# COMPLIANCE AUDIT

# City of Johnstown Comprehensive Municipal Pension Trust Fund

## Cambria County, Pennsylvania

For the Period

January 1, 2017 to December 31, 2018

February 2020

Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General

Commonwealth of Pennsylvania
Department of the Auditor General
Harrisburg, PA 17120-0018
Facebook: Pennsylvania Auditor General
Twitter: @PAAuditorGen
www.PaAuditor.gov

EUGENE A. DEPASQUALE
AUDITOR GENERAL

The Honorable Mayor and City Council
City of Johnstown
Cambria County
Johnstown, PA 15901

We have conducted a compliance audit of the City of Johnstown Comprehensive Municipal Pension Trust Fund 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 our audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings 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 findings contained in our prior audit report; and

2. To determine if the municipal pension trust fund 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 findings 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 municipal pension trust fund 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 municipal pension trust fund 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 all 4 police officers, all 7 firefighters, and all 3 non-uniformed employees 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 also determined whether retirement benefits calculated for the lone firefighter who elected to vest during the current audit period represent payments to all (and only) those entitled to receive them and were 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, 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.

- We determined whether the municipal pension trust fund is in compliance with Act 205 for distressed municipalities through inquiry of plan officials and evaluation of the recovery remedies implemented during the audit period and through the completion of our fieldwork procedures.

The City of Johnstown contracted with an independent certified public accounting firm for annual audits of its basic financial statements 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 Johnstown Comprehensive Municipal Pension Trust Fund 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 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 City of Johnstown Comprehensive Municipal Pension Trust Fund was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies, except as noted in the following findings further discussed later in this report:

<u>Police, Firemen's, Non-Uniformed and Bureau of Sewage Pension Plans</u>:

Finding No. 1 - Noncompliance With The Prior Audit Recommendation - Failure to Implement Act 44 Mandatory Distressed Provisions

<u>Firemen's Pension Plan</u>:

Finding No. 2 - Noncompliance With Prior Audit Recommendation - Provision Of Benefits In Excess Of The Third Class City Code

Finding No. 3 - Noncompliance With Prior Audit Recommendation - Inconsistent Pension Benefits

Finding No. 4 - Noncompliance With Prior Audit Recommendation - Incorrect Data Supplied To Actuary For Actuarial Valuation Report Preparation

Finding No. 5 - Improper Survivors' Benefit

Police Pension Plan:

| | | |
|---|---|---|
| Finding No. 6 | - | Noncompliance With Prior Audit Recommendation - Provision Of Benefits In Excess Of The Third Class City Code |
| Finding No. 7 | - | Noncompliance With Prior Audit Recommendation - Inconsistent Pension Benefits |
| Finding No. 8 | - | Noncompliance With Prior Audit Recommendation - Incorrect Data Supplied To Actuary For Actuarial Valuation Report Preparation |
| Finding No. 9 | - | Improper Survivors' Benefit |

Non-Uniformed Pension Plan:

| | | |
|---|---|---|
| Finding No. 10 | - | Noncompliance With Prior Audit Recommendation - Inconsistent Pension Benefits |

Police and Fire Pension Plans:

| | | |
|---|---|---|
| Finding No. 11 | - | Incorrect Data On Certification Form AG 490 Resulting In Excess Reimbursements For Special 1989 Ad Hoc Postretirement Adjustments |

Findings Nos. 1 through 4, 6 through 8, and 10 contained in this audit report repeat conditions that were cited in our previous audit reports that have not been corrected by city officials. Specifically, Finding No. 2 is being repeated for the seventh time. We are concerned by the city's failure to correct those previously reported audit findings and strongly encourage timely implementation of the recommendations noted in this audit report.

As previously noted, one of the objectives of our audit of the City of Johnstown Comprehensive Municipal Pension Trust Fund was to determine compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies. Among several provisions relating to municipal pension plans, Act 205, through the adoption of Act 44 of 2009, provides for the implementation of a distress recovery program. Three levels of distress have been established:

| Level | Indication | Funding Criteria |
|---|---|---|
| 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 historical trend information contained in the respective schedules of funding progress included in this report which indicates **the police pension plan's funded ratio is 56.3%, the firemen's pension plan's funded ratio is 40.8%, the non-uniformed pension plan's funded ratio is 54.8%, and the Bureau of Sewage pension plan's funded ratio is 87.4%, as of January 1, 2017, which is the most recent data available. Based on aggregated funded levels of the city's plans, the Municipal Pension Reporting Program (MPRP), (formerly the Public Employee Retirement Commission) issued a notification that the city is currently in Level II moderate distress** which represents an overall improvement from prior audit periods in which the aggregated funded level of the city's plans resulted in the former Public Employee Retirement Commission issuing a notification that the city was in Level III severe distress. We continue to encourage city officials to monitor the funding of its pension plans to ensure their long-term financial stability.

As noted in Finding No. 1 contained in this report, the City of Johnstown has again failed to comply with the mandatory distress remedies contained in Act 205, as amended by Act 44 of 2009. Regardless of the available remedies pursuant to Act 205 that the city is required to implement, given the current funded status of its municipal pension fund, the city should consider all available options in the development of a strategic plan to deal with its pension funding crisis. City officials must realize that there are no short-term fixes and that they must make fiscally responsible decisions as both fund fiduciaries and city officials that will benefit the City of Johnstown and its taxpayers to ensure the city's pension fund has adequate resources to meet current and future benefit obligations to the city's hard-working police officers, firefighters, and non-uniformed employees.

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 Johnstown Comprehensive Municipal Pension Trust Fund 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.

Eugene A. DePasquale

January 30, 2020

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 Johnstown Comprehensive Municipal Pension Trust Fund 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 67 - The Third Class City Code, Act of June 23, 1931 (P.L. 932, No. 317), as amended, 53 P.S. § 35101 et seq.

Act 147 - Special Ad Hoc Municipal Police and Firefighter Postretirement Adjustment Act, Act of December 14, 1988 (P.L. 1192, No. 147), as amended, 53 P.S. § 896.101 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 Johnstown Comprehensive Municipal Pension Trust Fund is the aggregation of the City's municipal pension plans pursuant to Section 607(b) of Act 205. The police pension plan, firemen's pension plan, non-uniformed pension plan, and Bureau of Sewage pension plans are locally controlled by the provisions of Ordinances No. 4442 (police officers), 4441 (firemen), 4440 (non-uniformed), and 4443 (sewage), as amended. The city's pension ordinances are included in Chapters 284.5 through 293 of the City's Codified Ordinance. The plans are also affected by the provisions of separately executed collective bargaining agreements between the city and its police officers, firefighters, and non-uniformed employees.

## BACKGROUND - (Continued)

The police pension plan was established December 29, 1959. Active members are required to contribute 5 percent of pay plus $5 per month on longevity pay. As of December 31, 2018, the plan had 36 active members, 7 terminated members eligible for vested benefits in the future, and 87 retirees receiving pension benefits from the plan.

The firemen's plan was established on June 17, 1948. Active members are required to contribute 5 percent of pay plus $5 per month on longevity pay. As of December 31, 2018, the plan had 27 active members, 2 terminated member eligible for vested benefits in the future, and 75 retirees receiving pension benefits from the plan.

The non-uniformed plan was established January 1, 1971. Active members are required to contribute 2.25 percent of salary to the plan. As of December 31, 2018, the plan had 36 active members, 2 terminated members eligible for vested benefits in the future, and 81 retirees receiving pension benefits from the plan.

The Bureau of Sewage plan was established January 1, 1971. On June 19, 2013, the City adopted Resolution No. 9615, which terminated its agreement with the Johnstown Redevelopment Authority effective December 31, 2013. That agreement provided for the City to hire the employees of the Bureau of Sewage as city employees. As of December 31, 2018, the plan had no active members, 3 terminated members eligible for vested benefits in the future, and 18 retirees receiving pension benefits from the plan.

POLICE PENSION PLAN

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

Eligibility Requirements:

| | |
|---|---|
| Normal Retirement | Members hired prior to January 1, 1988, age 50 and 20 years of service.<br><br>Members hired on or after January 1, 1988, age 50 plus 1 month and 20 years of service. |
| Early Retirement | None |
| Vesting | 100% vesting available after 12 years of service. |

Retirement Benefit:

Members hired prior to January 1, 1988: A monthly benefit equal to 50% of monthly salary at retirement.

Members hired on or after January 1, 1988: 50% of monthly pay at retirement or 50% of any 5 continuous years of service, preceding retirement, whichever is greater. All members receive a service increment of 1/40 of pension for each year of service completed in excess of 20 years, excluding service beyond age 65. Maximum service increment is $500.

Survivor Benefit:

| | |
|---|---|
| Before Retirement Eligibility | Refund of member contributions, without interest. |
| After Retirement Eligibility | Members hired prior to January 1, 1988, a monthly benefit equal to 100% of the pension the member was receiving or was entitled to receive until death or remarriage, at which time the benefit will be divided equally among the participant's children under age 18. Members hired on or after January 1, 1988, a monthly benefit equal to 50% of the pension the member was receiving or was entitled to receive until death or remarriage, at which time the benefit will be divided equally among the participant's children under age 18. |

POLICE PENSION PLAN - (Continued)

Service Related Disability Benefit:

Upon total and permanent disablement after 15 years of service the participant will receive his pension entitlement.

Non-Service Related Disability Benefit:

Upon total and permanent disablement after 15 years of service the participant will receive his pension entitlement.

