

COMPLIANCE AUDIT

Ford City Borough Non-Uniformed Pension Plan Armstrong County, Pennsylvania For the Period January 1, 2012 to December 31, 2013

May 2015



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 Borough Council
Ford City Borough
Armstrong County
Ford City, PA 16226

We have conducted a compliance audit of the Ford City Borough Non-Uniformed Pension Plan for the period January 1, 2012 to December 31, 2013. 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 our 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 audit 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 audit 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 that there were no employee contributions required by the plan's governing document and applicable laws and regulations for the years covered by our audit period.
- × We determined whether the retirement benefit calculated for the 1 plan member who elected to vest during the current audit period was properly determined in accordance with the plan's governing document, applicable laws and regulations by recalculating the amount of the pension benefit due to the retired individual and comparing this amount to supporting documentation evidencing the amount determined.
- × We determined whether the January 1, 2011 and January 1, 2013 actuarial valuation reports were prepared and submitted to the Public Employee Retirement Commission (PERC) by March 31, 2012 and 2014, 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.

Ford City Borough contracted with an independent certified public accounting firm for annual audits of its financial statements prepared in conformity with the accounting practices prescribed or permitted by the Department of Community and Economic Development of the Commonwealth of Pennsylvania, which are available at the borough's offices. Those financial statements were not audited by us and, accordingly, we express no opinion or other form of assurance on them.

Borough officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Ford City Borough Non-Uniformed 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 borough's internal controls as they relate to the borough's compliance with those requirements and that we considered to be significant within the context of our audit objectives, 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 objectives.

The results of our procedures indicated that, in all significant respects, the Ford City Borough Non-Uniformed 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 No. – Noncompliance With Prior Audit Recommendation –
Inconsistent Pension Benefits

The finding contained in this audit report repeats a condition that was cited in our previous audit report that has not been corrected by borough officials. We are concerned by the borough's failure to correct this previously reported audit finding and strongly encourage timely implementation of the recommendation noted in this audit report.

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 Ford City Borough and, where appropriate, their responses have been included in the report. We would like to thank borough officials for the cooperation extended to us during the conduct of the audit.

May 6, 2015



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 Ford City Borough Non-Uniformed Pension Plan is also governed by implementing regulations adopted by the Public Employee Retirement Commission published at Title 16, Part IV of the Pennsylvania Code and applicable provisions of various other state statutes.

The Ford City Borough Non-Uniformed Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of a resolution adopted May 17, 1989, as amended. The plan is also affected by the provisions of collective bargaining agreements between the borough and its non-uniformed employees. The plan was established March 2, 1955. Active members are not required to contribute to the plan. As of December 31, 2013, the plan had 9 active members, 4 terminated members eligible for vested benefits in the future, and 8 retirees receiving pension benefits from the plan.

BACKGROUND – (Continued)

As of December 31, 2013, selected plan benefit provisions are as follows:

Eligibility Requirements:

Normal Retirement	Union Members: age 65 and 10 years of service. Non-Union members: age 65 and 15 years of service.
Early Retirement	Union Members: age 62 and the completion of 10 years of service.
Vesting	Union Members: 100% after 10 years of service.

Retirement Benefit:

For Union Members: A monthly benefit equal to \$22.00 multiplied by years of service.
For Non-Union Members: A monthly benefit equal to \$2.00 multiplied by years of service, minimum benefit is \$100 per month.

Survivor Benefit:

Before Retirement Eligibility	None
After Retirement Eligibility	The normal form of benefit payment is a life annuity. At retirement, union participants may elect a 50% survivor benefit that is actuarial equivalent of the normal form.

Service And Non-Service Related Disability Benefit:

For Union Members: \$22.00 multiplied by years of service for total and permanent disablement that occurs after 10 years of service. For Non-Union Members: \$2.00 multiplied by years of service for total and permanent disablement after age 60 and 15 years of service.

FORD CITY BOROUGH NON-UNIFORMED PENSION PLAN
STATUS OF PRIOR FINDING

Noncompliance With Prior Audit Recommendation

Ford City Borough has not complied with the prior audit recommendation concerning the following as further discussed in the Finding and Recommendation section of this report:

- Inconsistent Pension Benefits

FORD CITY BOROUGH NON-UNIFORMED PENSION PLAN
STATUS OF PRIOR FINDING

Finding – Noncompliance With Prior Audit Recommendation – Inconsistent Pension Benefits

Condition: As disclosed in the prior audit report, the pension plan’s governing document contains benefit provisions that are inconsistent with the collective bargaining agreement between the non-uniformed union employees and the borough, as illustrated below:

<u>Benefit Provision</u>	<u>Governing Document</u>	<u>Collective Bargaining Agreement</u>
Normal retirement age	“Normal Retirement Age” shall mean the later of the date when an employee attains age sixty-five (65) and the date when such employee completed fifteen (15) years of service. (Section 1.19)	All full time employees with at least ten (10) years of service who retire during this agreement will be eligible for a monthly pension benefit payable at age 65. (Article XXII, Section 2 (A))
Normal retirement benefit	If a union participant retires (on or after restatement date) on his normal retirement date, he shall be entitled to receive a monthly normal retirement benefit, expressed in the normal form, commencing on his normal retirement date equal to \$11.00 multiplied by his years of service. (Section 4.01 (a))	For full time employees retiring on or after February 25, 2000, the monthly pension benefit will increase to \$22.00 per month per year of service. (Article XXII, Section 2 (A))
Early retirement benefit	Equal to two times his accrued benefit, determined as of early retirement date payable up to his normal retirement date, at which time the participant’s benefit shall revert to his normal accrued benefit. (Section 4.03)	Eligible to receive a double-dip pension benefit if employee retires at age 62. The double dip will be paid until the end of the month in which the pensioner becomes 65. (Article XXII, Section 2 (B))
Early retirement age	Attainment of age 62 and completion of 15 years of service. (Section 1.10)	Attainment of age 62 and completion of 10 years of service. (Article XXII, Section 2 (B))

