

COMPLIANCE AUDIT

City of St. Marys Non-Uniformed Employees Pension Plan Elk County, Pennsylvania For the Period January 1, 2019 to December 31, 2021

December 2022



Commonwealth of Pennsylvania
Department of the Auditor General

Timothy L. DeFoor • Auditor General



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**TIMOTHY L. DEFOOR
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, 2019 to December 31, 2021. 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 objective. We believe that the evidence obtained provides a reasonable basis for our finding and 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 plan members 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 individuals and comparing these amounts to supporting documentation evidencing amounts determined and actually paid to the recipients.
- We determined whether the January 1, 2019, and January 1, 2021, actuarial valuation reports were prepared and submitted by March 31, 2020, and 2022, 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 St. Marys contracted with an independent certified public accounting firm for audits of its basic financial statements for the years ended December 31, 2019 and 2020, 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.

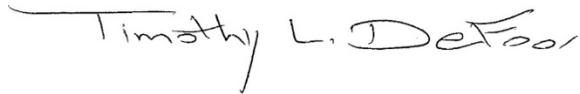
City officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the City of St. Marys Non-Uniformed Employees Pension Plan is administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and 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 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, except as noted in the following finding further discussed later in this report:

Finding – Incorrect Data On Certification Form AG 385 Resulting In An Underpayment Of State Aid

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 the 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.

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
November 22, 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 St. Marys Non-Uniformed Employees 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:

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 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 two (2.0) percent of base pay to the plan and active members hired after January 24, 2001 are required to contribute three and one-half (3.5) percent of base pay to the plan. As of December 31, 2021, the plan had 32 active members, 1 terminated member eligible for vested benefits in the future, and 24 retirees receiving pension benefits.

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 most recent 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, which 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 the position 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 current audit period, the city negotiated a new collective bargaining agreement with its non-uniformed employees covering the period January 1, 2019, to December 31, 2021, and the plan's governing document remains inconsistent with the Third Class City Code for non-uniformed employees who were hired prior to January 24, 2001, as was previously noted in 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 subsequent audits of the plan.

CITY OF ST. MARYS NON-UNIFORMED EMPLOYEES PENSION PLAN
FINDING AND RECOMMENDATION

Finding – Incorrect Data On Certification Form AG 385 Resulting In An Underpayment Of State Aid

Condition: The city failed to certify an eligible non-uniformed employee (1 unit) and understated payroll by \$38,089 on the Certification Form AG 385 filed in 2022. Plan officials failed to include an employee who retired during August 2021 after working more than six months in the plan year and therefore, met the requirements for certification according to Act 205. The data contained on this certification form is based on prior calendar year information.

Criteria: Pursuant to Act 205, at Section 402(e)(2), an employee who has been employed on a full-time basis for at least six consecutive months and has been participating in a pension plan during the certification year is eligible for certification.

Cause: The city lacked adequate procedures, such as having another individual review the data certified, to ensure the accuracy of the reported pension data.

Effect: The data submitted on this certification form is used, in part, to calculate the state aid due to the municipality for distribution to its pension plans. The city’s original state aid allocation for 2022 was based on unit value. However, based on the corrected information, the township is entitled to an additional allocation of state aid based on pension costs as identified below:

Unit Understated	Normal Cost %	Payroll Understated	State Aid Underpayment
1	7.1264%	\$ 38,089	\$ 2,714

Although the city will be reimbursed for the underpayment of state aid due to the city’s certification error, the full amount of the 2022 state aid allocation was not available to be deposited timely and therefore resulted in the city having to make additional municipal contributions in order to meet the plan’s funding obligation.

Recommendation: We recommend that in the future, plan officials establish adequate internal control procedures, such as having at least two people review the data certified, to ensure compliance with the instructions that accompany Certification Form AG 385 to assist them in accurately reporting the required pension data.

Management’s Response: Municipal officials agreed with the finding without exception.

Auditor’s Conclusion: Compliance will be evaluated during our next audit of the plan.

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, 2017, 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)
01-01-17	\$ 4,276,149	\$ 4,278,565	\$ 2,416	99.9%
01-01-19	4,782,954	4,852,428	69,474	98.6%
01-01-21	5,301,693	5,306,062	4,369	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

<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>
2015	\$ 131,202	\$ 131,202		\$1,386,748	9.5%
2016	46,476	46,476		1,502,150	3.1%
2017	47,117	49,571	\$ (2,454)	1,547,061	3.2%
2018	48,802	93,707	(44,905)	1,707,517	5.5%
2019	90,642	93,925	(3,283)	1,793,139	5.2%
2020	86,199	88,371	(2,172)	1,731,235	5.1%
2021	117,595	123,741	(6,146)	*	*

* Due to the timing of this audit, covered-employee payroll for 2021 was not provided in this schedule.

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, 2021
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	4 years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return	7.0%
Projected salary increases	4.75%
Cost-of-living adjustments	3.0%

CITY OF ST. MARYS NON-UNIFORMED 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 Lyle Gardner
Mayor

Mr. Joseph Fleming
City Manager

Ms. Carol Muhitch
Finance Director

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.