

COMPLIANCE AUDIT

City of Meadville City Employees' Pension Fund Crawford County, Pennsylvania For the Period January 1, 2017 to December 31, 2018

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 City Employees' Pension Fund 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 fund 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 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. Employer contributions that were deposited into the pension fund for the defined contribution features of the pension fund for the years ended December 31, 2015 to December 31, 2018, are presented on the Summary of Deposited State Aid and Employer Contributions.

- 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. For the defined contribution features of the pension fund, we also tested individual employee contributions for all 12 active employees employed during the year 2017, amounting to \$16,585, and all 15 active employees employed during the year 2018, amounting to \$25,506.
- We determined whether retirement benefits calculated for all four of the plan members who retired during the current audit period (under the defined benefit features of the pension fund) 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 also determined whether retirement benefits calculated for the lone plan member who elected to vest during the current audit period (under the defined benefit features of the pension fund), represent payments to all (and only) those entitled to receive them and were properly determined in accordance with the plan's governing document, applicable laws and regulations by recalculating the amount of the pension benefit due to retired individuals and comparing these amounts to supporting documentation evidencing amounts determined. Furthermore, we determined whether retirement benefits calculated for the lone plan member who terminated employment and elected a lump-sum form of pension benefit (under the defined contribution features of the pension fund) during the current audit period, represents payment to all (and only) those entitled to receive them and were properly determined and disbursed in accordance with the fund's governing document, applicable laws and regulations by comparing the distributed amounts to supporting documentation evidencing amounts determined and actually paid to the recipient.
- We determined whether the January 1, 2017 actuarial valuation reports were prepared and submitted by March 31, 2018, 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 the terms and methodologies of the issuance of pension obligation bonds by the municipality, and any restrictions were in compliance with plan provisions and Act 205 through inquiry of plan officials and examination of supporting documentation.

City officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the City of Meadville City Employees' Pension 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 Meadville City Employees' Pension Fund 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



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 City Employees' Pension Fund 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 City Employees' Pension Fund is a single-employer pension fund locally controlled by the provisions of Article 165 of the city's codified ordinances, adopted pursuant to Act 399 with defined benefit provisions for all appointed or elected officials and non-uniformed employees hired by May 24, 2014 and includes defined contribution features for those appointed or elected officials and non-uniformed employees hired after May 24, 2014. The pension fund is also affected by the provisions of collective bargaining agreements between the city and its non-uniformed employees. The plan was established May 25, 1954. Active participants, hired prior to May 24, 2014 and subject to the defined benefit provisions of the fund, are required to contribute 5 percent of base pay and longevity to the pension fund. For active participants hired after May 24, 2014 and subject to the defined contribution features of the pension fund, participants are also required to contribute 5 percent of base salary into the fund and the city is required to contribute 7 percent of base salary. As of December 31, 2018, the pension fund had 44 total active members (30 defined benefit, 14 defined contribution), 6 terminated members eligible for vested benefits in the future, and 63 retirees currently receiving pension benefits.

BACKGROUND – (Continued)

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

Eligibility Requirements:

Normal Retirement	Age 60 and 20 years of service.
Early Retirement	Eligible with 20 years of service and continuation of contributions to age 55.
Vesting	100% vesting available after 12 years of service.

Retirement Benefit:

A monthly benefit equal to the sum of 50% of the greater of final monthly pay or highest 5 year average pay, plus a service increment equal to 1/40th of the retirement allowance for each year of service in excess of 20 years earned prior to age 65.

Survivor Benefit:

Before Retirement Eligibility	Benefit equals 12.5% of compensation if less than 5 years of service; 25% of compensation if 5 to 9 years of service; and 50% of compensation if 10 or more years of service.
After Retirement Eligibility	Benefit equals 100% of the benefit paid to the member.

Disability Benefit:

Service Related	If a participant becomes totally and permanently disabled after completing 15 years of service, he will receive his normal retirement benefit payable upon disablement.
Non-Service Related	Benefit equals 12.5% of compensation if less than 5 years of service; 25% of compensation if 5 to 9 years of service; and 50% of compensation if 10 or more years of service.

