

**DALE BOROUGH EMPLOYEES PENSION PLAN**

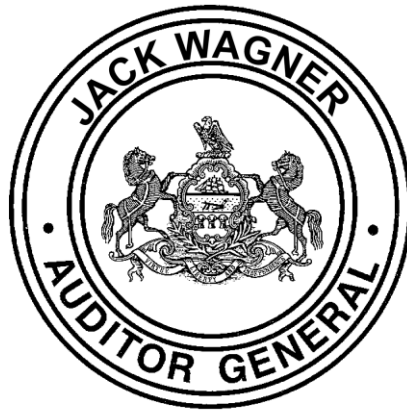
**CAMBRIA COUNTY**

**COMPLIANCE AUDIT REPORT**

**FOR THE PERIOD**

**JANUARY 1, 2009, TO DECEMBER 31, 2011**





**DALE BOROUGH EMPLOYEES PENSION PLAN**

**CAMBRIA COUNTY**

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### ABBREVIATIONS

PSABMRT - Pennsylvania State Association of Boroughs Municipal Retirement Trust

PERC - Public Employee Retirement Commission



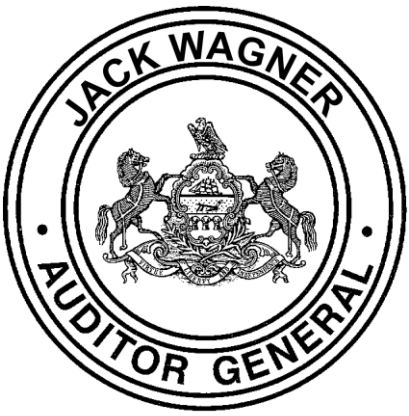
## **BACKGROUND**

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.

Pension plan aid is provided from a 2 percent foreign casualty insurance premium tax, a portion of the foreign 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 Dale Borough Employees 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 Dale Borough Employees Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 507 which adopted a joinder agreement with PSABMRT, effective November 4, 2002.





The Honorable Mayor and Borough Council  
Dale Borough  
Cambria County  
Johnstown, PA 15902

We have conducted a compliance audit of the Dale Borough Employees Pension Plan for the period January 1, 2009, to December 31, 2011. The audit was conducted pursuant to authority derived from Section 402(j) of Act 205 and in accordance with *Government Auditing Standards* applicable to performance audits issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and 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. Dale Borough contracted with an independent certified public accounting firm for audits of its basic financial statements for the years ended December 31, 2009 and 2010, 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 Dale Borough Employees 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 objective, and assessed whether those significant controls were properly designed and implemented. Additionally, we tested transactions, assessed official actions, performed analytical procedures and interviewed selected officials to the extent necessary to satisfy the audit objective.

The results of our tests indicated that, in all significant respects, the Dale Borough Employees 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 – Failure To File Actuarial Valuation Report

Finding No. 2 – Failure To Appoint A Chief Administrative Officer

Finding No. 3 – Failure To Maintain An Adequate Record-Keeping System

The accompanying supplementary information is presented for purposes of additional analysis. We did not audit the information 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 the report.

August 10, 2012

JACK WAGNER  
Auditor General

DALE BOROUGH EMPLOYEES PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Failure To File Actuarial Valuation Report

Condition: Actuarial valuation report form 203C with a valuation date of January 1, 2011, was not submitted to the Public Employee Retirement Commission (PERC) by the March 31, 2012, deadline, as required by Act 205.

Criteria: Section 201(a) of Act 205 states, in part:

Each municipality which has established or maintains a pension plan for its employees, including any municipality which participates in the Pennsylvania Municipal Retirement System, shall cause to be made actuarial valuation reports. Actuarial valuation reports shall be made biennially, unless the applicable municipality is applying or has previously applied for supplemental State assistance pursuant to Section 603, whereupon actuarial valuation reports shall be made annually.

Furthermore, Section 201(b) of Act 205 states, in part:

The biennial actuarial valuation report required pursuant to subsection (a) shall be made as of the beginning of each plan year occurring in an odd-numbered calendar year and shall be filed with the executive director of the commission no later than the last business day of March occurring in the following calendar year.

Section 204 of Act 205 provides:

If a complete actuarial valuation report or experience investigation is not filed in a timely fashion, any and all financing which is provided to the municipality by the Commonwealth and is dedicated for pension plan purposes shall be withheld until the report or investigation is filed.

Cause: Plan officials failed to establish adequate internal control procedures to ensure the plan's actuarial valuation report was filed timely in accordance with Act 205 requirements.

Effect: Future state aid allocations can be withheld until the actuarial valuation report is filed. In addition, the borough may receive a reduced state aid allocation due to the untimely filing of the actuarial valuation report.

