COMPLIANCE AUDIT

City of St. Marys Non-Uniformed Employees Pension Plan

Elk County, Pennsylvania

For the Period

January 1, 2017 to December 31, 2018

July 2019

EUGENE A. DEPASQUALE • AUDITOR GENERAL •

Commonwealth of Pennsylvania
Department of the Auditor General

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EUGENE A. DEPASQUALE
AUDITOR GENERAL

The Honorable Mayor and City Council
City of St. Marys
Elk County
St. Marys, PA 15857

We have conducted a compliance audit of the City of St. Marys Non-Uniformed Employees 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 both 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 benefits 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 and 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.

The City of St. Marys contracted with an independent certified public accounting firm for an audit of its basic financial statements for the year ended December 31, 2017, 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 St. Marys Non-Uniformed 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 St. Marys Non-Uniformed 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 St. Marys 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.

July 18, 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 St. Marys Non-Uniformed 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.

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 St. Marys Non-Uniformed Employees Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 151, as amended, for employees hired before January 24, 2001 and Ordinance No. 176, as amended, adopted pursuant to Act 67 (formerly Act 317), for employees hired on or after January 24, 2001. The plan is also affected by the provisions of collective bargaining agreements between the city and its non-uniformed employees. The plan was established September 1, 1979. Active members hired before January 24, 2001 are required to contribute 2 percent of base pay to the plan and active members hired after January 24, 2001 are required to contribute 3.5 percent of base pay to the plan. As of December 31, 2018, the plan had 33 active members, 1 terminated member eligible for vested benefits in the future, and 21 retirees receiving pension benefits from the plan.

BACKGROUND – (Continued)

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

Eligibility Requirements:

Normal Retirement	Age 65 and 20 years of service if hired prior to January 24, 2001. Age 60 and 20 years of service if hired on or after January 24, 2001.
Early Retirement	Age 60 and 20 years of service, if hired prior to January 24, 2001.
Vesting	100% vesting available after 7 years of service, if hired prior to January 24, 2001. No vesting if hired on or after January 24, 2001.

Retirement Benefit:

If hired prior to January 24, 2001 – benefit equals 30% of average monthly pay based on highest consecutive months over the last 5 years, plus 1% of average monthly pay for each year of service over 25 years (maximum $100).

If hired on or after January 24, 2001 – benefit equals 50% of final monthly average compensation offset by 40% of primary insurance amount of Social Security. Final monthly average compensation is higher of average during last year or average during any 5 years.

Survivor Benefit:

Before Retirement Eligibility	A lump sum equal to the present value of the accrued benefit at the time of death for those hired before January 24, 2001, and a refund of member contributions without interest for those hired on or after January 24, 2001.
After Retirement Eligibility	50% of the benefit payable to the surviving spouse.

Service Related Disability Benefit:

If hired prior to January 24, 2001 and have 10 years of service – an accrued benefit payable after 6 months of disability. If hired on or after January 24, 2001 and have 10 years of service – a normal retirement benefit with no social security offset.

CITY OF ST. MARYS NON-UNIFORMED EMPLOYEES PENSION PLAN
STATUS OF PRIOR FINDING

Status Of Prior Audit Recommendation

Pension Benefits Not In Compliance With The Third Class City Code

The City of St. Marys adopted a home rule charter pursuant to the Home Rule Charter and Optional Plans Law, 53 Pa. C.S. § 2901 et seq. (previously 53 P.S. § 1-101 et seq.). The six prior audit reports for the city's non-uniformed employees pension plan covering the years 2003 through 2014, disclosed that the city continues to provide benefits to its non-uniformed employees who were hired prior to January 24, 2001 that are less than those prescribed by the Third Class City Code. The prior audit report covering the period January 1, 2013 to December 31, 2014 recommended to the extent that the city has failed to provide benefits to its non-uniformed employees which are mandated by the Third Class City Code that the city increase those benefits to the levels prescribed by the Code, at its earliest opportunity to do so.

The City of St. Marys has maintained that pension benefits were collectively bargained between the employees and the City and that the City does not have adequate funds to support the costs of the recommended benefit changes.

