

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

LAWRENCE COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2006, TO DECEMBER 31, 2008



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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.



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, 2006, to December 31, 2008. The audit was conducted pursuant to authority derived from Section 402(j) of Act 205 and in accordance with *Government Auditing Standards* applicable to performance audits 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 finding 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. 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 the extent necessary to satisfy 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 findings further discussed later in this report:

Finding No. 1 – Unauthorized Payment Of Administrative Expenses

Finding No. 2 – Incorrect Data On Certification Form AG 490 Resulting In Excess Reimbursement For Special 1989 Ad Hoc Postretirement Adjustments

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.

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.

May 28, 2010

JACK WAGNER
Auditor General

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

Compliance With Prior Audit Recommendation

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

- Failure To Pay The Minimum Municipal Obligations Of The Fund

The city paid the outstanding minimum municipal obligations due to the pension trust fund for the years 2004, 2005 and 2006 in accordance with Act 205 requirements.

CITY OF NEW CASTLE COMPREHENSIVE MUNICIPAL PENSION TRUST FUND
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Unauthorized Payment Of Administrative Expenses

Condition: Administrative expenses totaling \$6,508 were improperly paid from the pension trust fund from 2004 through 2008 for secretarial fees charged in excess of the monthly fees authorized by the plan’s governing document. The finance clerk for the city was charged in a Police Criminal Complaint filed with the PA District Magistrate on 5-21-09 for violating the following PA Penal Laws:

- Accused of Forgery – Unauthorized Act (175 Counts) – between the period of 2-2-04 and 7-7-08, (Finance Clerk) typed on a manual typewriter then stamped with the City Treasurer’s signature stamp, then cashed 175 payroll and pension fund checks for money that was not due, - in violation of section 4101(A)(2) of the Pennsylvania Crimes Code as amended, 18 PA.C.S. 4101 (A) (2).
- Accused of Forgery – Uttering (175 Counts) – between the period of 2-2-04 and 7-7-08, (Finance Clerk) typed on a manual typewriter then stamped with the City Treasurer’s signature stamp knowing that she was not authorized to do so, then cashed 175 payroll and pension fund checks, - in violation of section 4101(A)(2) of the Pennsylvania Crimes Code as amended, 18 PA.C.S. 4101 (A) (2).
- Accused of Theft By Unlawful Taking (1 Count) – \$6,508.37 of cash belonging to the City of New Castle Pension Funds with the intent to deprive the owner thereof, in violation of section 3921(a) of the PA Crimes Code, Act of December 6, 1972, as amended, 18 Pa. C.S. 3921 (a).
- Accused of Receiving Stolen Property (1 Count) – intentionally received or disposed of movable property, namely \$6,508.37 of cash belonging to the City of New Castle Pension Fund, with no intent to restore it to the owner, knowing that such property was stolen or believing that it had probably been stolen, in violation of section 3925(a) of the PA Crimes Code, Act of December 6, 1972, as amended, 18 Pa. C.S. 3925(a).

Criteria: Resolution R2004-141, states in part:

The City Council has agreed to pay a city clerk the rate of \$300 per month as secretary to provide administrative services with respect to said pension assets. The administrative expenses are to be paid from the Comprehensive Municipal Pension Trust Fund.

CITY OF NEW CASTLE COMPREHENSIVE MUNICIPAL PENSION TRUST FUND
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Furthermore, Auditor General Municipal Pension Bulletin No. 1-88, effective January 1, 1985, provides that contrary to any prior laws, all municipal pension plans may pay for authorized administrative expenses. (Emphasis added)

Cause: Municipal officials failed to establish adequate internal control procedures to ensure that only authorized administrative expenses were paid from the pension trust fund.

Effect: The unauthorized payment of administrative expenses from the pension plan reduces the amount of funds available to pay authorized plan expenses or for investment purposes.

Recommendation: We recommend that the pension trust fund be reimbursed \$6,508, with interest compounded annually at a rate earned by the plan, for the unauthorized administrative expenses paid.

In addition, we recommend that municipal officials establish adequate internal control procedures to ensure that administrative expenses are paid pursuant to the provisions contained in the plan's governing document.

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

Finding No. 2 – Incorrect Data On Certification Form AG 490 Resulting In Excess Reimbursement For Special 1989 Ad Hoc Postretirement Adjustments.

Condition: The city improperly certified \$1,000 of special ad hoc postretirement adjustments for its police officers and firefighters in 2007, 2008 and 2009 on Certification Form AG 490.

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 to ensure the accuracy of the data certified.