FIREMEN'S PENSION PLAN

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

Eligibility Requirements:

| | |
|---|---|
| Normal Retirement | Age 50 and the completion of 20 years of service. |
| Early Retirement | None |
| Vesting | None |

Retirement Benefit:

A monthly benefit equal to 50% of the greater of final monthly base and longevity pay or monthly base and longevity pay averaged over the highest 5 years, plus a service increment of 1/40 of pension for each year of service completed in excess of 20 years, excluding service beyond age 65. Maximum service increment is $500.

Survivor Benefit:

| | |
|---|---|
| Before Retirement Eligibility | Refund of member contributions, without interest. |
| After Retirement Eligibility | A monthly benefit equal to 50% of the pension the member was receiving or was entitled to receive. If surviving spouse dies or remarries, the benefit will be paid to the participant's children under age 18, if any. |

FIREMEN'S PENSION PLAN - (Continued)

Service Related Disability Benefit:

If a participant is totally and permanently disabled after 15 years of service the normal retirement benefit is payable. If a member who has less than 15 years of service the benefit would be calculated at the disability date and reduced by a ratio (not greater than one) the numerator of actual years of service and the denominator of 15.

Non-Service Related Disability Benefit:

If a participant is totally and permanently disabled after 15 years of service the normal retirement benefit is payable.

## NON-UNIFORMED PENSION PLAN

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

Eligibility Requirements:

| | |
|---|---|
| Normal Retirement | Age 60 and 20 years of service. |
| Early Retirement | None |
| Vesting | 60% vesting available after 12 years of service. The vesting percentage increases 5% for each year of service until 20 years at which time a member is 100% vested. |

Retirement Benefit:

Monthly benefit equals 50% of the final monthly average salary, reduced by 50% of primary Social Security benefit.

Survivor Benefit:

| | |
|---|---|
| Before Retirement Eligibility | Refund of member contributions, without interest. |
| After Retirement Eligibility | The retirement benefits payable as a life annuity. |

NON-UNIFORMED PENSION PLAN - (Continued)

Service Related Disability Benefit:

Upon total and permanent disablement after the completion of 10 years of service a participant will receive the retirement benefit with no offset for Social Security benefits.

Non-Service Related Disability Benefit:

Same as service related.

BUREAU OF SEWAGE PENSION PLAN

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

Eligibility Requirements:

| | |
|---|---|
| Normal Retirement | Age 65 |
| Early Retirement | Age 60 and 15 years of service. |
| Vesting | 100% vesting available after 15 years of service. |

Retirement Benefit:

A monthly benefit equal to 1 percent of average compensation multiplied by years of service to a maximum of 40 years.

Survivor Benefit:

| | |
|---|---|
| Before Retirement Eligibility | Refund of member contributions, without interest. |
| After Retirement Eligibility | Life annuity or participant may select at retirement an actuarial equivalent of the normal form. |

Service Related Disability Benefit:

None

Non-Service Related Disability Benefit:

None

Compliance With Prior Audit Recommendation

The City of Johnstown has complied with the prior audit recommendation concerning the following:

Non-Uniformed Pension Plan:

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

  During the current audit period, municipal officials complied with the instructions accompanying Certification Form AG 385s and accurately reported the required pension data.

Noncompliance With Prior Audit Recommendations

The City of Johnstown has not complied with the prior audit recommendations concerning the following as further discussed in the Findings and Recommendations section of this report:

Police, Firemen's, Non-Uniformed and Bureau of Sewage Pension Plans:

- Failure to Implement Act 44 Mandatory Distressed Provisions;

Firemen's Pension Plan:

- Provisions Of Benefits In Excess Of The Third Class City Code;
- Inconsistent Pension Benefits;
- Incorrect Data Supplied To Actuary For Actuarial Valuation Report Preparation;

Police Pension Plan:

- Provisions Of Benefits In Excess Of The Third Class City Code;
- Inconsistent Pension Benefits;
- Incorrect Data Supplied To Actuary For Actuarial Valuation Report Preparation; and

Non-Uniformed Pension Plan:

- Inconsistent Pension Benefits.

Police, Firemen's, Non-Uniformed, and Bureau of Sewage Pension Plans

## Finding No. 1 - Noncompliance With Prior Audit Recommendation - Failure to Implement Act 44 Mandatory Distressed Provisions

Condition: As disclosed in the prior two audit reports, among several provisions relating to municipal pension plans, Act 205, which was amended through the adoption of Act 44 of 2009, provides for the implementation of a distress recovery program. Three levels of distress have been established:

| Level | Indication | Funding Criteria |
|---|---|---|
| I | Minimal distress | 70-89% |
| II | Moderate distress | 50-69% |
| III | Severe distress | Less than 50% |

Based on the prior funded ratios of the city's pension plans, the former PERC issued notifications that the city was previously in Level III severe distress status during 2012 and 2014 and Level II moderate distress status during 2016; however, the city failed to comply with the mandatory Level III and Level II distress remedies contained in Act 205. During the current audit period, as of January 1, 2017, which is the most recent data available, the Municipal Pension Reporting Program (MPRP) *(formerly PERC)* issued a notification in 2018 that the city remains in Level II moderate distress status during 2018. However, the city again failed to comply with the mandatory Level II distress remedies contained in Act 205.

Included with the prior determination notices, the former PERC sent the municipality the Act 205 Recovery Program Election Form outlining the mandatory remedies that must be implemented and the voluntary remedies that the municipality could elect to implement. This form was required to be signed by the plan's Chief Administrative Officer and returned to the former PERC, now MPRP.

Although we previously noted that the city had drafted a recovery plan providing for improvements of the administration of the pension plans, the recovery plan has still not been implemented, nor has it been submitted to the MPRP.

Police, Firemen's, Non-Uniformed, and Bureau of Sewage Pension Plans - (Continued)

**Finding No. 1 - (Continued)**

Criteria: Section 605(a) of Act 205, amended by Act 44, states:

(a) Mandatory remedies. Any municipality to which level II of the recovery program applies shall utilize the following remedies:
  (1) The aggregation of trust funds pursuant to section 607(b).
  (2) The submission of a plan for administrative improvement pursuant to section 607(i).

In addition, Section 607(i) of Act 205 states, as follows:

> **Plan for administrative improvement.** The municipality shall prepare and submit to the commission a comprehensive plan for administrative improvements in the pension plans, including, but not limited to, an improvement in investment performance, an increase in the liquidity of invested assets, an improved projection of future cash flow requirements, a reduction in any time delays for the deposit of member deductions and municipal contributions in the funding mechanism for the pension plan or an improvement in the collection of any other accounts receivable. Upon approval of the commission, the municipality shall implement the plan for administrative improvements. (Emphasis added.)

Cause: The city continues to experience a high rate of turnover of plan officials; more specifically, the city manager position has changed three times between 2016 through 2019 and is currently vacant. Since the city's Home Rule Charter at Article VI Section 601 states in part, *(T)he City Manager shall be the chief administrative officer of the Municipality*, and due to such turnover, the city has struggled to establish adequate internal control procedures to ensure the mandatory distress remedies have been implemented and compliance with the prior recommendation.

Effect: The city is not in compliance with the mandatory distress remedy provisions applicable to Level II contained in Act 205 *(amended through Act 44)*, which are designed to improve the funding status and administrative efficiency of its pension plans.

Recommendation: We again recommend that the city contact the MPRP for guidance in the submission, approval and implementation of its plan for administrative improvement applicable to Level II pursuant to Act 205.

Management's Response: City officials agreed with the finding without exception.

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

Firemen's Pension Plan

**Finding No. 2 - Noncompliance With Prior Audit Recommendation - Provision Of Benefits In Excess Of The Third Class City Code**

Condition: As disclosed in the six prior audit reports, the city 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.) and continues to provide benefits to its firefighters in excess of the restrictions found in the Third Class City Code, as follows:

| Benefit | Governing Document/Collective Bargaining Agreement (CBA) | Third Class City Code |
|---|---|---|
| Survivor Benefit | Ordinance No. 4928 dated January 14, 2004, states if a member who is active or who is eligible to receive or is receiving pension benefits dies, the spouse of the deceased member, or, if no spouse survives or if the spouse survives and subsequently dies or remarries, then the children, under age 18 of the deceased member, shall, during the spouse's lifetime or so long as the spouse does not remarry, in the case of the spouse, or until reaching age 18, in the case of children, receive a monthly pension equal to 50% of the amount which the member was receiving or would have received prior to his or her death. | Upon the death of a member who retires on pension or is killed in the service on or after January 1, 1960, or who dies in the service on or after January 1, 1968, payments as hereinafter provided shall be made to the member's surviving spouse during the life of the spouse. (Emphasis added.) |

Firemen's Pension Plan - (Continued)

**Finding No. 2 - (Continued)**

| Benefit | Governing Document/Collective Bargaining Agreement (CBA) | Third Class City Code |
|---|---|---|
| Vesting | The collective bargaining agreement provides after 12 years of service, but before reaching 20 years of service, a benefit upon reaching age 50 will be determined utilizing a fraction with the years of service as the numerator and 20 as the denominator. Ordinance No. 4928 and Ordinance No. 4441, which it amended, are silent with regard to vesting benefits. *(See Finding No. 3)* | The portion of the base retirement benefits due to the member shall be determined by applying to the base amount the percentage that his or her years of service actually rendered bears to the years of service which would have been rendered <u>had the member continued to be employed by the department until his or her minimum retirement date</u>. (Emphasis added.) |

Therefore, the Third Class City Code does not authorize survivor benefits for minors under 18 years of age and provides for a lifetime benefit to be paid to a surviving spouse, even if remarried. Furthermore, the Third Class City Code dictates that a vested benefit must be determined based on the number of years required for a superannuation retirement, which would be age 50 and 20 years of service. The vesting provision contained in the CBA could result in the payment of a vested pension benefit greater than what is authorized by the Third Class City Code.

