

COMPLIANCE AUDIT

City of New Kensington Comprehensive Municipal Pension Trust Fund Westmoreland County, Pennsylvania For the Period January 1, 2013 to December 31, 2014

November 2015



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 City Council
City of New Kensington
Westmoreland County
New Kensington, PA 15068

We have conducted a compliance audit of the City of New Kensington Comprehensive Municipal Pension Trust Fund for the period January 1, 2013 to December 31, 2014. 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 the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our finding and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our finding 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. To determine whether the pension trust fund 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.
- × 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.

- × 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 determined whether retirement benefits calculated for the plan member who retired from the police pension plan 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 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. We determined that no plan members retired from the firemen's pension plan during the current audit period.
- × We determined whether the January 1, 2011 and January 1, 2013 actuarial valuation reports were prepared and submitted to the Public Employee Retirement Commission (PERC) by March 31, 2012 and 2014, 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.
- × We determined whether all annual special ad hoc postretirement reimbursements received by the municipality were authorized and appropriately deposited in accordance with Act 147 by tracing information to supporting documentation maintained by plan officials.
- × We determined whether transfers were properly authorized, timely, and appropriately recorded by plan officials by examining supporting documentation for the transfer made during the audit period.
- × We determined whether the pension plan is in compliance with Act 205 for distressed municipalities through inquiry of plan officials and evaluation of the recovery remedies implemented during the audit period and through the completion of our fieldwork procedures.

City officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the City of New Kensington Comprehensive Municipal Pension Trust Fund 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 city's internal controls as they relate to the city'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 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 objective.

The results of our procedures indicated that, in all significant respects, the City of New Kensington Comprehensive Municipal Pension Trust Fund was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies, except as noted in the following finding further discussed later in this report:

Finding – Incorrect Data On Certification Form AG 64 Resulting In An Excess Reimbursement For Special 2002 Ad Hoc Postretirement Adjustment

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. However, we are extremely concerned about the funded status of the firemen's pension plan contained in the schedule of funding progress included in this report which indicates **the plan's funded ratio is 56.5% as of January 1, 2013**, which is the most recent data available. We encourage city officials to monitor the funding of the firemen's pension plan to ensure its long-term financial stability.

The contents of this report were discussed with officials of the City of New Kensington and, where appropriate, their responses have been included in the report. We would like to thank city officials for the cooperation extended to us during the conduct of the audit.

November 6, 2015



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 City of New Kensington Comprehensive Municipal Pension Trust Fund 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 including, but not limited to, the following:

- Act 147 - Special Ad Hoc Municipal Police and Firefighter Postretirement Adjustment Act, Act of December 14, 1988 (P.L. 1192, No. 147), as amended, 53 P.S. § 896.101 et seq.
- Act 317 - The Third Class City Code, Act of June 23, 1931 (P.L. 932, No. 317), as amended, 53 P.S. § 35101 et seq.

The City of New Kensington Comprehensive Municipal Pension Trust Fund (CMPTF) is a single-employer defined benefit pension plan for the city's police officers and paid firefighters. The CMPTF is locally controlled by the provisions of Ordinance No. 6-87, as amended, the police pension plan by Ordinance No. 1-12, as amended, and the firemen's pension plan by Ordinance No. 8-87, as amended, all adopted pursuant to Act 317. The police pension plan is also affected by the provisions of collective bargaining agreements between the city and its police officers. The CMPTF was established on October 20, 1987, and the police and firemen's pension plans were established on June 23, 1931. Active members of the police pension plan are required to contribute 5 percent of base pay and shift differential pay to the plan. As of December 31, 2014, the police pension plan had 22 active members, 1 terminated member eligible for vested benefits in the future, and 25 retirees receiving pension benefits from the plan. The firemen's pension plan has not had any active members since 1990. As of December 31, 2014, the plan had 5 retirees receiving pension benefits from the plan.

BACKGROUND – (Continued)

As of December 31, 2014, selected plan benefit provisions are as follows:

POLICE PENSION PLAN

Eligibility Requirements:

Normal Retirement	Age 50 and 20 years of service.
Early Retirement	None
Vesting	A member is 100% vested after 12 years of service.

Retirement Benefit:

A monthly benefit equal to average compensation (the higher of 50% of the final monthly base, holiday and longevity pay, or highest 5-year average) plus a service increment of 1/40 of basic pension for each full year of service beyond the minimum required for retirement (excluding service beyond 65), up to a maximum of \$100 per month.

Survivor Benefit:

Prior to the completion of 10 years of service: A monthly benefit equal to 25% of the participant's annual compensation on the day of death.

After disability or the completion of 10 years of service: A monthly benefit equal to 100% of the pension the participant was receiving or entitled to receive on the day of death.

Disability Benefit:

Service Related	Upon total and permanent disablement, the full retirement benefit (see above) is payable immediately, without regard to service at disablement.
Non-Service Related	Upon total and permanent disablement that occurs after 10 years of service, the full retirement benefit (see above) is payable. For service less than 10 years, 50% of the retirement benefit (or 25% of salary) will be payable.

