COMPLIANCE AUDIT

City of St. Mary's Non-Uniformed Employees Pension Plan

Elk County, Pennsylvania

For the Period

January 1, 2013 to December 31, 2014

June 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 St. Mary's
Elk County
St. Mary's, PA 15857

We have conducted a compliance audit of the City of St. Mary's Non-Uniformed Employees Pension Plan 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 our audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our finding and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our finding 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.

- 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 2 plan members who retired 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 retired individuals and comparing these amounts to supporting documentation evidencing amounts determined and actually paid to recipients.

- 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.

The City of St. Mary's contracted with an independent certified public accounting firm for annual audits of its basic financial statements which are available at the city's offices. Those financial statements were not audited by us and, accordingly, we express no opinion or other form of assurance on them.

City officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the City of St. Mary's Non-Uniformed 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 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 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 City of St. Mary's Non-Uniformed 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 finding further discussed later in this report:

Finding – Noncompliance With Prior Audit Recommendation - Pension Benefits Not In Compliance With The Third Class City Code

The finding contained in this audit report repeats a condition that was cited in our previous audit reports that has not been corrected by city officials. We are concerned by the city's failure to correct this previously reported audit finding and strongly encourage timely implementation of the recommendation noted in this audit report.

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 the City of St. Mary's 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.

June 5, 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 St. Mary's 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 including, but not limited to, the following:

Act 177 - General Local Government Code, Act of December 19, 1996 (P.L. 1158, No. 177), as amended, 53 Pa.C.S. § 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 St. Mary's Non-Uniformed Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 151, as amended, for employees hired before January 24, 2001 and Ordinance No. 176, as amended, adopted pursuant to Act 317, for employees hired on or after January 24, 2001. The plan is also affected by the provisions of collective bargaining agreements between the city and its non-uniformed employees. The plan was established September 1, 1979. Active members hired before January 24, 2001 are required to contribute 2 percent of base pay to the plan and active employees hired after January 24, 2001 are required to contribute 3.5 percent of base pay to the plan. As of December 31, 2014, the plan had 30 active members, 2 terminated members eligible for vested benefits in the future, and 19 retirees receiving pension benefits from the plan.

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

Eligibility Requirements:

Normal Retirement	Age 65 and 20 years of service if hired prior to January 24, 2001. Age 60 and 20 years of service if hired on or after January 24, 2001.
Early Retirement	Age 60 and 20 years of service, if hired prior to January 24, 2001.
Vesting	100% after 7 years of service, if hired prior to January 24, 2001. No vesting if hired on or after January 24, 2001.

Retirement Benefit:

If hired prior to January 24, 2001 - 30% of average monthly pay based on highest consecutive 12 months over the last 5 years, plus 1% of average monthly pay for each year of service over 25 years (maximum $100).

If hired on or after January 24, 2001 - 50% of final monthly average compensation offset by 40% of primary insurance amount of Social Security. Final monthly average compensation is higher of average during last year or average during any 5 years.

Survivor Benefit:

Before Retirement Eligibility	A lump sum equal to the present value of the accrued benefit at the time of death for those hired before January 24, 2001, and a refund of member contributions without interest for those hired on or after January 24, 2001.
After Retirement Eligibility	50% of the benefit to the surviving spouse.

Service and Non-Service Related Disability Benefit:

If hired prior to January 24, 2001 and have 10 years of service – an accrued benefit payable after 6 months of disability. If hired on or after January 24, 2001 and have 10 years of service – a normal retirement benefit with no social security offset.

CITY OF ST. MARY'S NON-UNIFORMED EMPLOYEES PENSION PLAN
STATUS OF PRIOR FINDING

Noncompliance With Prior Audit Recommendation

The City of St. Mary's has not complied with the prior audit recommendation concerning the following as further discussed in the finding and recommendation section of this report:

- Pension Benefits Not In Compliance With The Third Class City Code

Finding – Noncompliance With Prior Audit Recommendation – Pension Benefits Not In Compliance With The Third Class City Code

Condition: As initially disclosed in the audit report for the period of January 1, 2003 to December 31, 2004, the city adopted a home rule charter pursuant to the Home Rule Charter and Optional Plans Law, 53 Pa. C.S. § 2901 et seq. (previously 53 P.S. § 1-101 et seq.). Our audit of the non-uniformed pension plan has revealed that the city continues to provide benefits to its non-uniformed employees who were hired prior to January 24, 2001, which are less than those prescribed by the Third Class City Code, as noted below:

Benefit	Governing Document	Third Class City Code
Disability benefit	A member who becomes disabled after he has completed ten (10) years of Credited Service will be entitled to a total and permanent disability pension after being disabled for a period of six (6) months. The amount of the pension accrued to the date of disability. (Section 4.04)	An employee who incurs a total and permanent disability after completing 10 years of service and before attaining age 60 shall receive a benefit equal to the normal retirement benefit but without offset for social security benefits. (sections 4343 and 4343(2))
Normal retirement age	Normal retirement age is 65 with 20 years of service. (Section 1.23)	Normal retirement age is 60 with 20 years of service. (Section 4342)
Survivor benefit	For those participants who are married for at least one year on the date of retirement, a monthly annuity for the life of the Participant and on the Participant's death, one-half of the Participant's monthly annuity payable to the spouse for her (sic) lifetime. (Section 1.22)	The surviving spouse of a deceased employee who was retired or killed in service shall receive a benefit equal to 50% of the pension benefit to which the participant was entitled as of the date of death. (Section 4343)

Finding – (Continued)

Benefit	Governing Document	Third Class City Code
Basic monthly pension benefit	The basic monthly pension shall be equal to 30% of the average monthly salary. The minimum pension benefit is $18 multiplied by the number of years of service at retirement or other severance. (Section 4.01)	Basic Monthly pension benefit is 50% of the amount which would constitute the average annual salary or wages which the member received during the last or any five years of his or her employment by said city, whichever is higher. (Section 4343)

Criteria: On January 24, 2001, the Commonwealth Court of Pennsylvania issued its opinion in *Municipality of Monroeville v. Monroeville Police Department Wage Policy Committee.* Therein, the court held that Section 2962(c)(5) of the Home Rule Charter and Optional Plans Law, 53 Pa. C.S. § 2962(c)(5), "clearly precludes home rule municipalities from providing pension benefits different from those prescribed in general law including Act 600." The court's holding was in accord with the position taken by this department since at least January 1995.

Cause: Municipal officials indicated that the city does not have adequate funds to support the costs of the recommended benefit changes.

Effect: Plan provisions which are not in compliance with the Third Class City Code has resulted in a plan member being denied disability benefits to which they are statutorily entitled.

Recommendation: We again recommend to the extent that the city has failed to provide benefits to its non-uniformed employees which are mandated by the Third Class City Code that the city increase those benefits to the levels prescribed by the Code, as enumerated herein for members hired prior to January 24, 2001, at its earliest opportunity to do so.

Management's Response: Municipal officials disagreed with the finding recommendation. The City of St. Mary's maintains that pension benefits were collectively bargained between the employees and the City and that the City does not have adequate funds to support the costs of the recommended benefit changes.

Finding – (Continued)

Auditor's Conclusion: The Department recognizes that the city is unable to make any unilateral changes to its pension plans due to collective bargaining agreements that have been negotiated. However, it remains the Department's position that since the city has failed to provide benefits which are mandated by the Third Class City Code, and we again recommend that the city increase those benefits for all active plan members to the levels prescribed by the code at its earliest opportunity to do so. We will continue to monitor the city's compliance with the prior audit recommendations during future audits of the plan.

CITY OF ST. MARY'S NON-UNIFORMED 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, 2009, 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)]
01-01-09	$ 2,185,067	$ 2,976,834	$ 791,767	73.4%	$ 1,592,474	49.7%
01-01-11	2,943,565	3,272,464	328,899	89.9%	1,562,205	21.1%
01-01-13	3,403,204	3,622,563	219,359	93.9%	1,439,352	15.2%

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. When assets are in excess of the actuarial accrued liability, the higher the bracketed percentage, the stronger the plan.

CITY OF ST. MARY’S NON-UNIFORMED EMPLOYEES PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER
AND OTHER CONTRIBUTING ENTITIES

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2009	$ 88,934	103.7%
2010	90,148	128.2%
2011	166,214	100.0%
2012	139,825	100.0%
2013	133,164	100.0%
2014	135,463	100.0%

CITY OF ST. MARY'S NON-UNIFORMED 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, 2013
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	2 years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return	7.5%
Projected salary increases	5.0%

CITY OF ST. MARY'S NON-UNIFORMED EMPLOYEES PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
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The Honorable Robert Howard	Mayor
Mr. Tim Brennen	City Manager
Ms. Carol Muhitch	Finance Director

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