Criteria: As previously disclosed, on January 24, 2001, the Commonwealth Court of Pennsylvania issued its opinion in *Municipality of Monroeville v. Monroeville Police Department Wage Policy Committee.* Therein, the court held that Section 2962(c)(5) of the Home Rule Charter and Optional Plans Law, 53 Pa. C.S. § 2962(c)(5), "clearly precludes home rule municipalities from providing pension benefits different from those prescribed in general law including Act 600." The court's holding was in accord with the position taken by this department since at least January 1995. As noted in the "Department Of The Auditor General Municipal Pension Bulletin No. 2001-01", dated July 1, 2001, the Department's application of Monroeville did not apply to home rule municipalities that had granted benefits not authorized by the Third Class City Code to existing retirees or individuals who began full-time employment before January 24, 2001 (the date Monroeville was issued). However, the Department's application of Monroeville applied to those individuals who began full-time employment on or after January 24, 2001.

Firemen's Pension Plan - (Continued)

**Finding No. 2 - (Continued)**

Special note should be taken that the Department's application of Monroeville only to employees hired on or after January 24, 2001, does not sanction (1) a municipality's granting excess benefits to existing or future employees when none had been granted as of January 24, 2001, or (2) a municipality's increasing excess benefits for existing or future employees beyond those which had been granted as of that date.

Cause: As noted earlier, the city continues to experience a high rate of turnover of plan officials especially the city manager position, responsible for the chief administrative responsibilities of the city and due to the impact of such turnover, the city again failed to establish adequate procedures to ensure compliance with the prior audit recommendation.

Effect: The provision of excess benefits increases the plan's pension costs and reduces funds available for investment or the payment of authorized benefits or administrative expenses. Although the city did not receive excess state aid allocations during the current audit period attributable to the excess benefits provided, the provision of excess benefits could result in the receipt of excess state aid in the future and/or increases in required city contributions to the plan.

Recommendation: We again recommend that the city restrict pension benefits to those authorized by the Third Class City Code for all employees who began full-time employment on or after January 24, 2001 (the date *Monroeville* was issued) upon the renewal, extension, or renegotiation of the collective bargaining agreement. To the extent that the city is not in compliance with the Third Class City Code and/or is contractually obligated to provide benefits in excess of those authorized by the Third Class City Code to employees who began employment on or after January 24, 2001, the excess benefits must be reflected in the Act 205 actuarial valuation reports for the plan and funded in accordance with Act 205 funding standards. Furthermore, such benefits will be deemed ineligible for funding with state pension aid. In such case, the plan's actuary may be required to determine the impact, if any, of the unauthorized benefits on the city's future state aid allocations and submit this information to the Department.

Management's Response: The city provided the following response, which is included verbatim:

> Finding No. 2, "Noncompliance with Prior Audit Recommendation – Provision of Benefits in Excess of the Third Class City Code". There are conflicts between the Collective Bargaining Agreements, the Third Class City Code, and the City's Ordinances.
>
> The Collective Bargaining Agreements expire December 31, 2020. The City is going to be renegotiating agreements during the 2020 year. These new agreements will be effective January 1, 2021. The City plans to hire a Labor Counsel to help with the process. The City will make the Labor Counsel aware of these discrepancies so that these issues can be corrected for the new agreements that will be effective January 1, 2021.

Firemen's Pension Plan - (Continued)

**Finding No. 2 - (Continued)**

Auditor's Conclusion: Based on the management response, it appears that the city intends to comply with the finding recommendation. Moreover, it was noted that Initiative No. 109 of the city's *Seventh Amended Recovery Plan* under Act 47 for distressed municipalities makes recommendations for benefit structure changes for the Firemen's Plan for firemen hired after January 1, 2018. Compliance will be evaluated during our next audit of the plan.

**Finding No. 3 - Noncompliance With Prior Audit Recommendation - Inconsistent Pension Benefits**

Condition: As disclosed in the prior audit report, the pension plan's governing document, Ordinance No. 4441, as amended, contains benefit provisions that conflict with the collective bargaining agreements (CBAs) between the firefighters and the city, as follows:

| Benefit Provision | Governing Document | Collective Bargaining Agreement |
|---|---|---|
| Retirement Eligibility | Each member shall be entitled to receive a pension benefit, provided he or she has completed at least twenty years of continuous service with the employer and has attained fifty years of age. | After June 30, 1995, Firefighters will be allowed to retire on a full unreduced pension after twenty (20) years of service.<br><br>For firefighters hired on or after January 1, 2018, normal retirement is age 55 with 25 years of service. |
| Vesting | Not provided. *(refer to Finding No. 2)* | In the event that the bargaining unit member should terminate employment after twelve (12) years of service, but before reaching twenty (20) years of service, his pension benefit upon attaining fifty (50) years of age shall be calculated by utilizing a fraction with the years of service as the numerator and 20 as the denominator. *(refer to Finding No. 2)* |

Firemen's Pension Plan - (Continued)

**Finding No. 3 - (Continued)**

| Benefit Provision | Governing Document | Collective Bargaining Agreement |
|---|---|---|
| Service Related Disability | If a member who has completed at least fifteen years of continuous service with the employer incurs a disability and is unable to perform the duties of a member, he or she shall be entitled to receive a pension benefit equal to his or her pension benefit calculated as of his or her date of disability. If a member who has completed less than fifteen years of continuous service with the employer incurs a disability pension while in the line of duty, he or she shall be entitled to receive a disability pension benefit equal to his or her pension benefit calculated at his or her date of disability, reduced by a ratio (not greater than one) the numerator of which shall be his or her actual years of continuous service with the employer and the denominator of which shall be 15. | Effective January 1, 2009, any member who becomes permanently incapacitated by the performance of their duties will receive a full and unreduced pension regardless of their years of service. |

Firemen's Pension Plan - (Continued)

**Finding No. 3 - (Continued)**

In addition, during the current audit period, a new CBA was negotiated between the firefighters and the city and these additional benefit provisions conflict between the plan document and the CBA.

| Benefit Provision | Governing Document | Collective Bargaining Agreement |
|---|---|---|
| Service Increment | Each member who becomes entitled to a pension benefit shall also become entitled to payment of a service increment benefit equal to the number of whole years in excess of twenty of continuous service (including any credit for military service as provided) multiplied by one-fortieth of the pension benefit which the member is entitled to receive. No service increment benefit, which is in excess of five hundred dollars ($500) per month, shall be paid to a member, nor shall such increment reflect any employment after the member has reached sixty-five years of age. | Effective January 1, 2004, the pension plan of Firefighter's shall be revised to provide the service increment increased to Five Hundred ($500) Dollars.<br><br>For firefighters hired on or after January 1, 2018, the service increment is reduced and capped to $100 per month. |
| Member Contributions | Each member shall contribute 3.75% of his or her compensation each month to the Pension Fund. | For members hired on or after January 1, 2018, members shall contribute 7%. *(The agreement is silent with regards to members hired prior to January 1, 2018.)* |

Firemen's Pension Plan - (Continued)

**Finding No. 3 - (Continued)**

Furthermore, actuarial valuation reporting forms 202C for the firemen's pension plan, with valuation dates of January 1, 2015 and January 1, 2017, submitted to the former PERC and the MPRP, reported benefit provisions included in the collective bargaining agreement (also see Finding No. 4).

Criteria: The plan's governing documents should contain consistent, clearly defined, and updated benefit provisions to ensure the sound administration of retirement benefits.

Cause: As noted earlier, the city continues to experience a high rate of turnover of plan officials, especially the city manager position responsible for the chief administrative responsibilities of the city, and due to the impact of such turnover, the city again failed to establish adequate internal control procedures to ensure the plan's governing document and the collective bargaining agreement contain consistent benefit provisions and compliance with the prior recommendation.

Effect: Inconsistent plan documents have resulted in inconsistent or improper benefit calculations and incorrect benefit payments from the pension plan *(also see Finding No. 5).*

Recommendation: We again recommend that municipal officials, in conjunction with their solicitor, pension plan consultant, and Act 47 plan coordinator, take whatever action is necessary to ensure that the plan's governing documents properly reflect all benefit obligations of the pension plan and that the inconsistencies among the various plan documents are eliminated.

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

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

Firemen's Pension Plan - (Continued)

**Finding No. 4 - Noncompliance With Prior Audit Recommendation - Incorrect Data Supplied To Actuary For Actuarial Valuation Report Preparation**

Condition: As disclosed in the prior audit report, actuarial valuation report form 202C, for the firemen's pension plan, with a valuation date of January 1, 2015, submitted to the former PERC, contained incorrect information based on data supplied by the city to the plan's actuary. A similar condition occurred during the current audit period. The same incorrect information was submitted to MPRP on the actuarial valuation report valued as of January 1, 2017. The municipality supplied the following incorrect information to the plan's actuary:

- Eligibility requirement - normal retirement benefit
- Vesting benefit
- Survivor's benefit
- Service related disability benefit
- Member's contribution rate

Criteria: Section 201(d) of Act 205 states:

> Responsibility for preparation and filing of reports and investigations. The actuarial valuation report or experience investigation required pursuant to subsection (a) shall be prepared under the supervision and at the discretion of the chief administrative officer of the municipality, who shall be responsible for the filing of the document. The actuarial valuation report or experience investigation shall be signed by the chief administrative officer, indicating that to the extent of the understanding and knowledge of the officer, the report or investigation represents a true and accurate portrayal of the actuarial, financial and demographic condition of the pension plan of the municipality.