CITY OF MEADVILLE CITY EMPLOYEES' PENSION FUND
(DEFINED BENEFIT)
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	\$ 169,353	\$ 162,634
Interest	1,427,032	1,445,578
Difference between expected and actual experience	400,884	-
Changes of assumptions	(92,888)	-
Benefit payments, including refunds of member contributions	<u>(1,192,403)</u>	<u>(1,265,187)</u>
Net Change in Total Pension Liability	711,978	343,025
Total Pension Liability – Beginning	<u>20,461,820</u>	<u>21,173,798</u>
Total Pension Liability – Ending (a)	<u><u>\$ 21,173,798</u></u>	<u><u>\$ 21,516,823</u></u>
Plan Fiduciary Net Position		
Contributions – employer	\$ 427,363	\$ 436,488
Contributions – member	86,681	82,496
Net investment income	1,949,369	(982,213)
Benefit payments, including refunds of member contributions	<u>(1,192,403)</u>	<u>(1,265,187)</u>
Administrative expense	<u>(19,123)</u>	<u>(19,180)</u>
Net Change in Plan Fiduciary Net Position	1,251,887	(1,747,596)
Plan Fiduciary Net Position – Beginning	<u>15,850,672</u>	<u>17,102,559</u>
Plan Fiduciary Net Position – Ending (b)	<u><u>\$ 17,102,559</u></u>	<u><u>\$ 15,354,963</u></u>
Net Pension Liability – Ending (a-b)	<u><u>\$ 4,071,239</u></u>	<u><u>\$ 6,161,860</u></u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	80.77%	71.36%
Estimated Covered Employee Payroll	\$ 1,750,000	\$ 1,637,000
Net Pension Liability as a Percentage of Covered Employee Payroll	232.64%	376.41%

CITY OF MEADVILLE CITY EMPLOYEES' PENSION FUND
(DEFINED BENEFIT)
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 7.00%, 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 (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
Net Pension Liability – 12/31/17	\$ 6,441,152	\$ 4,071,239	\$ 2,082,107
Net Pension Liability – 12/31/18	\$ 8,518,546	\$ 6,161,860	\$ 4,181,664

* 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	\$ 272,984	\$ 272,984	\$ -	\$2,040,000	13.38%
2010	163,312	163,312	-	2,100,000	7.78%
2011	165,100	165,100	-	1,939,000	8.51%
2012	211,151	211,151	-	1,950,000	10.83%
2013	212,331	212,331	-	1,975,000	10.75%
2014	215,114	215,114	-	1,835,000	11.72%
2015	418,650	347,960	70,690*	1,825,000	19.07%
2016	411,507	340,817	70,690*	1,725,000	19.76%
2017	427,363	427,363	-	1,750,000	24.42%
2018	436,488	436,488	-	1,637,000	26.66%

* 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 CITY EMPLOYEES' PENSION FUND
(DEFINED BENEFIT)
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF INVESTMENT RETURNS

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

2018	(5.9%)
2017	12.6%
2016	7.0%
2015	(0.7%)

CITY OF MEADVILLE CITY EMPLOYEES' PENSION FUND
(DEFINED BENEFIT)
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	\$ 14,338,403	\$ 16,919,685	\$ 2,581,282	84.7%
01-01-15	15,740,556	18,481,869	2,741,313	85.2%
01-01-17	16,429,916	19,464,552	3,034,636	84.4%

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 to 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 CITY EMPLOYEES' PENSION FUND
(DEFINED BENEFIT)
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 CITY EMPLOYEES' PENSION FUND
(DEFINED BENEFIT)
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	12 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 *	2.94%
Cost-of-living adjustments	None assumed

* Includes inflation at 2.50%

CITY OF MEADVILLE CITY EMPLOYEES' PENSION FUND
 (DEFINED CONTRIBUTION FEATURES)
 SUMMARY OF DEPOSITED STATE AID AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid	Employer Contributions
2015	None	\$ 6,139
2016	None	14,892
2017	None	23,219
2018	None	35,708

The Department typically presents this data for the past six consecutive fiscal years. Since six years of data were not yet available, this will be done prospectively.

CITY OF MEADVILLE CITY EMPLOYEES' PENSION FUND
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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