

# COMPLIANCE AUDIT

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## City of Connellsville Firefighters' Pension Plan Fayette County, Pennsylvania For the Period January 1, 2016 to December 31, 2018

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December 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 City Council  
City of Connellsville  
Fayette County  
Connellsville, PA 15425

We have conducted a compliance audit of the City of Connellsville Firefighters' Pension Plan for the period January 1, 2016 to December 31, 2018. 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 conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our 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 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 that there were no employee contributions required by the plan's governing document and applicable laws and regulations for the years covered by our audit period.
- We determined that there were no benefit calculations prepared for the years covered by our audit period.
- We determined 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.
- 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.

The City of Connellsville 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 Connellsville Firefighters' 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 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 Connellsville Firefighters' Pension Plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies.

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 plan contained in the schedule of funding progress included in this report which indicates **the plan's funded ratio is 64.0% as of January 1, 2017**, which is the most recent data available. We encourage city officials to monitor the funding of the firefighter's pension plan to ensure its long-term financial stability.

The contents of this report were discussed with officials of City of Connellsville 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 15, 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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## 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 Connellsville Firefighters' Pension Plan is also governed by implementing regulations adopted by the former 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 67 - The Third Class City Code, Act of November 24, 2015 (P.L. 242, No. 67), as amended, 11 Pa. C.S. § 10101 et seq.

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.

The City of Connellsville Firefighters' Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 1413, as amended, adopted pursuant to Act 67 (*formerly Act 317*). The plan is also affected by the provisions of collective bargaining agreements between the city and its paid firefighters. The plan was established January 1, 1960. As previously disclosed, after the November 2014 election, the city adopted Ordinance No. 1516 which in part, disbanded the City's paid fire department and replaced it with the service of a volunteer fire department. Effective December 31, 2014, the last full-time, active firefighter vested his benefit and the plan no longer has any active members. As of December 31, 2018, the plan had 1 terminated member eligible for vested benefits in the future and 9 retirees receiving pension benefits from the plan.

CITY OF CONNELLSVILLE FIREFIGHTERS' PENSION PLAN  
STATUS OF PRIOR FINDING

Status Of Prior Audit Recommendation

· Unauthorized Vested Pension Benefit

As previously disclosed in the prior audit report covering the period January 1, 2014 to December 31, 2015, based on a referendum authorized by the city during 2014, city voters elected to eliminate its paid fire department and replace it with the service of a volunteer fire department. At that time, there was one remaining active firefighter. Through arbitration, a settlement was reached to provide the firefighter with a vested pension benefit payable at the age of 55. At the time of this agreement, the plan's governing documents did not provide for a vested pension benefit.

Based on the settlement reached through arbitration, the city is contractually obligated to pay a benefit to the terminated member in excess of what is authorized by the Third Class City Code. Since the city received state aid based on unit value during the prior audit period and therefore did not receive any excess state aid attributable to the excess benefits provided, the finding would not repeated in subsequent audit reports. It was further disclosed that the Department would continue to monitor the effect of the excess pension benefits on the city's state aid allocations during future audits of the plan.

During the current audit period, the city again received its state aid based on unit value and therefore did not receive any excess state aid attributable to the excess benefits provided. The Department will continue to monitor the effect of the excess pension benefits on the city's state aid allocations during future audits of the plan.

CITY OF CONNELLSVILLE FIREFIGHTERS' PENSION PLAN  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

The supplementary information contained on Pages 3 through 5 reflects 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.