Cause: As noted earlier, the city continues to experience a high rate of turnover, especially the city manager position responsible for the chief administrative responsibilities of the city, and due to the impact of such turnover, the city is unable to implement procedures to verify the data submitted to the plan's actuary and identify discrepancies with the plan's governing document and ensure compliance with the prior recommendation.

Effect: Because the municipality's state aid allocation is determined, in part, by the information contained in the actuarial valuation report, the submission of incorrect data to the actuary may have resulted in the municipality receiving an incorrect allocation of state aid.

Firemen's Pension Plan - (Continued)

**Finding No. 4 - (Continued)**

In addition, the information contained in the actuarial valuation report is used to determine the municipality's minimum municipal obligation (MMO); therefore, the incorrect data may have resulted in an erroneous MMO calculation.

Recommendation: We again recommend that, in the future, plan officials review and verify all information submitted to and received from the plan's actuary so that future actuarial valuation reports properly reflect the status of the pension plan.

Management's Response: City officials again agreed with the finding without exception.

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

**Finding No. 5 - Improper Survivors' Benefit**

Condition: During the current audit period, based on examination of retirement calculations prepared by plan officials for 8 firefighters (7 retirement and 1 vested), it was determined that the city designated benefits to survivors of these retirees in excess of what was specified by the plan document on the retirement calculations. All 8 calculations specified a benefit payable to the survivor in an amount equal to 100 percent of the amount payable to the member for life upon the member's death even though, as disclosed in Finding No. 2 of this report, the plan's governing document only authorizes a survivors' benefit equal to 50 percent of the amount the member was receiving or would have received prior to his or her death. Furthermore, it was determined that the city has been specifying such benefits to surviving beneficiaries of all retiring employees hired after January 1, 1988.

Criteria: Ordinance No 4928, at Section 1, states in part:

> If a member who is active or who is eligible to receive or is receiving pension benefits dies, the spouse of the deceased member, or, if no spouse survives or if the spouse survives and subsequently dies or remarries, then the child or children, under the age of eighteen years, of the deceased member, shall, during the spouse's lifetime or so long as the spouse does not remarry, in the case of the spouse, or until reaching the age of eighteen, in the case of a child or children, receive a monthly pension which shall be equal to fifty percent of the amount which the member was receiving or would have received prior to his or her date of death.

Firemen's Pension Plan - (Continued)

**Finding No. 5 - (Continued)**

In addition, Section 19 F of the collective bargaining agreement (CBA) covering the period January 1, 2018 to December 31, 2020 also provides a 50% survivor benefit for employees hired on or after January 1, 2018 *(prior CBAs were previously silent regarding survivors' benefits)*.

Cause: City officials, along with the plan administrator, believed there was documentation available to support the 100% survivor's benefit provision. However, no such documentation was maintained/provided by the city other than the provisions of the governing document noted above. In addition, as aforementioned, the city continues to experience a high rate of turnover of plan officials especially the city manager position responsible for the chief administrative responsibilities of the city, and due to the impact of such turnover, the city again failed to establish adequate internal control procedures to ensure compliance with the provisions in the governing plan document.

Effect: Providing unauthorized pension benefits increases the plan's pension costs and reduces the amount of funds available for investment purposes or for the payment of authorized benefits or administrative expenses. Since the borough received state aid based on unit value during the current audit period, it did not receive state aid attributable to the excess pension benefits provided. However, the increased costs to the pension plan as a result of the excess pension benefits could result in the receipt of excess state aid in the future and increase the municipal contributions necessary to fund the plan in accordance with Act 205 funding standards.

Recommendation: We recommend that the city provide benefits in accordance with the plans governing document. To the extent that the city is not in compliance with the governing document or is contractually obligated to pay benefits to existing survivors in excess of those authorized by the governing document, the excess benefits must be reflected in the Act 205 actuarial valuation reports for the plan and funded in accordance with Act 205 funding standards. Furthermore, the excess benefits will be deemed ineligible for funding with state pension aid. In such case, the plan's actuary may be required to determine the impact, if any, of the improper survivors' benefits on the city's future state aid allocations and submit this information to this Department. If it is determined the improper survivors' benefits had an impact on the city's future state aid allocations after the submission of this information, the plan's actuary would then be required to contact this Department to verify the overpayment of state aid received. Plan officials would then be required to reimburse the overpayment to the Commonwealth.

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.

Police Pension Plan

**Finding No. 6 - Noncompliance With Prior Audit Recommendation - Provision Of Benefits In Excess Of The Third Class City Code**

Condition: As disclosed in the prior audit report, the city 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.) and continues to provide a vesting benefit to its police officers in excess of the restrictions found in the Third Class City Code as follows:

| Benefit | Governing Document | Third Class City Code |
|---|---|---|
| Vesting | Ordinance No. 4460 provides that any member who shall have served for twelve (12) years, or more, but less than twenty (20) years, and shall not have attained the age of fifty (50) years, and whose tenure of office or employment shall be terminated with, or without his voluntary action before the expiration of twenty (20) years of service, shall, in such event, during the remainder of his life, after attaining the age of fifty (50) years, be entitled to receive such portion of full pension benefits as the period of his service up to date of his termination bears to the full twenty (20) year period of service. | Section 4302.1 provides that should a member of the police pension fund, before completing the minimum age and minimum period of continuous service requirements but after having completed twelve years of full-time service, the member shall be entitled to vest his or her retirement benefits. The benefits due the member shall be determined by applying to the base amount the percentage that his or her years of service actually rendered bears to the years of service which would have been rendered had the member continued to be employed by the department until his or her minimum retirement date. (Emphasis added.) |

Therefore, the Third Class City Code dictates that a vested benefit must be determined based on the number of years required for a superannuation retirement, which would be age 50 and 20 years of service. The vesting provision contained in the plan's governing document could result in the payment of a vested pension benefit greater than what is authorized by the Third Class City Code.

Police Pension Plan - (Continued)

**Finding No. 6 - (Continued)**

Criteria: On January 24, 2001, the Commonwealth Court of Pennsylvania issued its opinion in *Municipality of Monroeville v. Monroeville Police Department Wage Policy Committee.* Therein, the court held that Section 2962(c)(5) of the Home Rule Charter and Optional Plans Law, 53 Pa. C.S. § 2962(c)(5), "clearly precludes home rule municipalities from providing pension benefits different from those prescribed in general law including Act 600." The court's holding was in accord with the position taken by this department since at least January 1995.

Cause: As noted earlier, the city continues to experience a high rate of turnover of plan officials, especially the city manager position responsible for the chief administrative responsibilities of the city, and due to such turnover, the city again failed to ensure that the plan's governing document does not provide benefits in excess of the Third Class City Code and compliance with the prior audit recommendation.

Effect: The provision of excess benefits increases the plan's pension costs and reduces the amount of funds available for investment purposes or the payment of authorized benefits or administrative expenses. Although the city did not receive any excess state aid allocations during the current audit period attributable to the excess benefits provided, the provision of excess benefits could result in the receipt of excess state aid in the future and could increase required municipal contributions to the plan.

Recommendation: We again recommend that the city restrict pension benefits to those authorized by the Third Class City Code for all employees who began full-time employment on or after January 24, 2001 (the date *Monroeville* was issued) upon the renewal, extension, or renegotiation of the collective bargaining agreement. To the extent that the city is not in compliance with the Third Class City Code and/or is contractually obligated to provide benefits in excess of those authorized by the Third Class City Code to employees who began employment on or after January 24, 2001, the excess benefits must be reflected in the Act 205 actuarial valuation reports for the plan and funded in accordance with Act 205 funding standards. Furthermore, such benefits will be deemed ineligible for funding with state pension aid. In such case, the plan's actuary may be required to determine the impact, if any, of the unauthorized benefits on the city's future state aid allocations and submit this information to the Department.

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

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

Police Pension Plan - (Continued)

**Finding No. 7 - Noncompliance With Prior Audit Recommendation - Inconsistent Pension Benefits**

Condition: As disclosed in the prior audit report, the pension plan's governing documents, Ordinance No. 3785, as amended, *(for officers hired prior to January 1, 1988)*, and Ordinance No. 4442, as amended, *(for officers hired on or after January 1, 1988)*, contain benefit provisions that conflict with the collective bargaining agreement between the police officers and the city, as follows:

| Benefit Provision | Governing Document | Collective Bargaining Agreement |
|---|---|---|
| Retirement Eligibility | Members hired prior to January 1, 1988, shall be entitled to receive a pension benefit after twenty (20) years and reaching the age of fifty (50). Members hired on or after January 1, 1988, shall be entitled to receive a pension benefit, provided he or she has attained fifty years and one month of age and has accrued twenty years of service with the Department of Police. | All police officers hired before January 1, 1989, shall be permitted to retire should they so elect, after twenty (20) years of service without regard to age. All officers hired after January 1, 1989 shall be permitted to retire after twenty (20) years plus one (1) day of service and fifty (50) years of age. For employees hired after March 10, 2010, the normal retirement shall require twenty five (25) years of service. |
| Service Related Disability | If a member of the Employer incurs disability under the Plan and has completed at least fifteen (15) years of continuous service with the Employer, he shall be entitled to receive a monthly disability pension benefit which shall be equal to his pension benefit as of his disability date. | The work-related disability qualification period shall be 10 years. |

Police Pension Plan - (Continued)

