

COMPLIANCE AUDIT

City of Oil City Employees' Pension Plan Venango County, Pennsylvania For the Period January 1, 2016 to December 31, 2017

June 2018



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 Oil City
Venango County
Oil City, PA 16301

We have conducted a compliance audit of the City of Oil City Employees' Pension Plan for the period January 1, 2016 to December 31, 2017. 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 9 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 the retired individuals and comparing these amounts to supporting documentation evidencing amounts determined and actually paid to the recipients. We also determined whether retirement benefits calculated for the plan member who elected to vest 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 in accordance with the plan's governing document, applicable laws and regulations by recalculating the amount of the pension benefit due to retired individual and comparing these amounts to supporting documentation evidencing amounts determined.
- 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.

The City of Oil City contracted with an independent certified public accounting firm for an audit of its basic financial statements for the year ended December 31, 2016 which is 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 Oil City 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 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 Oil City Employees' 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 Oil City 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 1, 2018



EUGENE A. DEPASQUALE
Auditor General

CONTENTS

	<u>Page</u>
Background.....	1
Supplementary Information	3
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 Oil City Employees' 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 Oil City Employees' Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 2611, as amended, and Chapter 55, Article IV, of the city's codified ordinances. The plan is also affected by the provisions of collective bargaining agreements between the city and its non-uniformed employees. The plan was established May 25, 1942. Active members are required to contribute 5 percent of base wages, plus 0.5 percent for service increment eligibility; or 3.5 percent of base wages if hired before January 1, 1993 and elect the Social Security offset, plus 0.5 percent for service increment eligibility. As of December 31, 2017, the plan had 45 active members, 4 terminated members eligible for vested benefits in the future, and 50 retirees receiving pension benefits from the plan.

BACKGROUND – (Continued)

As of December 31, 2017, selected plan benefit provisions are as follows:

Eligibility Requirements:

Normal Retirement	Age 62 and completion of 10 years of service; or age 60 and completion of 20 years of service; or age 55 and completion of 30 years of service.
Early Retirement	Age 55 and 12 years of service.
Vesting	A member is 100% vested after 12 years of service.

Retirement Benefit:

Benefit equals 2.5% of average monthly salary or average of highest 5 years, if greater, for each year of service up to 50% of monthly salary; less a 40% Social Security offset, if applicable. In addition, members contributing an additional 0.5% of pay receive a service increment equal to 1.25% of average monthly salary for each year of service over 20, to age 65.

Survivor Benefit:

Before 15 Years Of Service	Refund of member contributions, without interest.
After 15 Years of Service	A monthly benefit equal to 37.5% of average monthly salary if death was service related; 25% of average monthly salary if death was non-service related.
After Early Retirement Eligibility	A monthly benefit equal to 75% of the pension the member was receiving or was entitled to receive on the day of the member's death.

Disability Benefit:

Service Related	After 15 year of service, a monthly benefit equal to 50% of the member's average monthly salary at the time the disability was incurred.
Non-Service Related	After 15 year of service, a monthly benefit equal to 25% of the member's average monthly salary at the time the disability was incurred.

CITY OF OIL CITY EMPLOYEES' 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, 2014 AND 2015

	<u>2014</u>	<u>2015</u>
Total Pension Liability		
Service cost	\$ 260,377	\$ 263,731
Interest	923,603	947,579
Difference between expected and actual experience	-	(263,172)
Benefit payments, including refunds of member contributions	(582,663)	(627,117)
Net Change in Total Pension Liability	<u>601,317</u>	<u>321,021</u>
Total Pension Liability – Beginning	12,340,400	12,941,717
Total Pension Liability - Ending (a)	<u>\$ 12,941,717</u>	<u>\$ 13,262,738</u>
Plan Fiduciary Net Position		
Contributions – employer	\$ 101,573	\$ 181,412
Contributions – member	109,089	110,405
Net investment income	997,803	8,458
Benefit payments, including refunds of member contributions	(582,663)	(627,117)
Administrative expense	(47,476)	(47,618)
Net Change in Plan Fiduciary Net Position	<u>578,326</u>	<u>(374,460)</u>
Plan Fiduciary Net Position - Beginning	13,376,229	13,954,555
Plan Fiduciary Net Position - Ending (b)	<u>\$ 13,954,555</u>	<u>\$ 13,580,095</u>
Net Pension Liability - Ending (a-b)	<u>\$ (1,012,838)</u>	<u>\$ (317,357)</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	107.8%	102.4%
Estimated Covered Employee Payroll	\$ 2,060,161	\$ 1,989,195
Net Pension Liability as a Percentage of Covered Employee Payroll	(49.2%)	(16.0%)

