

# COMPLIANCE AUDIT

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## City of Meadville Firemen's Pension Plan Crawford County, Pennsylvania For the Period January 1, 2017 to December 31, 2018

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November 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 Meadville  
Crawford County  
Meadville, PA 16335

We have conducted a compliance audit of the City of Meadville Firemen's Pension Plan for the period January 1, 2017 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 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 all three of the 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, 2017 actuarial valuation report was prepared and submitted by March 31, 2018, in accordance with Act 205 and whether selected information provided on this report 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.

City officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the City of Meadville Firemen's 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 Meadville Firemen's 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 the City of Meadville 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.

October 25, 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 Meadville Firemen's 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 399 - Optional Third Class City Charter Law, Act of July 15, 1957 (P.L. 901, No. 399), as amended, 53 P.S. § 41101 et seq.

The City of Meadville Firemen's Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Article 161 of the city's codified ordinances, adopted pursuant to Act 399. The plan is also affected by the provisions of collective bargaining agreements between the city and its firefighters. The plan was established May 25, 1954. Active members are required to contribute 5 percent of salary to the plan. As of December 31, 2018, the plan had 10 active members, no terminated members eligible for vested benefits in the future, and 23 retirees receiving pension benefits.

## **BACKGROUND – (Continued)**

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

### Eligibility Requirements:

Normal Retirement	Age 50 and 20 years of service.
Early Retirement	None
Vesting	100% vesting available after 12 years of service.

### Retirement Benefit:

The sum of 55% (50% if hired on or after January 30, 2013) of the greater of final monthly pay or the highest average annual salary which the member received during any 5 years of service, plus 1/40<sup>th</sup> of the retirement allowance for each year of service in excess of 20 (maximum annual increment \$1,200).

### Survivor Benefit:

Before Retirement Eligibility	Refund of member contributions without interest.
After Retirement Eligibility	A monthly benefit equal to 100% of the pension the member was receiving or was entitled to receive on the day of the member's death.

### Disability Benefit:

Service Related	Normal retirement benefit payable upon disablement.
Non-Service Related	A percentage of the adjusted normal retirement benefit based on length of service.

CITY OF MEADVILLE FIREMEN'S 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, 2017 AND 2018

	<u>2017</u>	<u>2018</u>
Total Pension Liability		
Service cost	\$ 136,393	\$ 141,682
Interest	517,452	528,910
Difference between expected and actual experience	57,208	-
Changes of assumptions	(20,402)	-
Benefit payments, including refunds of member contributions	(456,188)	(491,028)
Net Change in Total Pension Liability	234,463	179,564
Total Pension Liability – Beginning	7,445,677	7,680,140
Total Pension Liability – Ending (a)	<u>\$ 7,680,140</u>	<u>\$ 7,859,704</u>
Plan Fiduciary Net Position		
Contributions – employer	\$ 135,662	\$ 134,543
Contributions – member	35,591	34,217
Net investment income	787,555	(398,209)
Benefit payments, including refunds of member contributions	(456,188)	(491,028)
Administrative expense	(14,077)	(15,005)
Net Change in Plan Fiduciary Net Position	488,543	(735,482)
Plan Fiduciary Net Position – Beginning	6,426,780	6,915,323
Plan Fiduciary Net Position – Ending (b)	<u>\$ 6,915,323</u>	<u>\$ 6,179,841</u>
Net Pension Liability – Ending (a-b)	<u>\$ 764,817</u>	<u>\$ 1,679,863</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	90.04%	78.63%
Estimated Covered Employee Payroll	\$ 725,000	\$ 717,000
Net Pension Liability as a Percentage of Covered Employee Payroll	105.49%	234.29%



CITY OF MEADVILLE FIREMEN'S 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, 2017 and 2018, calculated using the discount rate of 7.0%, 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 (6.0%)	Current Discount Rate (7.0%)	1% Increase (8.0%)
Net Pension Liability – 12/31/17	\$ 1,677,462	\$ 764,817	\$ 3,892
Net Pension Liability – 12/31/18	\$ 2,613,982	\$ 1,679,863	\$ 900,789

\* The assumed interest rate of 7.625% as of January 1, 2017 is a gross return assumption, without reduction for investment expenses or administrative expense, as reported above.

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	\$ 137,873	\$ 137,873	\$ -	\$ 785,000	17.56%
2010	125,096	125,096	-	810,000	15.44%
2011	107,838	107,838	-	853,000	12.64%
2012	112,409	112,409	-	865,000	13.00%
2013	114,053	114,053	-	925,000	12.33%
2014	118,773	118,773	-	907,000	13.10%
2015	195,785	175,309	20,476*	866,000	20.24%
2016	192,414	171,938	20,476*	733,000	23.46%
2017	135,662	135,662	-	725,000	18.71%
2018	134,543	134,543	-	717,000	18.76%

\* As a Level 1 Distressed Municipality, the City elected the amortization contribution reduction remedy whereby the city was authorized to deposit less than the full minimum municipal obligation (MMO) for the years 2015 and 2016 in accordance with Act 205.

CITY OF MEADVILLE FIREMEN'S PENSION PLAN  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

SCHEDULE OF INVESTMENT RETURNS

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

2018	(5.9%)
2017	12.5%
2016	7.3%
2015	(0.7%)

CITY OF MEADVILLE FIREMEN'S 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	\$ 5,456,791	\$ 6,188,707	\$ 731,916	88.2%
01-01-15	6,214,310	6,575,704	361,394	94.5%
01-01-17	6,638,186	6,999,688	361,502	94.8%

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 subject to a corridor between 80 and 120% of the market value of assets. 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 MEADVILLE FIREMEN'S 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 MEADVILLE FIREMEN'S 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
Remaining amortization period	10 years
Asset valuation method	Plan assets are valued using the method described in Section 210 of Act 205, as amended, subject to a corridor between 80-120% of the market value of assets.
Actuarial assumptions:	
Investment rate of return	7.625%
Projected salary increases *	3.77%
Cost-of-living adjustments	None assumed

\* Includes inflation at 2.50%

CITY OF MEADVILLE FIREMEN'S PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

**The Honorable Tom W. Wolf**  
Governor  
Commonwealth of Pennsylvania

**The Honorable H. LeRoy Stearns**  
Mayor

**Ms. Nancy Mangilo-Bittner**  
Deputy Mayor

**Mr. Andrew J. Walker**  
City Manager

**Ms. Deborah L. Oldakowski**  
Finance Director

**Ms. Rosemarie M. Groves**  
City Controller

**Ms. M. Michelle Sampson**  
City Treasurer

**Mr. Sean P. Donahue**  
Council Member

**Mr. John Battaglia**  
Council Member

**Mr. James Roha**  
Council Member

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