**Finding No. 7 - (Continued)**

| Benefit Provision | Governing Document | Collective Bargaining Agreement |
|---|---|---|
| Service Increment | Each member who becomes entitled to a pension benefit shall also become entitled to payment of a service increment benefit equal to the number of whole years, in excess of twenty, of continuous service (including credit for any military service as provided in Section 289.04) multiplied by one-fortieth of the pension benefit which the member is entitled to receive. No service increment benefit which is in excess of five hundred dollars ($500.00) per month shall be paid to a member, nor shall such increment reflect any employment after the member has reached sixty-five years of age. | For employees hired prior to January 1, 2018, the employee is entitled to an additional pay/increment based on the years of service in excess of 20 years in the amount of $500, with employee contributions to be governed by Act 65.<br><br>For employees hired on or after January 1, 2018, the employee is entitled to an additional pay/increment based on the years of service in excess of the minimum years required for normal retirement in the amount of 1/40$^{th}$ of the base pension up to a maximum of one hundred dollars ($100.00). |
| Final Average Salary | Members hired prior to January 1, 1988, the rate of monthly pay as of the date of retirement. Members hired on or after January 1, 1988, the rate of monthly pay of the member as of the date of retirement or the highest average annual salary which the member received during any five (5) years of continuous service proceeding his date of retirement, whichever is the greater amount. | For employees hired prior to March 10, 2010, final average salary is base salary at the time of retirement including longevity pay, sick leave incentive and educational pay. For employees hired after March 10, 2010, final average salary is based upon a high 5-year average. |

Police Pension Plan - (Continued)

**Finding No. 7 - (Continued)**

| Benefit Provision | Governing Document | Collective Bargaining Agreement |
|---|---|---|
| Purchase of military service | No benefit provision for members hired prior to January 1, 1988. For members hired on or after January 1, 1988, shall be entitled to have full credit for each year or fraction thereof, not to exceed five (5) years of service upon his payment to the Pension Fund of an amount equal to that which he would have paid had he been a member during the period for which he desires credit and his payment to the Pension Fund of an additional amount as the equivalent of the contribution of the Employer on account of such military. | An employee who has served in the military may choose to purchase said military time for longevity/increment purposes or for continuous service time, or for a combination of both. The cost of said purchase is based upon the pension contributions, which would have been made during the years of service the employee wishes to purchase. The employee is required to pay both his share of the contribution as well as the city's share of the contribution for the years being purchased. An employee is entitled to purchase up to 5 years of military service. |

Furthermore, actuarial valuation reports form 201C for the police pension plan, with the valuation dates of January 1, 2015 and January 1, 2017, submitted to the former PERC, reported benefit provisions included in the collective bargaining agreement (see Finding No. 8).

Criteria: The plan's governing documents should contain consistent, clearly defined and updated benefit provisions to ensure the sound administration of retirement benefits.

Cause: The city continues to experience a high rate of turnover of plan officials, especially the city manager position responsible for the chief administrative responsibilities of the city, and due to such turnover, the city again failed to establish adequate internal control procedures to ensure the plan's governing document and the collective bargaining agreement contained consistent benefit provisions and compliance with the prior audit recommendation.

Police Pension Plan - (Continued)

**Finding No. 7 - (Continued)**

Effect: Inconsistent plan documents has resulted in inconsistent or improper benefit calculations and incorrect benefit payments from the pension plan (see Finding No. 9).

Recommendation: We again recommend that municipal officials, in conjunction with their solicitor, pension plan consultant and Act 47 exit plan coordinator, take whatever action that is necessary to ensure that the plan's governing documents properly reflect all benefit obligations of the pension plan and that the inconsistencies among the various plan documents are eliminated.

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

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

**Finding No. 8 - Noncompliance With Prior Audit Recommendation - Incorrect Data Supplied To Actuary For Actuarial Valuation Report Preparation**

Condition: As disclosed in our prior audit report, actuarial valuation report form 201C, for the police pension plan, with a valuation date of January 1, 2015, submitted to the former Public Employee Retirement Commission (PERC), contained incorrect information. The information was based on data supplied by the municipality to the plan's actuary. A similar condition occurred during the current audit period. The same information was submitted to the MPRP on the actuarial valuation report valued as of January 1, 2017.

The municipality supplied the following incorrect information to the plan's actuary:

- Eligibility requirement - normal retirement
- Retirement benefit
- Survivor benefit
- Service related disability benefit
- Vesting benefit
- Member contribution rate

Police Pension Plan - (Continued)

**Finding No. 8 - (Continued)**

Criteria: Section 201(d) of Act 205 states:

> Responsibility for preparation and filing of reports and investigations. The actuarial valuation report or experience investigation required pursuant to subsection (a) shall be prepared under the supervision and at the discretion of the chief administrative officer of the municipality, who shall be responsible for the filing of the document. The actuarial valuation report or experience investigation shall be signed by the chief administrative officer, indicating that to the extent of the understanding and knowledge of the officer, the report or investigation represents a true and accurate portrayal of the actuarial, financial and demographic condition of the pension plan of the municipality.

Cause: As noted earlier, the city continues to experience a high rate of turnover, especially the city manager position responsible for the chief administrative responsibilities of the city, and due to the impact of such turnover, the city is unable to implement procedures to verify the data submitted to the plan's actuary and identify discrepancies with the plan's governing document and ensure compliance with the prior recommendation.

Effect: Because the municipality's state aid allocation is determined, in part, by the information contained in the actuarial valuation report, the submission of incorrect data to the actuary may have resulted in the municipality receiving an incorrect allocation of state aid.

In addition, the information contained in the actuarial valuation report is used to determine the municipality's minimum municipal obligation (MMO); therefore, the incorrect data may have resulted in an erroneous MMO calculation.

Recommendation: We again recommend that, in the future, plan officials review and verify all information submitted to and received from the plan's actuary so that future actuarial valuation reports properly reflect the status of the pension plan.

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

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

Police Pension Plan - (Continued)

**Finding No. 9 - Improper Survivors' Benefit**

Condition: During the current audit period, based on examination of retirement calculations prepared by plan officials for 4 police officers who retired from employment with the city, it was determined that the city designated benefits to survivors of these retirees in excess of what was specified by the plan document on the retirement calculations. All 4 calculations specified a benefit payable to the survivor in an amount equal to 100 percent of the amount payable to the member for life, upon the member's death even though the pension plan's governing document only authorizes a survivors' benefit equal to 50 percent of the amount the member was receiving or would have received prior to his or her death. Furthermore, it was determined that the city has been specifying such benefits to surviving beneficiaries of all retiring employees hired after January 1, 1988.

Criteria: Ordinance No. 4460, at Section 3, states in part:

> If a member who is active or who is eligible to receive or is receiving pension benefits dies, the spouse of the deceased member, or, if no spouse survives or if the spouse survives and subsequently dies or remarries, then the child or children, under the age of eighteen years, of the deceased member, shall, during the spouse's lifetime or so long as the spouse does not remarry, in the case of the spouse, or until reaching the age of eighteen, in the case of a child or children, receive a monthly pension which shall be equal to fifty percent of the amount which the member was receiving or would have received prior to his or her date of death.

In addition, Section 8 of Article 16 of the collective bargaining agreement for the period January 1, 2018 to December 31, 2020 provides a 50% survivor benefit for employees hired on or after January 1, 2018 *(prior CBAs were previously silent regarding survivors' benefits)*.

Cause: City officials, along with the plan administrator, believed there was documentation available to support the 100% survivor's benefit provision. However, no such documentation was maintained/provided by the city other than the provisions of the governing document noted above. In addition, as aforementioned, the city continues to experience a high rate of turnover of plan officials especially the city manager position, responsible for the chief administrative responsibilities of the city and due to the impact of such turnover, the city again failed to establish adequate internal control procedures to ensure compliance with the provisions in the governing plan document.

Police Pension Plan - (Continued)

**Finding No. 9 - (Continued)**

Effect: Providing unauthorized pension benefits increases the plan's pension costs and reduces the amount of funds available for investment purposes or for the payment of authorized benefits or administrative expenses. Since the borough received state aid based on unit value during the current audit period, it did not receive state aid attributable to the excess pension benefits provided. However, the increased costs to the pension plan as a result of the excess pension benefits could result in the receipt of excess state aid in the future and increase the municipal contributions necessary to fund the plan in accordance with Act 205 funding standards.

Recommendation: We recommend that the city provide benefits in accordance with the plans governing document. To the extent that the city is not in compliance with the governing document or is contractually obligated to pay benefits to existing survivors in excess of those authorized by the governing document the excess benefits must be reflected in the Act 205 actuarial valuation reports for the plan and funded in accordance with Act 205 funding standards. Furthermore, the excess benefits will be deemed ineligible for funding with state pension aid. In such case, the plan's actuary may be required to determine the impact, if any, of the improper survivors' benefits on the city's future state aid allocations and submit this information to this department. If it is determined the improper survivors' benefits had an impact on the city's future state aid allocations after the submission of this information, the plan's actuary would then be required to contact this department to verify the overpayment of state aid received. Plan officials would then be required to reimburse the overpayment to the Commonwealth.

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.

