

COMPLIANCE AUDIT

City of Titusville Firemen's Pension Plan Crawford County, Pennsylvania For the Period January 1, 2017 to December 31, 2018

May 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 Titusville
Crawford County
Titusville, PA 16354

We have conducted a compliance audit of the City of Titusville Firemen's 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 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 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, 2017 actuarial valuation report was prepared and submitted by March 31, 2018 in accordance with Act 205 and whether selected information provided on the 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 Titusville 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 Titusville Firemen's 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 Titusville Firemen's Pension Plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies.


As previously noted, one of the objectives of our audit of the City of Titusville Firemen's Pension Plan was to determine compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies. Through the adoption of Act 44 of 2009, among several provisions relating to municipal pension plans, Act 205 provides for the implementation of a distress recovery program. Three levels of distress have been established:

<u>Level</u>	<u>Indication</u>	<u>Funding Criteria</u>
I	Minimal distress	70-89%
II	Moderate distress	50-69%
III	Severe distress	Less than 50%

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. However, **we are extremely concerned about the funded status of the plan contained in the schedule of funding progress included in this report which indicates the plan's funded ratio is 63.2% as of January 1, 2017**, which is the most recent data available. Based on this information, the city is currently in Level II moderate distress status. We encourage city officials to monitor the funding of the firemen's pension plan to ensure its long-term financial stability.

The contents of this report were discussed with officials of the City of Titusville 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.

April 24, 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 Titusville Firemen's 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 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 Titusville Firemen's Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 3225, and a separately executed plan document with an effective date of August 20, 2013. The plan is also affected by the provisions of collective bargaining agreements between the city and its firefighters. The plan was established November 1, 1962. Active members are required to contribute 8 percent of base pay, including longevity, to the plan plus \$1 per month to fund the service increment benefit. As of December 31, 2018, the plan had 6 active members, 1 terminated member eligible for vested benefits in the future, and 18 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	Eligible with 20 years of service.
Early Retirement	None
Vesting	A member is 100% vested after 7 years of service.

Retirement Benefit:

Benefit equals 50% of average monthly compensation based on the higher of the last month or the average of the final 60 months, plus a service increment equal to 1/40th of the pension benefit for each year of service in excess of 20 years, up to a maximum of \$100 per month.

Survivor Benefit:

Before Retirement Eligibility	Refund of member contributions, without interest.
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.

Service Related Disability Benefit:

Benefit equals 50% of the member's salary at the time the disability was incurred, offset by Social Security disability benefits received for the same injury.

CITY OF TITUSVILLE FIREMEN'S 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

	<u>2014</u>	<u>2015</u>
Total Pension Liability		
Service cost	\$ 32,923	\$ 23,674
Interest	359,597	334,566
Difference between expected and actual experience	-	(416,104)
Benefit payments, including refunds of member contributions	<u>(271,617)</u>	<u>(288,492)</u>
Net Change in Total Pension Liability	120,903	(346,356)
Total Pension Liability – Beginning	4,597,846	4,718,749
Total Pension Liability – Ending (a)	<u>\$ 4,718,749</u>	<u>\$ 4,372,393</u>
Plan Fiduciary Net Position		
Contributions – employer	\$ 155,155	\$ 248,835
Contributions – member	26,668	26,307
Net investment income	68,042	(114,600)
Benefit payments, including refunds of member contributions	<u>(271,617)</u>	<u>(288,492)</u>
Administrative expense	<u>(4,725)</u>	<u>(12,194)</u>
Net Change in Plan Fiduciary Net Position	(26,477)	(140,144)
Plan Fiduciary Net Position – Beginning	<u>2,988,257</u>	<u>2,961,780</u>
Plan Fiduciary Net Position – Ending (b)	<u>\$ 2,961,780</u>	<u>\$ 2,821,636</u>
Net Pension Liability – Ending (a-b)	<u>\$ 1,756,969</u>	<u>\$ 1,550,757</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	62.8%	64.5%
Estimated Covered Employee Payroll	\$ 352,968	\$ 325,000
Net Pension Liability as a Percentage of Covered Employee Payroll	497.8%	477.2%

CITY OF TITUSVILLE FIREMEN'S 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