DALE BOROUGH EMPLOYEES PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Recommendation: We recommend that the municipality take immediate action to complete the plan's January 1, 2011, actuarial valuation report and submit it to PERC.

Furthermore, we recommend that plan officials establish and implement adequate internal control procedures to ensure that future actuarial valuation reports are prepared and submitted timely to PERC in accordance with Act 205 requirements.

Management's Response: Municipal officials agreed with the finding without exception. The January 1, 2011, actuarial valuation report was filed with PERC on June 4, 2012.

Auditor's Conclusion: Municipal officials have partially complied with the finding recommendation. Full compliance be evaluated during our next audit of the plan.

Finding No. 2 – Failure To Appoint A Chief Administrative Officer

Condition: Municipal officials did not appoint 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.

DALE BOROUGH EMPLOYEES PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

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)).

Cause: Plan officials were unaware of the need to appoint a CAO for the pension plan in accordance with Act 205 provisions.

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

Recommendation: Because of the significance of the CAO's responsibilities to the municipality and pension plan, we 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 agreed with the finding without exception.

DALE BOROUGH EMPLOYEES PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – Failure To Maintain An Adequate Record-Keeping System

Condition: The pension plan’s record-keeping system did not provide effective control over assets, revenues and expenses. The deficiencies are as follows:

- The 2012 Certification Form AG 385 was not on file at the municipality;
- There were no signed copies of the revised 2010 and 2012 minimum municipal obligation calculations maintained by the municipality;
- The plan’s custodial account statements were not maintained; and
- Active members’ payroll rosters were not maintained.

Criteria: An adequate system of accounting and record keeping is a prerequisite for the sound administration of pension plans.

Cause: Plan officials were unaware of their various record-keeping responsibilities.

Effect: Although we were able to obtain copies of the necessary documentation from third-party sources in order to complete our audit procedures, the failure of plan officials to maintain adequate records prohibits municipal officials from effectively monitoring the plan’s financial operations.

Recommendation: We recommend that plan officials establish accounting procedures which meet the minimum record-keeping requirements of this department. Plan officials should refer to the Auditor General’s Bulletin No. 2-88 entitled “Preparation, Maintenance and Auditability of Financial Records,” for further guidance in establishing adequate accounting procedures.

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

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, 2007, is as follows:

	(1)	(2)	(3)	(4)	(5)	(6)
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)	Covered Payroll (c)	Unfunded (Assets in Excess of) Actuarial Accrued Liability as a % of Payroll [(b-a)/(c)]
01-01-07	\$ 38,357	\$ 36,659	\$ (1,698)	104.6%	\$ 63,995	(2.7%)
01-01-09	36,719	44,522	7,803	82.5%	72,710	10.7%
01-01-11	47,990	57,358	9,368	83.7%	78,092	12.0%

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.

Trends in unfunded (assets in excess of) actuarial accrued liability and annual covered payroll are both affected by inflation. Expressing the unfunded (assets in excess of) actuarial accrued liability as a percentage of annual covered payroll (Column 6) approximately adjusts for the effects of inflation and aids analysis of the plan's progress made in accumulating sufficient assets to pay benefits when due. Generally, where there is an unfunded actuarial accrued liability, the smaller this percentage, the stronger the plan. However, when assets are in excess of the actuarial accrued liability, the higher the bracketed 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
2006	\$ 3,107	100.0%
2007	6,138	105.5%
2008	3,720	104.6%
2009	4,031	101.3%
2010	3,043	117.5%
2011	4,373	110.5%

DALE BOROUGH EMPLOYEES PENSION PLAN  
SUPPLEMENTARY INFORMATION  
NOTES TO SUPPLEMENTARY SCHEDULES  
(UNAUDITED)

The information presented in the required 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, 2011
Actuarial cost method	Entry age normal
Amortization method	Level dollar, closed
Remaining amortization period	16 years (aggregate)
Asset valuation method	Fair value
Actuarial assumptions:	
Investment rate of return	7.25%
Projected salary increases	None assumed

DALE BOROUGH EMPLOYEES PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett  
Governor  
Commonwealth of Pennsylvania

Dale Borough Employees Pension Plan  
Cambria County  
810 Bedford Street  
Johnstown, PA 15902

The Honorable Raymond E. Howard	Mayor
Mr. Ronald A. Horn	Acting Council President
Mr. Shawn Toth	Treasurer

This report is a matter of public record. Copies of this report may be obtained from the Pennsylvania Department of the Auditor General, Office of Communications, Room 318 Finance Building, Harrisburg, PA 17120. If you have any questions regarding this report or any other matter, you may contact the Department of the Auditor General by accessing our website at [www.auditorgen.state.pa.us](http://www.auditorgen.state.pa.us).