Non-Uniformed Pension Plan

**Finding No. 10 - Noncompliance With Prior Audit Recommendation - Inconsistent Pension Benefits**

Condition: As disclosed in our prior audit report, the pension plan's governing document, Ordinance No. 4440, as amended, contains benefit provisions that conflict with the collective bargaining agreements between the non-uniformed employees and the city, as follows:

| Benefit Provision | Governing Document | Collective Bargaining Agreement |
|---|---|---|
| Retirement Eligibility | Each member shall be entitled to receive a pension benefit provided he has completed at least twenty (20) years of credited service with the Employer and has attained age sixty (60). | An employee will be eligible to retire from service with the City of Johnstown at the minimum age of 55 with a minimum of 20 years of service. For new hires as of 1/1/2017, an employee will be eligible to retire from service with the City of Johnstown at the minimum age of 60 with a minimum of 15 years of service. |
| Normal Retirement | A member entitled to a pension benefit shall receive monthly income payments during his lifetime the total amount payable per month which shall be equal to one-half (1/2) of his final monthly average salary reduced by fifty percent (50%) of his monthly Social Security benefit. | For new hires as of 1/1/17, each individual retiring after age 60 will receive 1.5% of Average Compensation period for each completed year of service, in excess of 20 years, to a maximum of 20% of Average Compensation, with no Social Security Offset. |

Non-Uniformed Pension Plan - (Continued)

**Finding No. 10 - (Continued)**

| Benefit Provision | Governing Document | Collective Bargaining Agreement |
|---|---|---|
| Final Monthly Average Salary | The monthly equivalent of the member's average annual salary that he received during the final twenty-four (24) month period prior to his retirement or during any sixty (60) month period of his employment with the Employer, whichever is greater. | New Hires as of 1/1/2017, average compensation period shall be based on (3) three years. |
| Member Contribution Rate | Members shall make regular monthly contributions to the plan at a rate calculated at two and twenty-five hundredths percent (2.25%) of his monthly compensation on which Social Security taxes are payable. | Effective January 1, 2017, current/active employees shall contribute five percent (5%) to the Pension Plan. |

Criteria: The plan's governing documents should contain consistent, clearly defined, and updated benefit provisions to ensure the sound administration of retirement benefits.

Cause: The city continues to experience a high rate of turnover of plan officials, especially the city manager position responsible for the chief administrative responsibilities of the city, and due to such turnover, the city again failed to establish adequate internal control procedures to ensure the plan's governing document and the collective bargaining agreement contained consistent benefit provisions and 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 consult with their solicitor and take the appropriate action to ensure that the plan's governing documents properly reflect all benefit obligations of the pension plan and that the inconsistencies among the various plan documents are eliminated.

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

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

Police and Firemen's Pension Plan

**Finding No. 11 - Incorrect Data On Certification Form AG 490 Resulting In Excess Reimbursements For Special 1989 Ad Hoc Postretirement Adjustments**

Condition: The city improperly certified $525 of special ad hoc postretirement adjustments for two individuals in 2018 on Certification Form AG 490. These individuals died on August 2, 2017 and September 2, 2017, respectively, with no survivor benefits payable after their death.

Criteria: Pursuant to Act 147, Certification Form AG 490 should report only the amount of special ad hoc postretirement adjustments paid in the previous year to eligible retirees and/or their surviving spouses.

Cause: Plan officials failed to establish adequate internal control procedures, such as a supervisory overview of the data certified to ensure compliance with the instructions that accompany Certification Form AG 490 and the accuracy of the data certified.

Effect: Because the city's reimbursement is determined based on amounts reported on the Form AG 490, the city received excess reimbursements in 2018, in the amount of $525, as illustrated below:

| Reimbursement Certified | Reimbursement Due | Excess Reimbursement |
|---|---|---|
| $ 17,625 | $ 17,100 | $ 525 |

Recommendation: We recommend that the total excess reimbursements, in the amount of $525, be returned to the Commonwealth. A check in this amount, with interest compounded annually from date of receipt to date of repayment, at a rate earned by the pension plan, should be made payable to: Commonwealth of Pennsylvania and mailed to: Department of the Auditor General, Bureau of Municipal Pension & Liquor Control Audits, 314 Finance Building, Harrisburg, PA 17120. A copy of the interest calculation must be submitted along with the check.

We also 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 490 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 JOHNSTOWN COMPREHENSIVE MUNICIPAL PENSION TRUST FUND
SUPPLEMENTARY INFORMATION
(UNAUDITED)

The supplementary information contained on Pages 32 through 43 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.

## POLICE PENSION PLAN

### SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY AND RELATED RATIOS FOR THE YEARS ENDED DECEMBER 31, 2014, 2015, 2016, 2017, AND 2018

| | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|
| Total Pension Liability | | | | | |
| Service cost | $ 293,019 | $ 302,137 | $ 317,244 | $ 283,155 | $ 295,897 |
| Interest | 1,309,064 | 1,318,548 | 1,344,378 | 1,364,578 | 1,377,127 |
| Difference between expected and actual experience | - | (260,442) | - | (235,466) | - |
| Changes of assumptions | - | - | - | 1,560,809 | - |
| Benefit payments, including refunds of member contributions | (1,173,829) | (1,276,650) | (1,306,659) | (1,462,347) | (1,500,713) |
| Net Change in Total Pension Liability | 428,254 | 83,593 | 354,963 | 1,510,729 | 172,311 |
| Total Pension Liability - Beginning | 17,737,474 | 18,165,728 | 18,249,321 | 18,604,284 | 20,115,013 |
| Total Pension Liability - Ending (a) | $ 18,165,728 | $ 18,249,321 | $ 18,604,284 | $ 20,115,013 | $ 20,287,324 |
| Plan Fiduciary Net Position | | | | | |
| General Municipal State Aid | $ 233,600 | $ 262,618 | $ 306,400 | $ 318,241 | $ 297,833 |
| Contributions - employer | 649,300 | 929,633 | 577,160 | 815,007 | 827,102 |
| Contributions - member | 95,325 | 109,224 | 98,361 | 101,992 | 95,929 |
| Net investment income | 680,637 | 22,000 | 577,195 | 1,595,802 | (244,883) |
| Benefit payments, including refunds of member contributions | (1,173,829) | (1,276,650) | (1,306,659) | (1,462,347) | (1,500,713) |
| Administrative expense | (57,093) | (123,037) | (74,543) | (64,122) | (101,370) |
| Net Change in Plan Fiduciary Net Position | 427,940 | (76,212) | 177,914 | 1,304,573 | (626,102) |
| Plan Fiduciary Net Position - Beginning | 10,178,626 | 10,606,566 | 10,530,354 | 10,708,268 | 12,012,841 |
| Plan Fiduciary Net Position - Ending (b) | $ 10,606,566 | $ 10,530,354 | $ 10,708,268 | $ 12,012,841 | $ 11,386,739 |
| Net Pension Liability - Ending (a-b) | $ 7,559,162 | $ 7,718,967 | $ 7,896,016 | $ 8,102,172 | $ 8,900,585 |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | 58.39% | 57.70% | 57.56% | 59.72% | 56.13% |
| Estimated Covered Employee Payroll | $ 2,353,089 | $ 2,328,437 | $ 2,022,322 | $ 2,111,903 | $ 2,034,010 |
| Net Pension Liability as a Percentage of Covered Employee Payroll | 321.24% | 331.51% | 390.44% | 383.64% | 437.59% |

POLICE PENSION PLAN - (Continued)

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 and 2016, 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 | $ 9,694,571 | $ 7,718,967 | $ 6,051,826 |
| Net Pension Liability - 12/31/16 | $ 9,909,599 | $ 7,896,016 | $ 6,196,613 |

In addition, the following presents the net pension liability of the city as of December 31, 2017 and 2018, calculated using the discount rate of 7.0%, 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 (6.0%) | Current Discount Rate (7.0%) | 1% Increase (8.0%) |
|---|---|---|---|
| Net Pension Liability - 12/31/17 | $ 10,380,473 | $ 8,102,172 | $ 6,201,206 |
| Net Pension Liability - 12/31/18 | $ 11,203,271 | $ 8,900,585 | $ 6,978,525 |

CITY OF JOHNSTOWN COMPREHENSIVE MUNICIPAL PENSION TRUST FUND
SUPPLEMENTARY INFORMATION
(UNAUDITED)

POLICE PENSION PLAN - (Continued)

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 | $ 956,983 | $ 956,983 | $ - | | |
| 2010 | 895,678 | 895,678 | - | $1,932,255 | 46.35% |
| 2011 | 909,847 | 730,186 | 179,661 | | |
| 2012 | 916,630 | 734,159 | 182,471 | 2,066,063 | 35.53% |
| 2013 | 1,030,554 | 831,410 | 199,144 | | |
| 2014 | 1,097,366 | 882,900 | 214,466 | 2,353,089 | 37.52% |
| 2015 | 1,192,251 | 1,192,251 | - | 2,328,437 | 51.20% |
| 2016 | 1,101,949 | 883,560 | 218,389 | 2,022,322 | 43.69% |
| 2017 | 1,133,248 | 1,133,248 | - | 2,111,903 | 53.66% |
| 2018 | 1,124,935 | 1,124,935 | - | 2,034,010 | 55.31% |

* 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 odd years prior to 2014.

** For 2011, 2012, 2013, 2014, and 2016, the contribution deficiency reflects the 25 percent reduction to the plan's amortization contribution elected by the municipality under Act 44 for distressed municipalities which allows for such reduction.

