



**CITY OF NEW CASTLE COMPREHENSIVE
MUNICIPAL PENSION TRUST FUND**

LAWRENCE COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2009, TO DECEMBER 31, 2011

COMMONWEALTH OF PENNSYLVANIA

EUGENE A. DEPASQUALE - AUDITOR GENERAL

DEPARTMENT OF THE 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.

Pension plan aid is provided from a 2 percent foreign casualty insurance premium tax, a portion of the foreign 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 New Castle Comprehensive Municipal Pension Trust Fund is also governed by implementing regulations adopted by the Public Employee Retirement Commission published at Title 16, Part IV of the Pennsylvania Code and applicable provisions of various other state statutes including, but not limited to, the following:

- 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 399 - Optional Third Class City Charter Law, Act of July 15, 1957 (P.L. 901, No. 399), as amended, 53 P.S. § 41101 et seq.

The City of New Castle Comprehensive Municipal Pension Trust Fund is a single-employer defined benefit pension plan locally controlled by the provisions of the city's Codified Ordinances, Articles 169, 167, and 171, as amended, for its police officers, nonuniformed employees and firefighters, respectively. The fund is also affected by the provisions of collective bargaining agreements between the city and its police officers, nonuniformed employees, and firefighters.





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**EUGENE A. DePASQUALE
AUDITOR GENERAL**

The Honorable Mayor and City Council
City of New Castle
Lawrence County
New Castle, PA 16101

We have conducted a compliance audit of the City of New Castle Comprehensive Municipal Pension Trust Fund for the period January 1, 2009, to December 31, 2011. The audit was conducted pursuant to authority derived from Section 402(j) of Act 205 and in accordance with the standards applicable to performance audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform our audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our finding and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our finding and conclusions based on our audit objectives.

The objectives of the audit were:

1. To determine if municipal officials took appropriate corrective action to address the findings contained in our prior audit report; and
2. To determine if the 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. Our methodology addressed determinations about the following:

- Whether state aid was properly determined and deposited in accordance with Act 205 requirements.
- Whether employer contributions are determined and deposited in accordance with the plan's governing document and applicable laws and regulations.
- Whether employee contributions are required and, if so, are determined, deducted and deposited into the pension plan and are in accordance with the plan provisions and applicable laws and regulations.

- Whether benefit payments, if any, represent payments to all (and only) those entitled to receive them and are properly determined in accordance with applicable laws and regulations.
- Whether obligations for plan benefits are accurately determined in accordance with plan provisions and based on complete and accurate participant data; and whether actuarial valuation reports are prepared and submitted to the Public Employee Retirement Commission (PERC) in accordance with state law and selected information provided on these reports is accurate, complete and in accordance with plan provisions to ensure compliance for participation in the state aid program.
- Whether the special ad hoc postretirement adjustment granted to eligible pensioners is in accordance with applicable laws and regulations and whether the ad hoc reimbursement received by the municipality was treated in accordance with applicable laws and regulations.
- Whether benefit payments have only been made to living recipients, based on the Social Security numbers found in the pension records for retirees and beneficiaries.
- Whether refunds are made to eligible members in accordance with the plan provisions and applicable laws and regulations.
- Whether the pension plan is in compliance with state regulations for distressed municipalities.
- Whether the terms and methodologies of the issuance of bonds by the municipality, and any restrictions are in compliance with plan provisions and state regulations.

The City of New Castle 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 New Castle 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, 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 tests indicated that, in all significant respects, the City of New Castle 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 finding further discussed later in this report:

Finding – Incorrect Data On Certification Form AG 385 Resulting In A Net Overpayment Of State Aid

As previously noted, one of the objectives of our audit of the City of New Castle Comprehensive Municipal Pension Trust Fund was to determine compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies. Act 205 was amended on September 18, 2009, through the adoption of Act 44 of 2009. Among several provisions relating to municipal pension plans, the bill provides for the implementation of a distress recovery program. Three levels of distress have been established:

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

The accompanying supplementary information is presented for purposes of additional analysis. We did not audit the information 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 indicate a continued decline of assets available to satisfy the long-term liabilities of the fund. For example, over the past 4 years, the Police Pension Plan's Funded Ratio went from 82.2% as of January 1, 2007, to a ratio of 58.9% as of January 1, 2011, similarly, the Nonuniformed Pension Plan's Funded Ratio went from 84.2% as of January 1, 2007, to 69.7% as of January 1, 2011, and the Firemen's Pension Plan's Funded Ratio went from 86.7% as of January 1, 2007, to 64.7% as of January 1, 2011. These conditions may require increased municipal contributions to fund the plans in accordance with Act 205 funding standards. Based on the funding status of the city's pension plans, the Public Employee Retirement Commission issued a notification that the city is currently in Level II moderate distress status. We encourage city officials to monitor the funding of its pension plans to ensure its long-term financial stability.

The contents of this report were discussed with officials of the City of New Castle and, where appropriate, their responses have been included in the report.