CITY OF NEW CASTLE COMPREHENSIVE MUNICIPAL PENSION TRUST FUND
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Effect: Because the city’s reimbursement is determined based on amounts reported on the Certification Forms AG 490, the city received excess reimbursements in 2007, 2008 and 2009 totaling \$1,000, as illustrated below:

<u>Year</u>	<u>Reimbursement Certified</u>	<u>Reimbursement Due</u>	<u>Excess Reimbursement</u>
2007	\$ 29,700	\$ 29,200	\$ 500
2008	29,100	28,800	300
2009	27,150	26,950	<u>200</u>
		Total	<u><u>\$ 1,000</u></u>

Recommendation: We recommend that the total excess reimbursements, in the amount of \$1,000, 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, 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, in the future, plan officials establish adequate internal control procedures 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.

CITY OF NEW CASTLE 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, except for distressed pension plans, for which annual reporting was required through January 1, 2003. The historical information, beginning as of January 1, 2003, 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)]
01-01-03	\$ 6,988,252	\$ 13,862,906	\$ 6,874,654	50.4%	\$ 1,863,406	368.9%
01-01-05	8,540,644	14,311,562	5,770,918	59.7%	1,957,015	294.9%
01-01-07	12,603,349	15,326,736	2,723,387	82.2%	2,165,747	125.7%

Note - 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)

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, except for distressed pension plans, for which annual reporting was required through January 1, 2003. The historical information, beginning as of January 1, 2003, is as follows:

NONUNIFORMED PENSION PLAN

	(1)	(2)	(3)	(4)	(5)	(6)
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) - Entry Age (b)	Unfunded (Assets in Excess of) Actuarial Liability (b) - (a)	Funded Ratio (a)/(b)	Covered Payroll (c)	Unfunded (Assets in Excess of) Actuarial Liability as a % of Payroll [(b-a)/(c)]
01-01-03	\$ 4,511,757	\$ 7,074,924	\$ 2,563,167	63.8%	\$ 2,334,096	109.8%
01-01-05	5,437,232	8,562,264	3,125,032	63.5%	2,007,157	155.7%
01-01-07	7,763,272	9,218,895	1,455,623	84.2%	2,269,293	64.1%

Note - 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)

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, except for distressed pension plans, for which annual reporting was required through January 1, 2003. The historical information, beginning as of January 1, 2003, is as follows:

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)]
01-01-03	\$ 7,201,653	\$ 12,286,742	\$ 5,085,089	58.6%	\$ 1,257,270	404.5%
01-01-05	8,621,258	12,967,338	4,346,080	66.5%	1,371,008	317.0%
01-01-07	11,835,320	13,653,160	1,817,840	86.7%	1,259,023	144.4%

Note - 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)

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER
AND OTHER CONTRIBUTING ENTITIES

POLICE PENSION PLAN

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2003	\$ 705,602	100.0%
2004	933,248	100.0%
2005	598,746	100.0%
2006	566,316	100.0%
2007	567,300	100.0%
2008	609,215	134.2%

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

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER
 AND OTHER CONTRIBUTING ENTITIES

NONUNIFORMED PENSION PLAN

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2003	None	N/A
2004	\$ 427,768	100.0%
2005	273,493	100.0%
2006	314,329	100.0%
2007	319,980	100.0%
2008	291,974	134.2%

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

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER
AND OTHER CONTRIBUTING ENTITIES

FIREMEN'S PENSION PLAN

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2003	\$ 393,063	100.0%
2004	611,363	100.0%
2005	415,774	100.0%
2006	399,921	100.0%
2007	413,729	100.0%
2008	380,466	134.2%

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

POLICE PENSION PLAN

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

Actuarial valuation date	January 1, 2007
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	11 years
Asset valuation method	Fair value
Actuarial assumptions:	
Investment rate of return *	8.25%
Projected salary increases *	4.5%
* 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

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

Actuarial valuation date	January 1, 2007
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	14 years
Asset valuation method	Fair value
Actuarial assumptions:	
Investment rate of return *	8.25%
Projected salary increases *	4.5%
* 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

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

Actuarial valuation date	January 1, 2007
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	15 years
Asset valuation method	Fair value
Actuarial assumptions:	
Investment rate of return *	8.25%
Projected salary increases *	4.5%
* 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 Edward G. Rendell
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. Karen DeCarlo	Council President
Ms. Stephanie Dean	Chief Financial Officer

This report is a matter of public record. Copies of this report may be obtained from the Pennsylvania Department of the Auditor General, Office of Communications, Room 318 Finance Building, Harrisburg, PA 17120. If you have any questions regarding this report or any other matter, you may contact the Department of the Auditor General by accessing our website at www.auditorgen.state.pa.us.