CITY OF JOHNSTOWN COMPREHENSIVE MUNICIPAL PENSION TRUST FUND
SUPPLEMENTARY INFORMATION
(UNAUDITED)

## FIREMEN'S PENSION PLAN

### SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY AND RELATED RATIOS FOR THE YEARS ENDED DECEMBER 31, 2014, 2015, 2016, 2017, AND 2018

| | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|
| Total Pension Liability | | | | | |
| Service cost | $ 285,219 | $ 289,302 | $ 303,767 | $ 326,616 | $ 341,314 |
| Interest | 1,224,728 | 1,236,902 | 1,258,344 | 1,282,916 | 1,304,370 |
| Difference between expected and actual experience | - | (116,383) | - | (132,098) | - |
| Changes of assumptions | - | - | - | 1,383,888 | - |
| Benefit payments, including refunds of member contributions | (1,239,707) | (1,230,754) | (1,279,707) | (1,293,608) | (1,342,714) |
| Net Change in Total Pension Liability | 270,240 | 179,067 | 282,404 | 1,567,714 | 302,970 |
| Total Pension Liability - Beginning | 16,653,126 | 16,923,366 | 17,102,433 | 17,384,837 | 18,952,551 |
| Total Pension Liability - Ending (a) | $ 16,923,366 | $ 17,102,433 | $ 17,384,837 | $ 18,952,551 | $ 19,255,521 |
| Plan Fiduciary Net Position | | | | | |
| General Municipal State Aid | $ 378,593 | $ 316,686 | $ 369,483 | $ 383,762 | $ 359,152 |
| Contributions - employer | 1,013,123 | 1,127,653 | 1,046,997 | 1,036,960 | 1,063,159 |
| Contributions - member | 119,257 | 92,325 | 88,781 | 86,010 | 93,577 |
| Net investment income | 419,679 | 14,126 | 394,467 | 1,146,615 | (183,558) |
| Benefit payments, including refunds of member contributions | (1,239,707) | (1,230,754) | (1,279,707) | (1,293,608) | (1,342,714) |
| Administrative expense | (37,197) | (98,819) | (61,848) | (47,694) | (84,217) |
| Other | 847 | - | - | - | - |
| Net Change in Plan Fiduciary Net Position | 654,595 | 221,217 | 558,173 | 1,312,045 | (94,601) |
| Plan Fiduciary Net Position - Beginning | 5,885,432 | 6,540,027 | 6,761,244 | 7,319,417 | 8,631,462 |
| Plan Fiduciary Net Position - Ending (b) | $ 6,540,027 | $ 6,761,244 | $ 7,319,417 | $ 8,631,462 | $ 8,536,861 |
| Net Pension Liability - Ending (a-b) | $ 10,383,339 | $ 10,341,189 | $ 10,065,420 | $ 10,321,089 | $ 10,718,660 |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | 38.64% | 39.53% | 42.10% | 45.54% | 44.33% |
| Estimated Covered Employee Payroll | $ 1,919,853 | $ 2,051,721 | $ 1,903,380 | $ 1,876,399 | $ 1,804,277 |
| Net Pension Liability as a Percentage of Covered Employee Payroll | 540.84% | 504.03% | 528.82% | 550.05% | 594.07% |

FIREMEN'S PENSION PLAN - (Continued)

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 and 2016, 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 | $ 12,246,105 | $ 10,341,189 | $ 8,739,612 |
| Net Pension Liability - 12/31/16 | $ 12,010,354 | $ 10,065,420 | $ 8,429,525 |

In addition, the following presents the net pension liability of the city as of December 31, 2017 and 2018, calculated using the discount rate of 7.0%, 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 (6.0%) | Current Discount Rate (7.0%) | 1% Increase (8.0%) |
|---|---|---|---|
| Net Pension Liability - 12/31/17 | $ 12,538,989 | $ 10,321,089 | $ 8,475,887 |
| Net Pension Liability - 12/31/18 | $ 12,977,207 | $ 10,718,660 | $ 8,839,076 |

CITY OF JOHNSTOWN COMPREHENSIVE MUNICIPAL PENSION TRUST FUND
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(UNAUDITED)

FIREMEN'S PENSION PLAN - (Continued)

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 | $ 981,837 | $ 981,837 | $ - | | |
| 2010 | 1,154,902 | 1,154,902 | - | $1,935,422 | 59.67% |
| 2011 | 1,182,841 | 938,509 | $ 244,332 | | |
| 2012 | 1,133,790 | 899,390 | 234,400 | 1,977,003 | 45.49% |
| 2013 | 1,249,794 | 986,205 | 263,589 | | |
| 2014 | 1,391,716 | 1,391,716 | - | 1,919,853 | 72.49% |
| 2015 | 1,444,339 | 1,444,339 | - | 2,051,721 | 70.40% |
| 2016 | 1,416,480 | 1,416,480 | - | 1,903,380 | 74.42% |
| 2017 | 1,420,722 | 1,420,722 | - | 1,876,399 | 75.72% |
| 2018 | 1,422,311 | 1,422,311 | - | 1,804,277 | 78.83% |

* 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 odd years prior to 2014.

** For 2011, 2012, and 2013, the contribution deficiency reflects the 25 percent reduction to the plan's amortization contribution elected by the municipality under Act 44 for distressed municipalities, which allows for such reduction.

CITY OF JOHNSTOWN COMPREHENSIVE MUNICIPAL PENSION TRUST FUND
SUPPLEMENTARY INFORMATION
(UNAUDITED)

## NON-UNIFORMED PENSION PLAN

### SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY AND RELATED RATIOS
### FOR THE YEARS ENDED DECEMBER 31, 2014, 2015, 2016, 2017, AND 2018

| | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|
| Total Pension Liability | | | | | |
| Service cost | $ 168,337 | $ 173,152 | $ 181,810 | $ 171,070 | $ 179,196 |
| Interest | 837,518 | 866,421 | 873,457 | 862,498 | 858,802 |
| Difference between expected and actual experience | - | - | - | (402,927) | - |
| Changes of assumptions | - | 296,461 | - | 1,062,618 | - |
| Benefit payments, including refunds of member contributions | (929,943) | (913,277) | (997,052) | (1,060,710) | (1,129,411) |
| Net Change in Total Pension Liability | 75,912 | 422,757 | 58,215 | 632,549 | (91,413) |
| Total Pension Liability - Beginning | 11,455,133 | 11,531,045 | 11,953,802 | 12,012,017 | 12,644,566 |
| Total Pension Liability - Ending (a) | $ 11,531,045 | $ 11,953,802 | $ 12,012,017 | $ 12,644,566 | $ 12,553,153 |
| | | | | | |
| Plan Fiduciary Net Position | | | | | |
| General Municipal State Aid | $ 153,048 | $ 162,205 | $ 189,247 | $ 196,561 | $ 183,956 |
| Contributions - employer | 404,228 | 564,112 | 404,515 | 571,114 | 448,745 |
| Contributions - member | 41,516 | 46,558 | 45,733 | 83,247 | 71,306 |
| Net investment income | 441,085 | 13,923 | 356,533 | 976,824 | (144,462) |
| Benefit payments, including refunds of member contributions | (929,943) | (913,277) | (997,052) | (1,060,710) | (1,129,411) |
| Administrative expense | (38,555) | (88,022) | (49,535) | (42,190) | (64,512) |
| Net Change in Plan Fiduciary Net Position | 71,379 | (214,501) | (50,559) | 724,846 | (634,378) |
| Plan Fiduciary Net Position - Beginning | 6,806,689 | 6,878,068 | 6,663,567 | 6,613,008 | 7,337,854 |
| Plan Fiduciary Net Position - Ending (b) | $ 6,878,068 | $ 6,663,567 | $ 6,613,008 | $ 7,337,854 | $ 6,703,476 |
| | | | | | |
| Net Pension Liability - Ending (a-b) | $ 4,652,977 | $ 5,290,235 | $ 5,399,009 | $ 5,306,712 | $ 5,849,677 |
| | | | | | |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | 59.65% | 55.74% | 55.05% | 58.03% | 53.40% |
| | | | | | |
| Estimated Covered Employee Payroll | $ 1,877,318 | $ 1,995,556 | $ 1,557,097 | $ 1,411,710 | $ 1,322,840 |
| | | | | | |
| Net Pension Liability as a Percentage of Covered Employee Payroll | 247.85% | 265.10% | 346.74% | 375.91% | 442.21% |

NON-UNIFORMED PENSION PLAN - (Continued)

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 and 2016, 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 | $ 6,377,595 | $ 5,290,235 | $ 4,352,525 |
| Net Pension Liability - 12/31/16 | $ 6,486,916 | $ 5,399,009 | $ 4,461,067 |

In addition, the following presents the net pension liability of the city as of December 31, 2017 and 2018, calculated using the discount rate of 7.0%, 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 (6.0%) | Current Discount Rate (7.0%) | 1% Increase (8.0%) |
|---|---|---|---|
| Net Pension Liability - 12/31/17 | $ 6,526,458 | $ 5,306,712 | $ 4,267,237 |
| Net Pension Liability - 12/31/18 | $ 7,065,608 | $ 5,849,677 | $ 4,813,420 |

CITY OF JOHNSTOWN COMPREHENSIVE MUNICIPAL PENSION TRUST FUND
SUPPLEMENTARY INFORMATION
(UNAUDITED)

NON-UNIFORMED PENSION PLAN - (Continued)

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 | $ 474,230 | $ 470,225 | $ 4,005 | | |
| 2010 | 465,121 | 465,121 | - | $1,594,905 | 29.16% |
| 2011 | 402,979 | 332,403 | 70,576 | | |
| 2012 | 463,524 | 382,308 | 81,216 | 1,775,989 | 21.53% |
| 2013 | 626,597 | 516,712 | 109,885 | | |
| 2014 | 685,877 | 557,276 | 128,601 | 1,877,318 | 29.68% |
| 2015 | 726,317 | 726,317 | - | 1,995,556 | 36.40% |
| 2016 | 732,560 | 593,762 | 138,798 | 1,557,097 | 38.13% |
| 2017 | 767,675 | 767,675 | - | 1,411,710 | 54.38% |
| 2018 | 632,701 | 632,701 | - | 1,322,840 | 47.83% |

* 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 odd years prior to 2014.

