

COMPLIANCE AUDIT

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

December 2019



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



Commonwealth of Pennsylvania
Department of the Auditor General
Harrisburg, PA 17120-0018
Facebook: Pennsylvania Auditor General
Twitter: @PAAuditorGen
www.PaAuditor.gov

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 Police 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 our audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our 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 total 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 both of the plan members who retired during the current audit period, and through the completion of our fieldwork procedures, 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, 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.
- We determined whether provisions of the Deferred Retirement Option Plan (DROP) were in accordance with the provisions of Act 205 by examining provisions stated in the plan's governing documents.

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 Police 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 Connellsville Police 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.

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.



EUGENE A. DEPASQUALE
Auditor General

November 15, 2019

CONTENTS

	<u>Page</u>
Background.....	1
Status Of Prior Finding.....	3
Supplementary Information	4
Report Distribution List	10

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 Police 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 Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 1412, as amended, adopted pursuant to Act 67 (*formerly Act 317*), as amended. The plan is also affected by the provisions of collective bargaining agreements between the city and its police officers. The plan was established October 8, 1945. Active members are required to contribute 5 percent of compensation to the plan. As of December 31, 2018, the plan had 15 active members, 1 terminated member eligible for vested benefits in the future, and 23 retirees receiving pension benefits from the plan.

BACKGROUND – (Continued)

As of December 31, 2018, selected plan benefit provisions are as follows:

Eligibility Requirements:

Normal Retirement	Eligible with 20 years of service.
Early Retirement	None
Vesting	100% vesting available after 12 years of service.

Retirement Benefit:

Benefit equals 50% of the greater of monthly pay at retirement, or average pay during the last 5 years of employment, plus a service increment of \$100 per month for each year of service in excess of 20 years, up to a maximum of \$100 per month.

Survivor Benefit:

Before Retirement Eligibility	Refund of member contributions.
After Retirement Eligibility	The survivor spouse will receive a monthly benefit equal to 50% of the pension the member was receiving or was entitled to receive payable for life.

Disability Benefit:

For service related disability or non-service related disability with more than 10 years of service, a monthly benefit equal to 50% of monthly pay at date of disability, offset by Worker's Compensation and any other benefit provided under the Heart and Lung Act.

For non-service disability with less than 10 years of service, a monthly benefit equal to 25% of monthly pay offset by Worker's Compensation and any other benefit provided under the Heart and Lung Act.

CITY OF CONNELLSVILLE POLICE PENSION PLAN
STATUS OF PRIOR FINDING

Compliance With Prior Audit Recommendation

The City of Connellsville has complied with the prior audit recommendation concerning the following:

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

During the current audit period, the city reimbursed \$8,541 to the Commonwealth for the overpayment of state aid received in 2014 and complied with the instructions accompanying the Certification Form AG 385s and accurately reported the required data.

CITY OF CONNELLSVILLE POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

The supplementary information contained on Pages 4 through 6 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		
Service cost	\$ 159,656	\$ 178,794
Interest	578,513	581,262
Difference between expected and actual experience	-	(261,347)
Changes of assumptions	-	306,889
Benefit payments, including refunds of member contributions	<u>(425,292)</u>	<u>(574,979)</u>
Net Change in Total Pension Liability	312,877	230,619
Total Pension Liability – Beginning	<u>7,762,652</u>	<u>8,075,529</u>
Total Pension Liability – Ending (a)	<u><u>\$ 8,075,529</u></u>	<u><u>\$ 8,306,148</u></u>
Plan Fiduciary Net Position		
Contributions – employer *	\$ 353,443	\$ 313,069
Contributions – member	41,664	43,144
Net investment income	251,365	845,215
Benefit payments, including refunds of member contributions	<u>(425,292)</u>	<u>(574,979)</u>
Administrative expense	<u>(41,719)</u>	<u>(39,343)</u>
Net Change in Plan Fiduciary Net Position	179,461	587,106
Plan Fiduciary Net Position – Beginning	<u>6,112,646</u>	<u>6,292,107</u>
Plan Fiduciary Net Position – Ending (b)	<u><u>\$ 6,292,107</u></u>	<u><u>\$ 6,879,213</u></u>
Net Pension Liability – Ending (a-b)	<u><u>\$ 1,783,422</u></u>	<u><u>\$ 1,426,935</u></u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	77.9%	82.8%
Estimated Covered Employee Payroll	\$ 855,310	\$ 934,404
Net Pension Liability as a Percentage of Covered Employee Payroll	208.5%	152.7%

* The 2016 employer contributions contains a \$3 rounding error.

CITY OF CONNELLSVILLE POLICE 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	\$ 2,686,790	\$ 1,783,422	\$ 1,030,951

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	\$ 2,270,990	\$ 1,426,935	\$ 447,976

CITY OF CONNELLSVILLE POLICE 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	\$ 159,448	\$ 159,448	\$ -	\$ -	-
2010	177,158	177,158	-	830,958	21.3%
2011	229,277	229,277	-	-	-
2012	256,704	227,567	29,137	976,875	23.3%
2013	309,885	309,885	-	-	-
2014	301,381	301,381	-	828,274	36.4%
2015	365,208	365,208	-	798,955	45.7%
2016	353,443	353,443	-	855,310	41.3%
2017	313,069	313,069	-	934,404	33.5%
2018	334,528	334,528	-		

* 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 2015. In addition, due to the timing of this audit, covered-employee payroll for 2018 was not provided in this schedule.

SCHEDULE OF INVESTMENT RETURNS

Annual Money-Weighted Rate of Return, Net of Investment Expense not funded through the MMO.*

2017	13.90%
2016	4.31%

* Excludes return on DROP accounts.

CITY OF CONNELLSVILLE POLICE 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	\$ 4,875,519	\$ 6,984,741	\$ 2,109,222	69.8%
01-01-15	5,788,175	7,407,456	1,619,281	78.1%
01-01-17	6,623,939	8,121,071	1,497,132	81.6%

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 POLICE 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 POLICE 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	11 years
Asset valuation method	Fair value, 4 year smoothing
Actuarial assumptions:	
Investment rate of return	7.25%
Projected salary increases *	5.0%

* Includes inflation at 2.75%

CITY OF CONNELLSVILLE POLICE PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

The Honorable Greg Lincoln
Mayor

Mr. Vernon E. Ohler
City Clerk

Mr. Ethan Keedy
Council Member

Mr. Robert Topper, Jr.
Council Member

Mr. Thomas Karpiak
Council Member

Mrs. Melissa Brown Tzan
Council Member

Mr. Bruce Witt
City Controller

Ms. Marilyn V. Weaver
Treasurer

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.