BACKGROUND – (Continued)

FIREMEN’S PENSION PLAN

Eligibility Requirements:

Normal Retirement Completion of 20 years of service.

Early Retirement None

Vesting None

Retirement Benefit:

A monthly benefit equal to 50% of the greater of final monthly base pay or average compensation (averaged over the highest 5 years), plus a service increment of 1/40 of basic pension for each full year of service beyond the minimum required for retirement (excluding service beyond 65), up to a maximum of \$100 per month.

Survivor Benefit:

Before Retirement Eligibility Refund of member contributions

After Retirement Eligibility A monthly benefit equal to 100% of the pension the participant was receiving or was entitled to receive on the day of the member’s death.

Disability Benefit:

Service Related For total and permanent disablement, a monthly benefit equal to 50% of the greater of compensation or average compensation over highest 5 years.

Non-service Related For total and permanent disablement, a monthly benefit equal to 50% of the greater of compensation or average compensation over highest 5 years.

CITY OF NEW KENSINGTON COMPREHENSIVE MUNICIPAL PENSION TRUST FUND
FINDING AND RECOMMENDATION

Police and Firemen’s Pension Plans

Finding – Incorrect Data On Certification Form AG 64 Resulting In An Excess Reimbursement For Special 2002 Ad Hoc Postretirement Adjustment

Condition: The city overstated the amortization contribution requirement on the Certification Form AG 64 filed for the years 2014 and 2015.

Criteria: Section 502.1(a)(2) of Act 147 states, in part:

The determination of the reimbursable amount of the amortization contribution requirement attributable to the special ad hoc postretirement adjustment under Chapter 4 in any year shall be calculated as the amortization contribution requirement attributable to the special ad hoc postretirement adjustments under Chapter 4 and reflected in the determination of the financial requirements of the pension plan under Chapter 3 of the Municipal Pension Plan Funding Standard and Recovery Act for the immediate prior year less the product of that amortization contribution requirement multiplied by the ratio of the amount of general municipal pension system State aid allocated to the retirement system in the immediate prior year to the total amount of municipal contributions made to the retirement system from all sources other than employee contributions in the immediate prior year.

Cause: Plan officials included the amortization amount from the January 1, 2011 actuarial valuation report on its Certification Form AG 64 filed for the years 2014 and 2015. However, the January 1, 2013 actuarial valuation report included no such amount as the amortization period had expired; consequently, the city was not entitled to a reimbursement in either 2014 or 2015.

Effect: The data submitted on this certification form is used to calculate the reimbursement due the city for ad hoc postretirement adjustments granted pursuant to Chapter 4 of Act 147. The effect of the incorrect certification of pension data on the city’s reimbursements is identified below:

<u>Year</u>	<u>Reimbursement Claimed</u>	<u>Reimbursement Due</u>	<u>Excess Reimbursement</u>
2014	\$ 7,673	\$ -	\$ 7,673
2015	\$ 7,106	\$ -	7,106
		Total	<u><u>\$ 14,779</u></u>

CITY OF NEW KENSINGTON COMPREHENSIVE MUNICIPAL PENSION TRUST FUND
FINDING AND RECOMMENDATION

Police and Firemen's Pension Plans – (Continued)

Finding – (Continued)

Recommendation: We recommend that the total excess reimbursement, in the amount of \$14,779, be returned to the Commonwealth. 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, 320 Finance Building, Harrisburg, PA 17120. A copy of the interest calculation must be submitted along with the check.

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

Auditor's Conclusion: Compliance will be monitored subsequent to the release of the audit report and through our next audit of the trust fund.

CITY OF NEW KENSINGTON COMPREHENSIVE MUNICIPAL PENSION TRUST FUND
 SUPPLEMENTARY INFORMATION
 (UNAUDITED)

The supplementary information contained on Pages 6 and 7 reflect the implementation of GASB Statement No. 67, *Financial Reporting for Pension Plans*. The objective of this statement is to improve financial reporting by state and local governmental pension plans.

POLICE PENSION PLAN

SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY
 FOR THE YEAR ENDED DECEMBER 31, 2014

Total Pension Liability		
Service cost	\$	274,681
Interest		920,040
Benefit payments, including refunds of member contributions		(610,292)
Net Change in Total Pension Liability		584,429
Total Pension Liability - Beginning		14,180,133
Total Pension Liability - Ending (a)	\$	14,764,562
Plan Fiduciary Net Position - Ending (b)	\$	11,976,611
Net Pension Liability - Ending (a-b)	\$	2,787,951

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the city, calculated using the discount rate of 6.5%, as well as what the city's net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower or 1 percentage-point higher than the current rate:

	1% Decrease (5.5%)	Current Discount Rate (6.5%)	1% Increase (7.5%)
Net Pension Liability	\$ 4,579,626	\$ 2,787,951	\$ 1,300,468

CITY OF NEW KENSINGTON COMPREHENSIVE MUNICIPAL PENSION TRUST FUND
 SUPPLEMENTARY INFORMATION
 (UNAUDITED)

FIREMEN’S PENSION PLAN

SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY
 FOR THE YEAR ENDED DECEMBER 31, 2014