January 28, 2013



EUGENE A. DEPASQUALE
Auditor General

CITY OF NEW CASTLE COMPREHENSIVE MUNICIPAL PENSION TRUST FUND
STATUS OF PRIOR FINDINGS

Compliance With Prior Audit Recommendations

The City of New Castle has complied with the prior audit recommendations concerning the following:

· Unauthorized Payment Of Administrative Expenses

The city reimbursed the pension plan \$6,660 for the unauthorized administrative expenses paid; and

· Incorrect Data On Certification Form AG 490 Resulting In Excess Reimbursement for Special 1989 Ad Hoc Postretirement Adjustments

The city reimbursed \$1,034 to the Commonwealth for the excess ad hoc postretirement adjustments received.

CITY OF NEW CASTLE COMPREHENSIVE MUNICIPAL PENSION TRUST FUND
FINDING AND RECOMMENDATION

Finding – Incorrect Data On Certification Form AG 385 Resulting In A Net Overpayment Of State Aid

Condition: The city failed to certify one eligible police officer (2 units), and certified one ineligible nonuniformed employee (1 unit) on the Certification Form AG 385 filed in 2010. In addition, the city certified one ineligible nonuniformed employee (1 unit) on the Certification Form AG 385 filed in 2011. The data contained on these certification forms is based on prior calendar year information.

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

Cause: Plan officials failed to establish adequate internal control procedures to ensure the accuracy of the data certified.

Effect: The data submitted on these certification forms are used, in part, to calculate the state aid due to the city for distribution to its pension plans. Because the city’s state aid allocations were based on unit value, the incorrect certification of pension data affected the city’s state aid allocations, as identified below:

<u>Year</u>	<u>Type Of Plan</u>	<u>Units Overstated (Understated)</u>	<u>Unit Value</u>	<u>State Aid Overpayment (Underpayment)</u>
2010	Police	(2)	\$3,235	\$ (6,470)
	Nonuniformed	1	\$3,235	3,235
2011	Nonuniformed	1	\$5,596	\$ 5,596
Net Overpayment of State Aid				<u>\$ 2,361</u>

In addition, the city used the overpayments of state aid to pay the minimum municipal obligations (MMOs) due to the pension plans; therefore, if the reimbursement to the Commonwealth is made from the pension plans, the plan’s MMOs will not be fully paid.

CITY OF NEW CASTLE COMPREHENSIVE MUNICIPAL PENSION TRUST FUND
FINDING AND RECOMMENDATION

Finding – (Continued)

Recommendation: We recommend that the net overpayment of state aid, in the amount of \$2,361, be returned to the Commonwealth from city funds. 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, Municipal Pension & Fire Relief Programs Unit, 11 Stanwix Street, Suite 1450, Pittsburgh, PA 15222. A copy of the interest calculation must be submitted along with the check.

We also recommend that plan officials establish adequate internal control procedures to ensure compliance with the instructions that accompany Certification Form AG 385 to assist them in accurately reporting the required pension data.

In addition, if the reimbursement to the Commonwealth is made from pension plan funds, we recommend that any resulting MMO deficiencies be paid to the pension plan with interest, at a rate earned by the pension plan.

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

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

SCHEDULES 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, 2007, is as follows:

POLICE PENSION PLAN

	(1)	(2)	(3)	(4)	(5)	(6)
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded (Assets in Excess of) Actuarial Accrued Liability (b) - (a)	Funded Ratio (a)/(b)	Covered Payroll (c)	Unfunded (Assets in Excess of) Actuarial Accrued Liability as a % of Payroll [(b-a)/(c)]
01-01-07	\$ 12,603,349	\$ 15,326,736	\$ 2,723,387	82.2%	\$ 2,165,747	125.7%
01-01-09	11,360,415	17,237,695	5,877,280	65.9%	2,178,101	269.8%
01-01-11	10,613,100	18,019,078	7,405,978	58.9%	2,161,918	342.6%

The market value of the plan's assets at 01-01-11 has been adjusted to reflect the smoothing of gains and/or losses over a 4-year averaging period. The market value of the plan's assets at 01-01-09 has been adjusted to reflect the smoothing of gains and/or losses subject to a corridor between 70 to 130 percent of the market value of assets. These methods 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 actuarial value of assets at 01-01-07 includes bond proceeds deposited in 2005.

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

SCHEDULES OF FUNDING PROGRESS – (Continued)

NONUNIFORMED PENSION PLAN

	(1)	(2)	(3)	(4)	(5)	(6)
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded (Assets in Excess of) Actuarial Accrued Liability (b) - (a)	Funded Ratio (a)/(b)	Covered Payroll (c)	Unfunded (Assets in Excess of) Actuarial Accrued Liability as a % of Payroll [(b-a)/(c)]
01-01-07	\$ 7,763,272	\$ 9,218,895	\$ 1,455,623	84.2%	\$ 2,269,293	64.1%
01-01-09	7,233,473	9,693,023	2,459,550	74.6%	2,243,621	109.6%
01-01-11	7,101,056	10,187,209	3,086,153	69.7%	2,252,912	137.0%

The market value of the plan's assets at 01-01-11 has been adjusted to reflect the smoothing of gains and/or losses over a 4-year averaging period. The market value of the plan's assets at 01-01-09 has been adjusted to reflect the smoothing of gains and/or losses subject to a corridor between 70 to 130 percent of the market value of assets. These methods 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 actuarial value of assets at 01-01-07 includes bond proceeds deposited in 2005.