FORD CITY BOROUGH NON-UNIFORMED PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

<u>Benefit Provision</u>	<u>Governing Document</u>	<u>Collective Bargaining Agreement</u>
Disability benefit	Participant shall be eligible to receive benefits if he has completed at least ten years of service. Benefit equals \$10.50 multiplied by years of service; however, benefit shall not be less than \$125 a month. (Section 4.06 (a))	Full-time employees shall be eligible for a benefit after ten years of service. Benefit equals \$22.00 multiplied by years of service. Benefit shall not be less than \$155 per month. (Article XXII, Section 2 (C))
Survivor benefit	None provided	The borough agrees to amend the pension plan to permit new retirees the option to secure a fifty (50%) percent survivor benefit in exchange for a reduced monthly pension benefit for the retiree. (Article XXII, Section 2 (A))

In addition, the actuarial valuation reports with valuation dates of January 1, 2009, January 1, 2011, and January 1, 2013 submitted to the Public Employee Retirement Commission (PERC), reported the benefit provisions included in the collective bargaining agreement.

Criteria: The plan’s governing document and the collective bargaining agreement should contain consistent benefit provisions to ensure the sound administration of retirement benefits.

Cause: Plan officials failed to establish adequate internal control procedures to ensure compliance with the prior audit recommendation.

Effect: Inconsistent plan documents could result in inconsistent or improper benefit calculations and incorrect benefit payments from the pension plan.

Recommendation: We again recommend that municipal officials take appropriate action to ensure the plan’s governing document and the collective bargaining agreement contain consistent benefit provisions at their earliest opportunity to do so.

FORD CITY BOROUGH NON-UNIFORMED PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

Management's Response: Municipal officials agreed with the finding without exception. Based on written correspondence from the current borough council president, there has been a turnover in municipal officials and it is the intent of the current council to promptly address the finding recommendation.

Auditor Conclusion: Compliance will be subject to verification through our next audit.

FORD CITY BOROUGH NON-UNIFORMED 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, 2009, is as follows:

	(1)	(2)	(3)	(4)	(5)	(6)
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)	Covered Payroll (c)	Unfunded (Assets in Excess of) Actuarial Accrued Liability as a % of Payroll [(b-a)/(c)]
01-01-09	\$ 540,001	\$ 563,583	\$ 23,582	95.8%	\$ 325,045	7.3%
01-01-11	534,576	632,642	98,066	84.5%	316,570	31.0%
01-01-13	517,644	611,048	93,404	84.7%	304,660	30.7%

Note: The market values of the plan's assets at 01-01-09, 01-01-11, and 01-01-13 have been adjusted to reflect the smoothing of gains and/or losses over a 4-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.

FORD CITY BOROUGH NON-UNIFORMED 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.

Trends in unfunded (assets in excess of) actuarial accrued liability and annual covered payroll are both affected by inflation. Expressing the unfunded (assets in excess of) actuarial accrued liability as a percentage of annual covered payroll (Column 6) approximately adjusts for the effects of inflation and aids analysis of the plan's progress made in accumulating sufficient assets to pay benefits when due. Generally, where there is an unfunded actuarial accrued liability, the smaller this percentage, the stronger the plan. When assets are in excess of the actuarial accrued liability, the higher the bracketed percentage, the stronger the plan.

FORD CITY BOROUGH NON-UNIFORMED PENSION PLAN
 SUPPLEMENTARY INFORMATION
 (UNAUDITED)

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER
 AND OTHER CONTRIBUTING ENTITIES

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2008	\$ 6,389	168.3%
2009	None	N/A
2010	None	N/A
2011	16,836	124.8%
2012	16,872	126.2%
2013	23,643	118.2%

FORD CITY BOROUGH NON-UNIFORMED PENSION PLAN
SUPPLEMENTARY INFORMATION
NOTES TO SUPPLEMENTARY SCHEDULES
(UNAUDITED)

The information presented in the required 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, 2013
Actuarial cost method	Entry age normal
Amortization method	Level dollar, closed
Remaining amortization period	16 years
Asset valuation method	Fair value, 4-year smoothing
Actuarial assumptions:	
Investment rate of return	7.5%
Projected salary increases	None assumed
Cost-of-living adjustments	None assumed

FORD CITY BOROUGH NON-UNIFORMED PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

Ford City Borough Non-Uniformed Pension Plan
Armstrong County
P.O. Box 112
Ford City, PA 16226

The Honorable Marc Mantini	Mayor
Ms. Kathy Bartuccio	Council President
Mr. Jerry Miklos	Vice President of Council
Mr. Eden Ratiff	Borough Manager
Ms. Lisa Bittner	Secretary

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