

# COMPLIANCE AUDIT

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## City of Sharon Firemen's Pension Plan Mercer County, Pennsylvania For the Period January 1, 2019 to December 31, 2020

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January 2022



Commonwealth of Pennsylvania  
Department of the Auditor General

Timothy L. DeFoor • Auditor General



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We have conducted a compliance audit of the City of Sharon Firemen's Pension Plan for the period January 1, 2019 to December 31, 2020. We also evaluated compliance with some requirements subsequent to that period when possible. The audit was conducted pursuant to authority derived from the Municipal Pension Plan Funding Standard and Recovery Act (Act 205 of 1984, as amended, 53 P.S. § 895.402(j)), which requires the Auditor General, as deemed necessary, to audit every municipality which receives general municipal pension system state aid and every municipal pension plan and fund in which general municipal pension system state aid is deposited. The audit was not conducted, nor was it required to be, in accordance with Government Auditing Standards issued by the Comptroller General of the United States. We planned and performed the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our finding and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our finding and 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 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 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 the plan member 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 benefits due to the retired individual and comparing these amounts to supporting documentation evidencing amounts determined and actually paid to the recipient.
- We determined whether the January 1, 2019 actuarial valuation report was prepared and submitted by March 31, 2020, 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.

The City of Sharon 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.

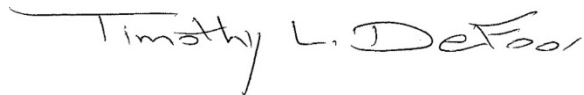
City officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the City of Sharon Firemen's Pension Plan is administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies. As previously described, we tested transactions, interviewed selected officials, and

performed procedures to the extent necessary 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 Sharon 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 City of Sharon 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.

A handwritten signature in black ink that reads "Timothy L. DeFoor". The signature is written in a cursive style with a long horizontal line extending to the left of the first letter.

Timothy L. DeFoor  
Auditor General  
January 12, 2022

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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.

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 Sharon Firemen's Pension Plan is also governed by implementing regulations 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 177 - General Local Government Code, Act of December 19, 1996 (P.L. 1158, No. 177), as amended, 53 Pa. C.S. § 101 et seq.
- 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.

The City of Sharon Firemen's Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Chapters 288 and 289 of the city's codified ordinances. The plan is also affected by the provisions of collective bargaining agreements between the city and its firefighters. The plan was established April 12, 1967. Active members are required to contribute 5 percent of base and longevity pay, plus \$1 per month to the plan. As of December 31, 2020, the plan had 14 active members, no terminated members eligible for vested benefits in the future, and 26 retirees receiving pension benefits.

CITY OF SHARON FIREMEN'S PENSION PLAN  
STATUS OF PRIOR FINDING

Status Of Prior Finding

· Member Contributions In Excess Of Contributions Earned From Full-Time Firefighter Position

As disclosed in the prior audit report, the city is withholding and depositing member contributions into the firemen's pension plan for a plan member in excess of the contributions due from wages earned as a full-time firefighter of the city. The excess contributions stem from additional compensation earned by the individual while also performing the duties and responsibilities as city manager and are not part of the individual's full-time position as a salaried firefighter for the city. It was previously recommended that the city limit future member contributions for participants of the firemen's pension plan to full-time wages earned specifically as a firefighter. In addition, for excess member contributions previously withheld and deposited into the firemen's pension plan from wages other than those earned as a firefighter, it was also recommended that the city consult its solicitor to determine whether these amounts should be refunded to the participant. To the extent the city is contractually obligated to continue withholding member's contributions and/or pay future benefits from the firemen's pension plan beyond those earned as a firefighter, it was further recommended that the benefits be reflected in the Act 205 actuarial valuation reports for the plan and funded in accordance with Act 205 funding standards. However, such benefits would be deemed ineligible for funding with state pension aid and the pension plan's actuary may be required to determine the impact, if any, of the excess benefit payments on the City's future state aid allocations.

During the current period, it was determined that the City continues to withhold and deposit member contributions into the firemen's pension plan for the aforementioned plan member. However, the city has since begun the practice of preparing a Form AG-MP-1 to ensure that no state aid was received by the City due to the unauthorized benefit. Given the City's position on this matter and considering that the city received its state aid based on unit value during the current audit period, therefore, the city did not receive any state aid attributable to the excess benefits provided, the finding will not be repeated in this audit report. The Department will however, continue to monitor the effect of the excess benefit on the city's future state aid allocations during subsequent audits of the plan.

CITY OF SHARON 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, 2015, 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)
01-01-15	\$ 6,342,644	\$ 8,632,939	\$ 2,290,295	73.5%
01-01-17	7,273,213	8,627,340	1,354,127	84.3%
01-01-19	8,048,498	9,074,491	1,025,993	88.7%

Note: The market values of the plan's assets at 01-01-15, 01-01-17, and 01-01-19 have been adjusted to reflect the smoothing of gains and/or losses over a four-year averaging period. These methods will lower contributions in years of less 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 SHARON 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 SHARON FIREMEN'S PENSION PLAN  
 SUPPLEMENTARY INFORMATION  
 (UNAUDITED)

SCHEDULE OF CONTRIBUTIONS

<u>Year Ended December 31</u>	<u>Actuarially Determined Contribution</u>	<u>Actual Contributions</u>	<u>Contribution Deficiency (Excess)</u>	<u>Covered- Employee Payroll</u>	<u>Contributions as a Percentage of Covered- Employee Payroll</u>
2011	\$ 333,613	\$ 279,030	\$ 54,583	\$ 855,803	32.6%
2012	319,760	265,177	54,583	738,183	35.9%
2013	390,020	390,020	-	770,951	50.6%
2014	384,682	384,682	-	760,246	50.6%
2015	462,038	462,038	-	800,000	57.8%
2016	406,438	406,438	-	689,034	59.0%
2017	410,690	410,690	-	730,056	56.3%
2018	425,187	425,187	-	772,433	55.0%
2019	419,553	419,553	-	745,908	56.2%
2020	380,110	380,110	-	762,250	49.9%

CITY OF SHARON 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, 2019
Actuarial cost method	Entry age normal
Amortization method	Level dollar, closed
Remaining amortization period	5 years
Asset valuation method	Fair value, 4-year smoothing
Actuarial assumptions:	
Investment rate of return	7.25%
Projected salary increases *	3.17%
Cost-of-living adjustments	None assumed

\* Includes inflation at 2.5%

CITY OF SHARON FIREMEN'S PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

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

**Ms. Molly Bundrant**  
Council President

**Mr. Robert Fiscus**  
City Manager and Chief Administrative Officer

**Mr. Jason Tomko**  
Finance Director and Chief Administrative Officer

**Ms. Daphne Parrish**  
City Clerk

This report is a matter of public record and is available online at [www.PaAuditor.gov](http://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](mailto:news@PaAuditor.gov).