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

SCHEDULES OF FUNDING PROGRESS – (Continued)

FIREMEN’S PENSION PLAN

	(1)	(2)	(3)	(4)	(5)	(6)
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded (Assets in Excess of) Actuarial Accrued Liability (b) - (a)	Funded Ratio (a)/(b)	Covered Payroll (c)	Unfunded (Assets in Excess of) Actuarial Accrued Liability as a % of Payroll [(b-a)/(c)]
01-01-07	\$ 11,835,320	\$ 13,653,160	\$ 1,817,840	86.7%	\$ 1,259,023	144.4%
01-01-09	10,494,025	14,598,624	4,104,599	71.9%	1,453,958	282.3%
01-01-11	9,875,123	15,272,308	5,397,185	64.7%	1,564,832	344.9%

The market value of the plan’s assets at 01-01-11 has been adjusted to reflect the smoothing of gains and/or losses over a 4-year averaging period. The market value of the plan’s assets at 01-01-09 has been adjusted to reflect the smoothing of gains and/or losses subject to a corridor between 70 to 130 percent of the market value of assets. These methods 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 actuarial value of assets at 01-01-07 includes bond proceeds deposited in 2005.

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

The comparability of trend information is affected by changes in actuarial assumptions, benefit provisions, actuarial funding methods, accounting policies, and other changes. Those changes usually affect trends in contribution requirements and in ratios that use the actuarial accrued liability as a factor.

Analysis of the dollar amount of the actuarial value of assets, actuarial accrued liability, and unfunded (assets in excess of) actuarial accrued liability in isolation can be misleading. Expressing the actuarial value of assets as a percentage of the actuarial accrued liability (Column 4) provides one indication of the plan's funding status on a going-concern basis. Analysis of this percentage, over time, indicates whether the system is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the plan.

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

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

SCHEDULES OF CONTRIBUTIONS FROM EMPLOYER
 AND OTHER CONTRIBUTING ENTITIES

POLICE PENSION PLAN

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2006	\$ 566,316	100.0%
2007	567,300	100.0%
2008	609,215	134.2%
2009	565,779	112.4%
2010	525,133	106.6%
2011	735,337	102.1%

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

SCHEDULES OF CONTRIBUTIONS FROM EMPLOYER
 AND OTHER CONTRIBUTING ENTITIES

NONUNIFORMED PENSION PLAN

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2006	\$ 314,329	100.0%
2007	319,980	100.0%
2008	291,974	134.2%
2009	289,956	112.4%
2010	287,358	106.6%
2011	354,816	102.1%

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

SCHEDULES OF CONTRIBUTIONS FROM EMPLOYER
 AND OTHER CONTRIBUTING ENTITIES

FIREMEN'S PENSION PLAN

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2006	\$ 399,921	100.0%
2007	413,729	100.0%
2008	380,466	134.2%
2009	383,860	112.4%
2010	393,077	106.6%
2011	508,538	102.1%

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

The information presented in the required supplementary schedules was determined as part of the actuarial valuation at the date indicated. Additional information as of the latest actuarial valuation date follows:

POLICE PENSION PLAN

Actuarial valuation date	January 1, 2011
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	14 years
Asset valuation method	Fair value, 4-year smoothing
Actuarial assumptions:	
Investment rate of return *	8.0%
Projected salary increases *	5.0%
* Includes inflation at	Not disclosed
Cost-of-living adjustments	None assumed

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

NONUNIFORMED PENSION PLAN

Actuarial valuation date	January 1, 2011
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	13 years
Asset valuation method	Fair value, 4-year smoothing
Actuarial assumptions:	
Investment rate of return *	8.0%
Projected salary increases *	5.0%
* Includes inflation at	Not disclosed
Cost-of-living adjustments	None assumed

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

FIREMEN'S PENSION PLAN

Actuarial valuation date	January 1, 2011
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	16 years
Asset valuation method	Fair value, 4-year smoothing
Actuarial assumptions:	
Investment rate of return *	8.0%
Projected salary increases *	5.0%
* Includes inflation at	Not disclosed
Cost-of-living adjustments	None assumed



CITY OF NEW CASTLE COMPREHENSIVE MUNICIPAL PENSION TRUST FUND
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania

City of New Castle Comprehensive Municipal Pension Trust Fund
Lawrence County
230 North Jefferson Street
New Castle, PA 16101

The Honorable Anthony G. Mastrangelo	Mayor
Ms. MaryAnne E. Gavrile	Council President
Ms. Stephanie Dean	Chief Financial Officer

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