	<u>2016</u>	<u>2017</u>
Total Pension Liability		
Service cost	\$ 24,858	\$ 23,920
Interest	339,519	353,173
Difference between expected and actual experience	-	129,543
Benefit payments, including refunds of member contributions	<u>(306,535)</u>	<u>(338,065)</u>
Net Change in Total Pension Liability	57,842	168,571
Total Pension Liability – Beginning	<u>4,372,393</u>	<u>4,430,235</u>
Total Pension Liability – Ending (a)	<u>\$ 4,430,235</u>	<u>\$ 4,598,806</u>
Plan Fiduciary Net Position		
Contributions – employer	\$ 183,259	\$ 186,414
Contributions – member	26,467	24,745
Net investment income	164,419	501,386
Benefit payments, including refunds of member contributions	<u>(306,535)</u>	<u>(338,065)</u>
Administrative expense	<u>(7,514)</u>	<u>(6,000)</u>
Net Change in Plan Fiduciary Net Position	60,096	368,480
Plan Fiduciary Net Position – Beginning	<u>2,821,636</u>	<u>2,881,732</u>
Plan Fiduciary Net Position – Ending (b)	<u>\$ 2,881,732</u>	<u>\$ 3,250,212</u>
Net Pension Liability – Ending (a-b)	<u>\$ 1,548,503</u>	<u>\$ 1,348,594</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	65.0%	70.7%
Estimated Covered Employee Payroll	\$ 349,813	\$ 310,645
Net Pension Liability as a Percentage of Covered Employee Payroll	442.7%	434.1%

CITY OF TITUSVILLE FIREMEN'S 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 8.0%, 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 (7.0%)	Current Discount Rate (8.0%)	1% Increase (9.0%)
Net Pension Liability – 12/31/15	\$ 1,952,598	\$ 1,550,757	\$ 1,205,906
Net Pension Liability – 12/31/16	\$ 1,943,286	\$ 1,548,503	\$ 1,209,404
Net Pension Liability – 12/31/17	\$ 1,763,831	\$ 1,348,594	\$ 992,523

SCHEDULE OF CONTRIBUTIONS

Year Ended December 31	Actuarially Determined Contribution	Actual Contributions	Contribution Deficiency (Excess)	Covered- Employee Payroll*	Contributions as a Percentage of Covered- Employee Payroll*
2009	\$ 166,383	\$ 166,383	\$ -		%
2010	178,875	178,875	-		%
2011	200,927	200,927	-		%
2012	162,191	162,191	-		%
2013	163,419	163,419	-		%
2014	155,155	155,155	-	\$ 352,968	43.96%
2015	248,835	248,835	-	325,000	76.56%
2016	183,259	183,259	-	349,813	52.39%
2017	186,414	186,414	-	310,645	60.01%
2018	189,309	189,309	-	**	**

* Due to GASB Statement No. 67, *Financial Reporting for Pension Plans*, being implemented only recently, the amount of Covered-Employee Payroll was not provided for years prior to 2014.

** In addition, due to the timing of this audit, covered-employee payroll for 2018 was not provided in this schedule.

CITY OF TITUSVILLE 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, 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	\$ 2,400,165	\$ 4,499,667	\$ 2,099,502	53.3%
01-01-15	2,961,780	4,302,646	1,340,866	68.8%
01-01-17	2,881,732	4,559,778	1,678,046	63.2%

Note: The market value of the plan's assets at 01-01-13 has been adjusted to reflect the smoothing of gains and/or losses over a five-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 TITUSVILLE 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 TITUSVILLE 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, 2017
Actuarial cost method	Entry age normal.
Amortization method	Level dollar.
Remaining amortization period	7 years
Asset valuation method	Market value.
Actuarial assumptions:	
Investment rate of return	8.0%
Projected salary increases	5.0%

CITY OF TITUSVILLE FIREMEN'S PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

The Honorable Esther M. Smith
Mayor

Mr. William P. Adelman
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Ms. Heather L. Leonardi
Council Member

Mr. Donald D. Frazier
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Mr. Keith W. Bromley
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Mr. Larry A. Manross
City Manager

Ms. Diana A. Durstine
Finance Director

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