTRIBUTING ENTITIES

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2013	\$ 6,027	174.8%
2014	5,462	100.2%
2015	4,306	125.5%
2016	6,045	94.2%
2017	2,281	101.0%
2018	2,242	208.9%



DALE BOROUGH EMPLOYEES 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, closed
Remaining amortization period	3 year
Asset valuation method	Fair value
Actuarial assumptions:	
Investment rate of return	6.75%
Projected salary increases	None assumed

DALE BOROUGH EMPLOYEES PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

**The Honorable Tom W. Wolf**  
Governor  
Commonwealth of Pennsylvania

**The Honorable Raymond E. Howard**  
Mayor

**Ms. Lisa D. Howard**  
Council President

**Mr. Brian R. Riffle**  
Treasurer

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