Total Pension Liability			
Interest	\$	40,676	
Benefit payments, including refunds of member contributions		(73,798)	
Net Change in Total Pension Liability		(33,122)	
Total Pension Liability - Beginning		662,107	
Total Pension Liability - Ending (a)	\$	628,985	
Plan Fiduciary Net Position - Ending (b)	\$	434,359	
Net Pension Liability - Ending (a-b)	\$	194,626	

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the city, calculated using the discount rate of 6.5%, as well as what the city’s net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower or 1 percentage-point higher than the current rate:

	1% Decrease (5.5%)	Current Discount Rate (6.5%)	1% Increase (7.5%)
Net Pension Liability	\$ 235,945	\$ 194,626	\$ 157,719

CITY OF NEW KENSINGTON COMPREHENSIVE MUNICIPAL PENSION TRUST FUND
 SUPPLEMENTARY INFORMATION
 (UNAUDITED)

SCHEDULES 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, 2009, is as follows:

POLICE PENSION PLAN

	(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)
01-01-09	\$ 7,907,750	\$ 12,452,785	\$ 4,545,035	63.5%
01-01-11	8,548,607	12,552,574	4,003,967	68.1%
01-01-13	10,079,492	13,628,382	3,548,890	74.0%

Note: The market values of the plan's assets at 01-01-09, 01-01-11, and 01-01-13 have been adjusted to reflect the smoothing of gains and/or losses over a 4-year averaging period. This method will lower contributions in years of less than expected returns and increase contributions in years of greater than expected returns. The net effect over long periods of time is to have less variance in contribution levels from year to year.

CITY OF NEW KENSINGTON COMPREHENSIVE MUNICIPAL PENSION TRUST FUND
 SUPPLEMENTARY INFORMATION
 (UNAUDITED)

SCHEDULES OF FUNDING PROGRESS – (Continued)

FIREMEN’S PENSION PLAN

	(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)
01-01-09	\$ 522,791	\$ 784,566	\$ 261,775	66.6%
01-01-11	430,494	740,607	310,113	58.1%
01-01-13	391,967	693,207	301,240	56.5%

Note: The market values of the plan’s assets at 01-01-09, 01-01-11, and 01-01-13 have been adjusted to reflect the smoothing of gains and/or losses over a 4-year averaging period. This method will lower contributions in years of less than expected returns and increase contributions in years of greater than expected returns. The net effect over long periods of time is to have less variance in contribution levels from year to year.

CITY OF NEW KENSINGTON COMPREHENSIVE MUNICIPAL PENSION TRUST FUND
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.

CITY OF NEW KENSINGTON COMPREHENSIVE MUNICIPAL PENSION TRUST FUND
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULES OF CONTRIBUTIONS FROM EMPLOYER
AND OTHER CONTRIBUTING ENTITIES

POLICE PENSION PLAN

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2009	\$ 584,057	100.0%
2010	562,374	100.0%
2011	666,981	100.0%
2012	641,325	100.0%
2013	626,307	100.0%
2014	627,162	100.0%

CITY OF NEW KENSINGTON COMPREHENSIVE MUNICIPAL PENSION TRUST FUND
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULES OF CONTRIBUTIONS FROM EMPLOYER
AND OTHER CONTRIBUTING ENTITIES – (Continued)

FIREMEN’S PENSION PLAN

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2009	\$ 17,106	100.0%
2010	18,234	100.0%
2011	24,115	100.0%
2012	32,288	100.0%
2013	89,341	100.0%
2014	32,868	100.0%

CITY OF NEW KENSINGTON COMPREHENSIVE MUNICIPAL PENSION TRUST FUND
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:

POLICE PENSION PLAN

Actuarial valuation date	January 1, 2013
Actuarial cost method	Entry age normal
Amortization method	Level dollar, closed
Remaining amortization period	10 years
Asset valuation method	Fair value, 4-year smoothing
Actuarial assumptions:	
Investment rate of return	6.5%
Projected salary increases*	4.5%

* Includes inflation at 3.0%

CITY OF NEW KENSINGTON COMPREHENSIVE MUNICIPAL PENSION TRUST FUND
SUPPLEMENTARY INFORMATION
NOTES TO SUPPLEMENTARY SCHEDULES
(UNAUDITED)

FIREMEN'S PENSION PLAN

Actuarial valuation date	January 1, 2013
Actuarial cost method	Entry age normal
Amortization method	Level dollar, closed
Remaining amortization period	4 years
Asset valuation method	Fair value, 4-year smoothing
Actuarial assumptions:	
Investment rate of return	6.5%
Projected salary increases*	5.0%

* Includes inflation at 3.0%

CITY OF NEW KENSINGTON COMPREHENSIVE MUNICIPAL PENSION TRUST FUND
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

City of New Kensington Comprehensive Municipal Pension Trust Fund
Westmoreland County
301 Eleventh Street
New Kensington, PA 15068

The Honorable Thomas D. Guzzo	Mayor
Mr. Dennis F. Scarpiniti	City Clerk
Mr. John S. Zavadak	City Controller
Mr. James C. Moore	Treasurer
Ms. Karen Grillo	Office Manager

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