SCHEDULE OF CHANGES IN THE NET PENSION  
LIABILITY AND RELATED RATIOS  
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2017

	<u>2016</u>	<u>2017</u>
Total Pension Liability		
Interest	\$ 111,127	\$ 115,119
Difference between expected and actual experience	-	53,224
Changes of assumptions	-	102,058
Benefit payments, including refunds of member contributions	(160,206)	(160,206)
Net Change in Total Pension Liability	(49,079)	110,195
Total Pension Liability – Beginning	1,560,343	1,511,264
Total Pension Liability – Ending (a)	<u>\$ 1,511,264</u>	<u>\$ 1,621,459</u>
Plan Fiduciary Net Position		
Contributions – employer	\$ 25,955	\$ 34,171
Net investment income	44,241	131,454
Benefit payments, including refunds of member contributions	(160,206)	(160,206)
Administrative expense	(11,693)	(8,368)
Other	(208)	-
Net Change in Plan Fiduciary Net Position	(101,911)	(2,949)
Plan Fiduciary Net Position – Beginning	1,106,775	1,004,864
Plan Fiduciary Net Position – Ending (b)	<u>\$ 1,004,864</u>	<u>\$ 1,001,915</u>
Net Pension Liability – Ending (a-b)	<u>\$ 506,400</u>	<u>\$ 619,544</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	66.5%	61.8%



CITY OF CONNELLSVILLE FIREFIGHTERS' PENSION PLAN  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

Sensitivity Of The Net Pension Liability To Changes In The Discount Rate

The following presents the net pension liability of the city as of December 31, 2016, calculated using the discount rate of 7.5%, 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 (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
Net Pension Liability – 12/31/16	\$ 635,965	\$ 506,400	\$ 394,794

In addition, the following presents the net pension liability of the city as of December 31, 2017, calculated using the discount rate of 7.25%, 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 (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Net Pension Liability – 12/31/17	\$ 763,294	\$ 619,544	\$ 496,189

CITY OF CONNELLSVILLE FIREFIGHTERS' PENSION PLAN  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

SCHEDULE OF CONTRIBUTIONS

Year Ended December 31	Actuarially Determined Contribution	Actual Contributions	Contribution Deficiency (Excess)	Covered- Employee Payroll*	Contributions as a Percentage of Covered- Employee Payroll
2009	\$ 22,367	\$ 22,367	\$ -	\$ -	-
2010	24,168	24,168	-	153,458	15.7%
2011	42,962	44,948	(1,986)	-	-
2012	89,774	68,517	21,257	54,246	126.3%
2013	70,609	70,609	-	-	-
2014	101,398	101,398	-	54,969	184.5%
2015	76,900	76,900	-	-	N/A
2016	25,955	25,955	-	-	N/A
2017	34,171	34,171	-	-	N/A
2018	43,106	43,106	-	-	N/A

\* Due to GASB Statement No. 67, *Financial Reporting for Pension Plans*, being implemented only recently, the amount of Covered-Employee Payroll was not provided for odd years prior to 2014. Furthermore, as noted earlier in this report, the city adopted Ordinance Number 1516, which in part, disbanded the City's paid fire department and replaced it with the service of a volunteer fire department. Effective December 31, 2014, the last active, full-time, paid firefighter vested his pension benefit and the plan no longer has any active members.

SCHEDULE OF INVESTMENT RETURNS

Annual Money-Weighted Rate of Return, Net of Investment Expense:

2017	14.11%
2016	4.28%

CITY OF CONNELLSVILLE FIREFIGHTERS' 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	\$ 1,087,529	\$ 1,710,627	\$ 623,098	63.6%
01-01-15	1,132,506	1,605,998	473,492	70.5%
01-01-17	1,066,476	1,666,546	600,070	64.0%

Note: The market values of the plan's assets at 01-01-13, 01-01-15, and 01-01-17 have been adjusted to reflect the smoothing of gains and/or losses over a four-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 CONNELLSVILLE FIREFIGHTERS' 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.

CITY OF CONNELLSVILLE FIREFIGHTERS' 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	5 years
Asset valuation method	Fair value, 4-year smoothing
Actuarial assumptions:	
Investment rate of return	7.25%
Projected salary increases	N/A

CITY OF CONNELLSVILLE FIREFIGHTERS' PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

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**Mr. Bruce Witt**  
City Controller

**Ms. Marilyn V. Weaver**  
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