** For 2011, 2012, 2013, 2014, and 2016, the contribution deficiency reflects the 25 percent reduction to the plan's amortization contribution elected by the municipality under Act 44 for distressed municipalities, which allows for such reduction.

CITY OF JOHNSTOWN COMPREHENSIVE MUNICIPAL PENSION TRUST FUND
SUPPLEMENTARY INFORMATION
(UNAUDITED)

## BUREAU OF SEWAGE PENSION PLAN

## SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY AND RELATED RATIOS FOR THE YEARS ENDED DECEMBER 31, 2014, 2015, 2016, 2017, AND 2018

| | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|
| Total Pension Liability | | | | | |
| Interest | $ 129,986 | $ 129,123 | $ 123,653 | $ 131,428 | $ 126,168 |
| Difference between expected and actual experience | - | 40,433 | - | 78,815 | - |
| Changes of assumptions | - | - | - | 233,955 | - |
| Benefit payments, including refunds of member contributions | (177,979) | (186,022) | (218,669) | (195,874) | (217,643) |
| Net Change in Total Pension Liability | (47,993) | (16,466) | (95,016) | 248,324 | (91,475) |
| Total Pension Liability - Beginning | 1,820,530 | 1,772,537 | 1,756,071 | 1,661,055 | 1,909,379 |
| Total Pension Liability - Ending (a) | $ 1,772,537 | $ 1,756,071 | $ 1,661,055 | $ 1,909,379 | $ 1,817,904 |
| Plan Fiduciary Net Position | | | | | |
| General Municipal State Aid | $ 40,276 | $ 30,896 | $ 36,047 | $ 37,440 | $ 35,039 |
| Contributions - employer | 110,559 | 312,660 | 94,045 | 31,196 | 43,988 |
| Contributions - member | 774 | - | - | - | - |
| Net investment income | 100,460 | 3,473 | 88,667 | 230,392 | (33,157) |
| Benefit payments, including refunds of member contributions | (177,979) | (186,022) | (218,669) | (195,874) | (217,643) |
| Administrative expense | (13,164) | (24,009) | (17,371) | (14,619) | (19,902) |
| Net Change in Plan Fiduciary Net Position | 60,926 | 136,998 | (17,281) | 88,535 | (191,675) |
| Plan Fiduciary Net Position - Beginning | 1,464,595 | 1,525,521 | 1,662,519 | 1,645,238 | 1,733,773 |
| Plan Fiduciary Net Position - Ending (b) | $ 1,525,521 | $ 1,662,519 | $ 1,645,238 | $ 1,733,773 | $ 1,542,098 |
| Net Pension Liability - Ending (a-b) | $ 247,016 | $ 93,552 | $ 15,817 | $ 175,606 | $ 275,806 |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | 86.06% | 94.67% | 99.05% | 90.80% | 84.83% |
| Estimated Covered Employee Payroll | $ - | $ - | $ - | $ - | $ - |
| Net Pension Liability as a Percentage of Covered Employee Payroll | N/A | N/A | N/A | N/A | N/A |

## BUREAU OF SEWAGE PENSION PLAN - (Continued)

### 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 and 2016, 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 | $ 245,191 | $ 93,552 | $ (37,718) |
| Net Pension Liability - 12/31/16 | $ 160,809 | $ 15,817 | $ (110,102) |

In addition, the following presents the net pension liability of the city as of December 31, 2017 and 2018, calculated using the discount rate of 7.0%, 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 (6.0%) | Current Discount Rate (7.0%) | 1% Increase (8.0%) |
|---|---|---|---|
| Net Pension Liability - 12/31/17 | $ 337,170 | $ 175,606 | $ 35,576 |
| Net Pension Liability - 12/31/18 | $ 429,024 | $ 275,806 | $ 142,618 |

## BUREAU OF SEWAGE PENSION PLAN - (Continued)

### 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 | $ 113,332 | $ 113,332 | $ - | | |
| 2010 | 92,149 | 92,149 | - | $ 802,316 | 11.49% |
| 2011 | 91,103 | 91,103 | - | - | |
| 2012 | 96,693 | 96,693 | - | 818,198 | 11.82% |
| 2013 | 139,693 | 139,963 | (270) | - | |
| 2014 | 150,835 | 150,835 | - | - | N/A |
| 2015 | 137,585 | 343,556 | (205,971) | - | N/A |
| 2016 | 130,092 | 130,092 | - | - | N/A |
| 2017 | 68,636 | 68,636 | - | - | N/A |
| 2018 | 79,027 | 79,027 | - | - | N/A |

* 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 odd years prior to 2014.

## COMBINED PENSION PLANS

### SCHEDULE OF INVESTMENT RETURNS

Annual Money-Weighted Rate of Return, Net of Investment Expense:

| | |
|---|---|
| 2018 | (2.17%) |
| 2017 | 16.03% |
| 2016 | 5.92% |
| 2015 | 0.22% |
| 2014 | 7.16% |

CITY OF JOHNSTOWN COMPREHENSIVE MUNICIPAL PENSION TRUST FUND
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:

POLICE PENSION PLAN

| | (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 | $ 8,914,258 | $ 17,344,042 | $ 8,429,784 | 51.4% |
| 01-01-15 | 10,120,578 | 17,905,286 | 7,784,708 | 56.5% |
| 01-01-17 | 11,219,779 | 19,929,627 | 8,709,848 | 56.3% |

Note: The market value of the plan's assets at 01-01-13, 01-01-15, and 01-01-17 have been adjusted to reflect the smoothing of gains and/or losses over a four-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.

## 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:

### FIREMEN'S PENSION PLAN

| | (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 | $ 5,182,741 | $ 16,422,546 | $ 11,239,805 | 31.6% |
| 01-01-15 | 6,223,767 | 16,806,983 | 10,583,216 | 37.0% |
| 01-01-17 | 7,599,158 | 18,636,627 | 11,037,469 | 40.8% |

Note: The market value of the plan's assets at 01-01-13, 01-01-15, and 01-01-17 have been adjusted to reflect the smoothing of gains and/or losses over a four-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 JOHNSTOWN COMPREHENSIVE MUNICIPAL PENSION TRUST FUND
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(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:

### NON-UNIFORMED PENSION PLAN

| | (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 | $ 6,132,396 | $ 11,333,536 | $ 5,201,140 | 54.1% |
| 01-01-15 | 6,561,374 | 11,827,506 | 5,266,132 | 55.5% |
| 01-01-17 | 6,943,920 | 12,671,708 | 5,727,788 | 54.8% |

Note: The market value of the plan's assets at 01-01-13, 01-01-15, and 01-01-17 have been adjusted to reflect the smoothing of gains and/or losses over a four-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 JOHNSTOWN COMPREHENSIVE MUNICIPAL PENSION TRUST FUND
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:

### BUREAU OF SEWAGE PENSION PLAN

| | (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 | $ 1,285,460 | $ 2,322,851 | $ 1,037,391 | 55.3% |
| 01-01-15 | 1,440,462 | 1,812,970 | 372,508 | 79.5% |
| 01-01-17 | 1,726,064 | 1,973,825 | 247,761 | 87.4% |

Note: The market value of the plan's assets at 01-01-13, 01-01-15, and 01-01-17 have been adjusted to reflect the smoothing of gains and/or losses over a four-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.

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 JOHNSTOWN COMPREHENSIVE MUNICIPAL PENSION TRUST FUND
SUPPLEMENTARY INFORMATION
NOTES TO SUPPLEMENTARY SCHEDULES
(UNAUDITED)

POLICE PENSION PLAN

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, closed |
| Remaining amortization period | 14 years (aggregated) |
| Asset valuation method | Fair value, 4-year smoothing |
| Actuarial assumptions: | |
| Investment rate of return | 7.0% |
| Projected salary increases * | 4.5% |

* Includes inflation at 2.75%

## FIREMEN'S PENSION PLAN

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, closed |
| Remaining amortization period | 14 years (aggregated) |
| Asset valuation method | Fair value, 4-year smoothing |
| Actuarial assumptions: | |
| Investment rate of return | 7.0% |
| Projected salary increases * | 4.5% |

* Includes inflation at 2.75%

CITY OF JOHNSTOWN COMPREHENSIVE MUNICIPAL PENSION TRUST FUND
SUPPLEMENTARY INFORMATION
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(UNAUDITED)

NON-UNIFORMED PENSION PLAN

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 closed |
| Remaining amortization period | 14 years (aggregated) |
| Asset valuation method | Fair value, 4-year smoothing |
| Actuarial assumptions: | |
| Investment rate of return | 7.0% |
| Projected salary increases * | 4.75% |

* Includes inflation at 2.75%

CITY OF JOHNSTOWN COMPREHENSIVE MUNICIPAL PENSION TRUST FUND
SUPPLEMENTARY INFORMATION
NOTES TO SUPPLEMENTARY SCHEDULES
(UNAUDITED)

## BUREAU OF SEWAGE PENSION PLAN

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 closed |
| Remaining amortization period | 6 years (aggregated) |
| Asset valuation method | Fair value, 4-year smoothing |
| Actuarial assumptions: | |
| Investment rate of return | 7.0% |
| Projected salary increases | N/A |

CITY OF JOHNSTOWN COMPREHENSIVE MUNICIPAL PENSION TRUST FUND
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This report was initially distributed to the following:

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