

LIMITED PROCEDURES ENGAGEMENT

Dayton Borough Non-Uniformed Pension Plan Armstrong County, Pennsylvania For the Period January 1, 2015 to December 31, 2017

February 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
Dayton Borough
Armstrong County
Dayton, PA 16222

We conducted a Limited Procedures Engagement (LPE) of the Dayton Borough Non-Uniformed Pension Plan for the period January 1, 2015 to December 31, 2017 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. State aid allocations that were deposited into the pension plan for the years ended December 31, 2012 to December 31, 2017, are presented on the Summary of Deposited State Aid and Employer Contributions.
- 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, 2012 to December 31, 2017, are presented on the Summary of Deposited State Aid and Employer Contributions.

- Whether the January 1, 2015 and January 1, 2017 actuarial valuation reports were prepared and submitted by March 31, 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 Dayton Borough Non-Uniformed 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 – Partial Compliance With Prior LPE Report Recommendation – Failure To Properly Fund Member Accounts

Finding No. 2 – Failure To Implement Mandatory Act 44 Procedures For The Procurement Of Professional Services

Finding No. 1 contained in this LPE report repeats a condition that was cited in our previous LPE report 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 recommendation noted in this report.

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 contents of this report were discussed with officials of Dayton 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.

January 25, 2019



EUGENE A. DEPASQUALE
Auditor General

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DAYTON BOROUGH NON-UNIFORMED PENSION PLAN STATUS OF PRIOR FINDINGS

Compliance With Prior LPE Report Recommendations

Dayton Borough has complied with the prior report recommendations concerning the following:

- Receipt Of State Aid In Excess Of Entitlement

During the current engagement period, the borough reimbursed \$1,980 to the Commonwealth for the excess state aid received in 2013 and 2014.

- Incorrect Data On Certification Form AG 385 Resulting In An Overpayment Of State Aid

During the current engagement period, the borough reimbursed \$632 to the Commonwealth for the overpayment of state aid received in 2015 and complied with the instructions that accompanied Certification Form AG 385 to assist them in accurately reporting the required pension data.

Partial Compliance With Prior LPE Report Recommendation

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

- Failure To Properly Fund Member Accounts

Borough officials deposited the contributions due to the members' accounts for the years 2012, 2013 and 2014 as recommended. However, a similar condition occurred during the current period. Plan officials again failed to properly fund the members' accounts as further discussed in the Finding and Recommendation section of this report.

DAYTON BOROUGH NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Partial Compliance With Prior LPE Recommendation – Failure To Properly Fund Member Accounts

Condition: As disclosed in the Status of Prior Findings section of this report, the borough partially complied with the prior recommendation by depositing the outstanding contributions due to members' accounts, with interest, for the years 2012, 2013 and 2014 as recommended. However, a similar condition occurred during the current period. Plan officials again failed to fully fund the accounts of 3 members during 2015 and 2 members' accounts in 2016, as illustrated below:

<u>2015 Employees</u>	<u>Required Contributions</u>	<u>Actual Contributions</u>	<u>Contributions Due</u>
1	\$ 561	\$ 527	\$ 34
2	1,627	1,530	97
3	1,601	1,562	39
		Total	<u>\$ 170</u>

<u>2016 Employees</u>	<u>Required Contributions</u>	<u>Actual Contributions</u>	<u>Contributions Due</u>
1	\$ 2,241	\$ 2,280	\$ (39)
2	411	359	52
		Total	<u>\$ 13</u>

Criteria: The plan's governing document, a Resolution effective January 1, 1996, as amended, states that employer contributions shall be 6 percent of all wages paid.

Cause: Plan officials again failed to implement adequate internal control procedures to ensure that employer contributions were made on all wages paid to the plan member and full compliance with the prior recommendation.

Effect: The failure to properly fund the members' accounts could result in plan members being denied benefits to which they are entitled in accordance with the plan's governing document.

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

Recommendation: We again recommend that plan officials review applicable members' accounts and make the adjustments deemed necessary, with interest. A copy of the interest calculations should be maintained by the borough for examination during our next engagement of the plan.

DAYTON BOROUGH NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

We also recommend that, in the future, borough officials properly fund the accounts of all eligible plan members in accordance with the plan document.

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

Auditor's Conclusion: We are concerned by the municipality's failure to fully correct this previously reported finding and strongly encourage timely implementation of the recommendations noted in this report.

Finding No. 2 – Failure To Implement Mandatory Act 44 Procedures For The Procurement Of Professional Services

Condition: Municipal officials failed to adopt the mandatory provisions of Act 205 regarding professional services contracts for the borough's pension plan.

Criteria: Section 701-A of Act 205, as amended by Act 44 of 2009, 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

DAYTON BOROUGH NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (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.

Cause: Plan officials failed to establish adequate internal controls procedures to ensure compliance with provisions of Act 205.

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

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 such provisions including the maintenance of appropriate and sufficient supporting documentation evidencing every phase of the process as well as authorizations/approvals of borough officials in the official minutes of formal board meetings and required notifications and disclosure responsibilities to ensure the transparency of the actions taken by plan officials relative to the awarding of professional services contracts for the pension plan.

DAYTON BOROUGH NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Management Response: Municipal officials agreed with the finding without exception. Management officials stated they would implement a resolution that adopts the Act 44 procedures at their earliest opportunity.

Auditor Conclusion: Based on the management response, it appears municipal officials intend to comply with the finding recommendation. Compliance will be evaluated during our next plan engagement.

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

Year Ended December 31	State Aid	Employer Contributions
2012	\$ 3,207	\$ 754
2013	3,265	139
2014	1,782	561
2015	1,337	2,282
2016	3,228	604
2017	3,408	1,773

DAYTON BOROUGH NON-UNIFORMED PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

The Honorable Robert D. Barnett
Mayor

Mr. Mark L. Enterline
Council President

Ms. Heidi L. Greenawalt
Secretary

This report is a matter of public record and is available online at www.PaAuditor.gov. Media questions about the report can be directed to the Pennsylvania Department of the Auditor General, Office of Communications, 229 Finance Building, Harrisburg, PA 17120; via email to: news@PaAuditor.gov.