The city provided documentation that Ordinance No. 42, ordained and enacted April 1, 1996, and effective January 1, 1994, was agreed to by the union. Ordinance No. 42 established the pension plan and contains the plan benefit provisions that are also contained in the current plan governing document which have been cited as not in compliance with the Third Class City Code. During the prior audit period covering the years 2015 and 2016, the city negotiated a new collective bargaining agreement with its non-uniformed employees covering the period January 1, 2016 to December 31, 2018, and the plan's governing document remains not in compliance with the Third Class City Code for non-uniformed employees who were hired prior to January 24, 2001, as noted in the prior audit reports.

The Department recognizes that the city is unable to make any unilateral changes to its pension plan due to collective bargaining agreements that have been negotiated. However, it remains the Department's position that since the city has failed to provide benefits which are mandated by the Third Class City Code, we again recommend that the city increase those benefits for all active plan members to the levels prescribed by the code at its earliest opportunity to do so. We will continue to monitor the city's compliance with the prior audit recommendations during future audits of the plan.

CITY OF ST. MARYS NON-UNIFORMED EMPLOYEES PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

The supplementary information contained on Pages 4 and 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, 2015, 2016, AND 2017

	2015	2016	2017
Total Pension Liability			
Service cost	$ 83,734	$ 87,921	$ 104,819
Interest	292,340	305,805	321,748
Difference between expected and actual experience	-	-	(193,742)
Changes in assumptions	-	-	177,203
Benefit payments, including refunds of member contributions	(225,239)	(176,215)	(186,811)
Net Change in Total Pension Liability	150,835	217,511	223,217
Total Pension Liability – Beginning	3,926,758	4,077,593	4,295,104
Total Pension Liability – Ending (a)	$ 4,077,593	$ 4,295,104	$ 4,518,321
Plan Fiduciary Net Position			
Contributions – employer	$ 131,202	$ 46,476	$ 49,571
Contributions – member	35,684	39,828	42,614
Net investment income	(21,636)	284,128	548,950
Benefit payments, including refunds of member contributions	(225,239)	(176,215)	(186,811)
Administrative expense	(8,770)	(2,650)	(8,900)
Net Change in Plan Fiduciary Net Position	(88,759)	191,567	445,424
Plan Fiduciary Net Position – Beginning	4,173,341	4,084,582	4,276,149
Plan Fiduciary Net Position – Ending (b)	$ 4,084,582	$ 4,276,149	$ 4,721,573
Net Pension Liability – Ending (a-b)	$ (6,989)	$ 18,955	$ (203,252)
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	100.17%	99.56%	104.50%
Estimated Covered Employee Payroll	$ 1,386,748	$ 1,502,150	$ 1,547,061
Net Pension Liability as a Percentage of Covered Employee Payroll	(0.50%)	1.26%	13.14%

CITY OF ST. MARYS NON-UNIFORMED 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, 2015, 2016 and 2017, 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	$ 464,355	$ (6,989)	$ (411,075)
Net Pension Liability – 12/31/16	$ 505,001	$ 18,955	$ (398,143)
Net Pension Liability – 12/31/17	$ 319,590	$ (203,252)	$ (649,684)

CITY OF ST. MARYS NON-UNIFORMED 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	$ 3,403,204	$ 3,622,563	$ 219,359	93.9%
01-01-15	4,173,341	3,926,758	(246,583)	106.3%
01-01-17	4,276,149	4,278,565	2,416	99.9%

CITY OF ST. MARYS NON-UNIFORMED 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 ST. MARYS NON-UNIFORMED EMPLOYEES PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER
AND OTHER CONTRIBUTING ENTITIES

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2013	$ 133,164	100.0%
2014	135,463	100.0%
2015	131,202	100.0%
2016	46,476	100.0%
2017	47,117	105.2%
2018	48,802	192.0%

CITY OF ST. MARYS NON-UNIFORMED 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
Remaining amortization period	15 years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return	7.5%
Projected salary increases	5.0%

CITY OF ST. MARYS NON-UNIFORMED EMPLOYEES PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

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