

# COMPLIANCE AUDIT

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## City of St. Marys Police Pension Plan Elk County, Pennsylvania For the Period January 1, 2017 to December 31, 2018

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July 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 St. Marys  
Elk County  
St. Marys, PA 15857

We have conducted a compliance audit of the City of St. Marys Police 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 the lone plan member who retired subsequent to the current period but prior to 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 individual and comparing these amounts to supporting documentation evidencing amounts determined and actually paid to the recipient.
- We determined whether the 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 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 St. Marys 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 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 17, 2019

A handwritten signature in black ink, appearing to read "Eugene A. DePasquale", with a long horizontal flourish extending to the right.

EUGENE A. DEPASQUALE  
Auditor General

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### **ABBREVIATION**

DROP – Deferred Retirement Option Plan

## 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 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:

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.

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.

The City of St. Marys Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 152, as amended. The plan is also affected by the provisions of collective bargaining agreements between the city and its police officers. The plan was established December 16, 1946. Active members are required to contribute 5 percent of basic monthly earning to the plan. As of December 31, 2018, the plan had 15 active members, no terminated members eligible for vested benefits in the future, and 12 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 50 and 20 years of service.
Early Retirement	None
Vesting	100% vesting available after 12 years of service.

### Retirement Benefit:

Benefit equals 50% of final monthly average salary plus a service increment of 1.25% of final monthly average salary times years of service over 20 years and before age 65, maximum \$500. Final monthly average salary is based on last 36 months for employees hired before January 1, 1995 and the higher of monthly salary or the highest average annual salary received during any five years of service for those employees hired on or after January 1, 1995.

### Survivor Benefit:

Before Retirement Eligibility	Refund of member contributions plus interest for members hired prior to January 1, 1995 and without interest for members hired on or after January 1, 1995.
Upon Retirement Eligibility	For retired and active members who are eligible for retirement of active members who are killed in service, 100% of benefit to surviving spouse or child under 18.

### Disability Benefit:

Service Related	An immediate monthly benefit equal to 50% of final monthly average salary less worker's compensation.
Non-Service Related	a monthly benefit equal to 25% of final monthly average salary if the member has less than 10 years of service, and 50% of final monthly average salary if the member has 10 or more years of service.

### DROP Benefit:

A member who is eligible for a normal retirement benefit may elect participation in DROP.

CITY OF ST. MARY'S POLICE PENSION PLAN  
SUPPLEMENTAL INFORMATION  
(UNAUDITED)

The supplementary information contained on Pages 3 and 4 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

	<u>2015</u>	<u>2016</u>	<u>2017</u>
Total Pension Liability			
Service cost	\$ 166,628	\$ 174,959	\$ 211,248
Interest	536,217	567,156	599,881
Difference between expected and actual experience	-	-	(126,548)
Changes of assumptions	-	-	140,026
Benefit payments, including refunds of member contributions	<u>(278,795)</u>	<u>(318,517)</u>	<u>(392,587)</u>
Net Change in Total Pension Liability	424,050	423,598	432,020
Total Pension Liability – Beginning	<u>7,122,331</u>	<u>7,546,381</u>	<u>7,969,979</u>
Total Pension Liability – Ending (a)	<u>\$ 7,546,381</u>	<u>\$ 7,969,979</u>	<u>\$ 8,401,999</u>
 Plan Fiduciary Net Position			
Contributions – employer	\$ 208,639	\$ 112,960	\$ 107,375
Contributions – member	47,395	46,071	46,451
Net investment income	(82,164)	549,503	1,030,565
Benefit payments, including refunds of member contributions	<u>(278,795)</u>	<u>(318,517)</u>	<u>(392,587)</u>
Administrative expense	<u>(8,280)</u>	<u>(4,420)</u>	<u>(8,550)</u>
Net Change in Plan Fiduciary Net Position	<u>(113,205)</u>	<u>385,597</u>	<u>783,254</u>
Plan Fiduciary Net Position – Beginning	<u>7,829,175</u>	<u>7,715,970</u>	<u>8,101,567</u>
Plan Fiduciary Net Position – Ending (b)	<u>\$ 7,715,970</u>	<u>\$ 8,101,567</u>	<u>\$ 8,884,821</u>
 Net Pension Liability – Ending (a-b)	<u>\$ (169,589)</u>	<u>\$ (131,588)</u>	<u>\$ (482,822)</u>
 Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	(102.25%)	(101.65%)	(105.75%)
 Estimated Covered Employee Payroll	\$ 1,026,975	\$ 892,151	\$ 1,022,221
 Net Pension Liability as a Percentage of Covered Employee Payroll	(16.51%)	(14.75%)	(47.23%)



CITY OF ST. MARY'S POLICE PENSION PLAN  
 SUPPLEMENTAL 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 (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Net Pension Liability – 12/31/15	\$ 768,247	\$ (169,589)	\$ (950,686)
Net Pension Liability – 12/31/16	\$ 838,959	\$ (131,588)	\$ (940,670)
Net Pension Liability – 12/31/17	\$ 582,479	\$ (482,822)	\$ (1,368,502)

CITY OF ST. MARY'S POLICE PENSION PLAN  
 SUPPLEMENTAL 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	\$ 6,383,740	\$ 6,631,110	\$ 247,370	96.3%
01-01-15	7,829,175	7,122,331	(706,844)	109.9%
01-01-17	8,101,567	7,983,457	(118,110)	101.5%

CITY OF ST. MARY'S POLICE PENSION PLAN  
SUPPLEMENTAL 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 POLICE PENSION PLAN  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER  
AND OTHER CONTRIBUTING ENTITIES

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2013	\$ 171,550	100.0%
2014	180,881	100.0%
2015	208,639	100.0%
2016	112,960	100.0%
2017	102,060	105.2%
2018	97,574	192.0%

CITY OF ST. MARYS 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	Market value
Actuarial assumptions:	
Investment rate of return	7.5%
Projected salary increases	5.0%
Cost-of-living adjustments	3.0%

CITY OF ST. MARYS POLICE PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

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

**The Honorable Lou Radkowski**  
Mayor

**Mr. Greg Gebauer**  
Councilman

**Mr. Ned Jacob**  
Councilman

**Mr. Christopher Pletcher**  
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**Mr. Robert Mohr**  
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**Ms. Margie Brown**  
Councilwoman

**Mr. Andrew Mohney**  
Councilman

**Mr. Tim Pearson**  
City Manager

**Ms. Carol Muhitch**  
Finance Director

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