CITY OF OIL CITY EMPLOYEES' PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

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	\$ 271,820	\$ 266,850
Interest	985,877	1,043,066
Difference between expected and actual experience	-	(45,163)
Changes of assumptions	-	869,732
Benefit payments, including refunds of member contributions	(793,421)	(877,992)
Net Change in Total Pension Liability	<u>464,276</u>	<u>1,256,493</u>
Total Pension Liability – Beginning	<u>13,262,738</u>	<u>13,727,014</u>
Total Pension Liability - Ending (a)	<u><u>\$ 13,727,014</u></u>	<u><u>\$ 14,983,507</u></u>
Plan Fiduciary Net Position		
Contributions – employer	\$ 128,282	\$ 108,427
Contributions – member	105,214	96,176
Net investment income	755,370	2,260,118
Benefit payments, including refunds of member contributions	(793,421)	(877,992)
Administrative expense	(46,628)	(49,635)
Net Change in Plan Fiduciary Net Position	<u>148,817</u>	<u>1,537,094</u>
Plan Fiduciary Net Position - Beginning	<u>13,580,095</u>	<u>13,728,912</u>
Plan Fiduciary Net Position - Ending (b)	<u><u>\$ 13,728,912</u></u>	<u><u>\$ 15,266,006</u></u>
Net Pension Liability - Ending (a-b)	<u><u>\$ (1,898)</u></u>	<u><u>\$ (282,499)</u></u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	100.0%	101.9%
Estimated Covered Employee Payroll	\$ 1,808,721	\$ 1,939,273
Net Pension Liability as a Percentage of Covered Employee Payroll	(0.1%)	(14.6%)

CITY OF OIL CITY EMPLOYEES' 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, 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	\$ 1,315,175	\$ (282,499)	\$ (1,638,178)

The following presents the net pension liability of the city as of December 31, 2015 and 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 - 12/31/15	\$ 1,047,832	\$ (317,357)	\$ (1,487,051)
Net Pension Liability - 12/31/16	\$ 1,390,807	\$ (1,898)	\$ (1,195,150)

SCHEDULE OF INVESTMENT RETURNS

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

2017	16.90%
2016	5.67%
2015	0.06%

CITY OF OIL CITY 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, 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	\$ 11,651,128	\$ 11,717,889	\$ 66,761	99.4%
01-01-15	13,308,002	12,678,545	(629,457)	105.0%
01-01-17	14,414,368	14,551,583	137,215	99.1%

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 4-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 OIL CITY EMPLOYEES' 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 OIL CITY EMPLOYEES' PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER
AND OTHER CONTRIBUTING ENTITIES

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2012	\$ 76,417	100.0%
2013	107,533	100.0%
2014	101,573	100.0%
2015	181,412	100.0%
2016	128,282	100.0%
2017	108,427	100.0%

CITY OF OIL CITY EMPLOYEES' 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	12 years
Asset valuation method	Fair value, 4-year smoothing
Actuarial assumptions:	
Investment rate of return	7.25%
Projected salary increases *	4.25%
Cost-of-living adjustments	None assumed

* Includes inflation at 2.75%

CITY OF OIL CITY EMPLOYEES' PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

The Honorable William P. Moon, Jr.
Mayor

Mr. Dale Massie
Councilman

Mr. Ron Gustafson
Councilman

Mr. Michael Poff
Councilman

Mr. Isaiah Dunham
Councilman

Mr. Mark G. Schroyer
City Manager

Ms. Michelle Hoover
Finance Officer

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.