COMPLIANCE AUDIT

City of Oil City
Police 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

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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 Police 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 3 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 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 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 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 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 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 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 5, 2018

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 Oil City 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 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.

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 Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 2197, as amended, and Chapter 55, Article II, of the city's codified ordinances. The plan is also affected by the provisions of collective bargaining agreements between the city and its police officers. The plan was established December 13, 1937. Active members are required to contribute 5 percent of base wages, plus $1 per month to the plan. As of December 31, 2017 the plan had 13 active members, 1 terminated members eligible for vested benefits in the future, and 31 retirees currently receiving pension benefits from the plan.

BACKGROUND – (Continued)

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

Eligibility Requirements:

Normal Retirement	Eligible with 20 years of service.
Early Retirement	None
Vesting	A member is 100% vested after 12 years of service.

Retirement Benefit:

Higher of 50% of monthly salary at retirement or the average of the 5 highest years of salary; plus a service increment equal to 1/40th of the retirement allowance for each full year of service in excess of the minimum required for retirement, not to exceed $100 per month.

Survivor Benefit:

Before Retirement Eligibility	In lieu of a refund of member contributions without interest, a monthly benefit equal to: Prior to 10 years of service, 25% of average monthly salary; after 10 years of service, 50% of average monthly salary.
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	The normal retirement benefit, payable immediately, offset by any Workmen's Compensation benefits.
Non-Service Related	Prior to 10 years of service, 50% of the normal pension; after 10 years of service, 100% of the normal pension.

CITY OF OIL CITY POLICE 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

	2014	2015
Total Pension Liability		
Service cost	$ 159,149	$ 110,406
Interest	661,892	646,126
Difference between expected and actual experience	-	(519,569)
Benefit payments, including refunds of member contributions	(473,708)	(451,800)
Net Change in Total Pension Liability	347,333	(214,837)
Total Pension Liability - Beginning	8,898,657	9,245,990
Total Pension Liability - Ending (a)	$ 9,245,990	$ 9,031,153
Plan Fiduciary Net Position		
Contributions – employer	$ 173,750	$ 199,361
Contributions – member	35,883	45,430
Net investment income	652,220	6,858
Benefit payments, including refunds of member contributions	(473,708)	(451,800)
Administrative expense	(32,386)	(34,092)
Net Change in Plan Fiduciary Net Position	355,759	(234,243)
Plan Fiduciary Net Position – Beginning	8,805,374	9,161,133
Plan Fiduciary Net Position - Ending (b)	$ 9,161,133	$ 8,926,890
Net Pension Liability - Ending (a-b)	$ 84,857	$ 104,263
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	99.1%	98.8%
Estimated Covered Employee Payroll	$ 682,425	$ 814,961
Net Pension Liability as a Percentage of Covered Employee Payroll	12.4%	12.8%

CITY OF OIL CITY POLICE 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

	2016	2017
Total Pension Liability		
Service cost	$ 101,114	$ 123,070
Interest	667,471	660,903
Difference between expected and actual experience	-	(153,850)
Changes of assumptions	-	79,274
Benefit payments, including refunds of member contributions	(473,869)	(526,112)
Net Change in Total Pension Liability	294,716	183,285
Total Pension Liability – Beginning	9,031,153	9,325,869
Total Pension Liability - Ending (a)	$ 9,325,869	$ 9,509,154
Plan Fiduciary Net Position		
Contributions – employer*	$ 113,946	$ 109,305
Contributions – member	36,556	31,616
Net investment income	501,266	1,503,857
Benefit payments, including refunds of member contributions	(473,869)	(526,112)
Administrative expense	(31,233)	(33,405)
Net Change in Plan Fiduciary Net Position	146,666	1,085,261
Plan Fiduciary Net Position – Beginning	8,926,890	9,073,556
Plan Fiduciary Net Position - Ending (b)	$ 9,073,556	$ 10,158,817
Net Pension Liability - Ending (a-b)	$ 252,313	$ (649,663)
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	97.3%	106.8%
Estimated Covered Employee Payroll	$ 652,576	$ 743,138
Net Pension Liability as a Percentage of Covered Employee Payroll	38.7%	(87.4%)

** Employer contributions (2016) include a $4,079 correction of a prior year error made during 2011.*

CITY OF OIL CITY 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, 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	$ 579,322	$ (649,663)	$ (1,652,599)

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, 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	$ 1,206,925	$ 104,263	$ 803,069
Net Pension Liability - 12/31/16	$ 1,365,510	$ 252,313	$ (664,789)

SCHEDULE OF INVESTMENT RETURNS

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

2017	16.98%
2016	5.72%
2015	0.08%

CITY OF OIL CITY 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	$ 7,703,494	$ 8,378,653	$ 675,159	91.9%
01-01-15	8,732,934	8,726,421	(6,513)	100.1%
01-01-17	9,519,897	9,251,293	(268,604)	102.9%

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 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 OIL CITY POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER
AND OTHER CONTRIBUTING ENTITIES

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2012	$ 201,872	100.0%
2013	178,640	100.0%
2014	173,750	100.0%
2015	199,361	100.0%
2016	109,867	100.0%
2017	109,305	100.0%

CITY OF OIL CITY 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	N/A
Remaining amortization period	N/A
Asset valuation method	Fair value, 4-year smoothing
Actuarial assumptions:	
Investment rate of return	7.25%
Projected salary increases *	4.5%
Cost-of-living adjustments	None assumed

* Includes inflation at 2.75%

CITY OF OIL CITY POLICE PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

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