

COMPLIANCE AUDIT

City of Monessen Police Pension Plan Westmoreland County, Pennsylvania For the Period January 1, 2019 to December 31, 2021

October 2022



Commonwealth of Pennsylvania
Department of the Auditor General

Timothy L. DeFoor • Auditor General



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**TIMOTHY L. DEFOOR
AUDITOR GENERAL**

The Honorable Mayor and City Council
City of Monessen
Westmoreland County
Monessen, PA 15062

We have conducted a compliance audit of the City of Monessen Police Pension Plan for the period January 1, 2019 to December 31, 2021. We also evaluated compliance with some requirements subsequent to that period when possible. The audit was conducted pursuant to authority derived from the Municipal Pension Plan Funding Standard and Recovery Act (Act 205 of 1984, as amended, 53 P.S. § 895.402(j)), which requires the Auditor General, as deemed necessary, to audit every municipality which receives general municipal pension system state aid and every municipal pension plan and fund in which general municipal pension system state aid is deposited. The audit was not conducted, nor was it required to be, in accordance with Government Auditing Standards issued by the Comptroller General of the United States. We planned and performed the 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 report; and
2. To determine if the pension plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies.

Our audit was limited to the areas related to the objectives identified above. To determine if municipal officials took appropriate corrective action to address the findings contained in our prior report, we inquired of plan officials and evaluated supporting documentation provided by officials evidencing that the suggested corrective action has been appropriately taken. To determine whether the pension plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies, our methodology included the following:

- We determined whether state aid was properly determined and deposited in accordance with Act 205 requirements by verifying the annual deposit date of state aid and determining whether deposits were made within 30 days of receipt for all years within the period under audit.
- We determined whether annual employer contributions were calculated and deposited in accordance with the plan's governing document and applicable laws and regulations by examining the municipality's calculation of the plan's annual financial requirements and minimum municipal obligation (MMO) and comparing these calculated amounts to amounts actually budgeted and deposited into the pension plan as evidenced by supporting documentation.
- We determined whether annual employee contributions were calculated, deducted, and deposited into the pension plan in accordance with the plan's governing document and applicable laws and regulations by testing total members' contributions on an annual basis using the rates obtained from the plan's governing document in effect for all years within the period under audit and examining documents evidencing the deposit of these employee contributions into the pension plan.
- We determined whether retirement benefits calculated for plan members who retired during the current audit period, and through the completion of our fieldwork procedures, 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 determined whether the January 1, 2019 and January 1, 2021 actuarial valuation reports were prepared and submitted by March 31, 2020 and 2022, respectively, in accordance with Act 205 and whether selected information provided on these reports is accurate, complete, and in accordance with plan provisions to ensure compliance for participation in the state aid program by comparing selected information to supporting source documentation.
- 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.

City of Monessen 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 Monessen Police Pension Plan is administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies. As previously described, we tested transactions, interviewed selected officials, and performed procedures to the extent necessary 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 Monessen Police Pension Plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies, except as noted in the following findings further discussed later in this report:

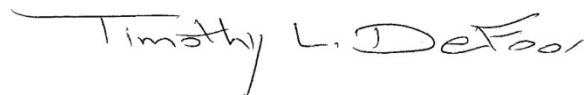
Finding No. 1 – Noncompliance With Prior Recommendation – Incorrect Survivor Benefit

Finding No. 2 – Ordinance Improperly Amended By Resolution

Finding No. 1 contained in this report repeats a condition that was cited in our previous report that has not been corrected by city officials. We are concerned by the city's failure to correct this previously reported finding and strongly encourage timely implementation of the recommendation noted in the police pension plan audit report.

The accompanying supplementary information is presented for purposes of additional analysis. We did not audit the information or conclude on it and, accordingly, express no form of assurance on it.

The contents of this report were discussed with officials of City of Monessen 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.



Timothy L. DeFoor
Auditor General
September 30, 2022

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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.

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 Monessen Police Pension Plan is also governed by implementing regulations 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 November 24, 2015 (P.L. 242, No. 67), as amended, 11 Pa. C.S. § 10101 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.

The City of Monessen Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 6 of 2000, as amended, adopted pursuant to Act 67. The plan is also affected by the provisions of collective bargaining agreements between the city and its police officers. The plan was established February 28, 1945. Active members are required to contribute 4.5 percent of their base salary plus \$12 a year for service increments to the plan. As of December 31, 2021, the plan had 12 active members, 1 terminated member eligible for vested benefits in the future, and 20 retirees receiving pension benefits.

CITY OF MONESSEN POLICE PENSION PLAN
STATUS OF PRIOR FINDINGS

Compliance With Prior Recommendation

City of Monessen has complied with the prior recommendation concerning the following:

- Failure To Timely Pay the Minimum Municipal Obligation (MMO) Of The Plan

The city calculated and deposited interest in the amount of \$15,476 into the plan in 2019 for the late payment of the plan's 2018 MMO. In addition, although the city again failed to fully pay the plan's MMOs by the annual December 31 deadline for the years 2019, 2020 and 2021, the city included appropriate interest (totaling \$76,525) for the late payments in accordance with Act 205.

Noncompliance With Prior Recommendation

City of Monessen has not complied with the prior recommendation concerning the following as further discussed in the Findings and Recommendations section of this report:

- Incorrect Survivor Benefit

CITY OF MONESSEN POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Noncompliance With Prior Recommendation – Incorrect Survivor Benefit

Condition: As previously disclosed in the prior audit report, the city failed to properly reduce the monthly pension benefit of a survivor of a retired police officer who died during October 2017 and continued to provide 100 percent of the monthly pension benefit (*\$1,658 per month*) the deceased member was receiving until the survivor's recent death in August 2021. The survivor was entitled to receive only 50 percent of the member's pension benefit (*\$829 per month*) according to the pension plan's governing plan document.

Criteria: Section 13(a) of Ordinance No. 8 of 1988, states, in part:

The widow of a Member of the Monessen Police Pension Fund Association of Monessen, Pennsylvania, who has retired or is eligible to retire on pension after January 1, 1967, and dies, shall during her lifetime, or so long as she does not remarry, be entitled to receive fifty percent of the pension the member was receiving or would have been receiving had he been retired at the time of his death.

Cause: As noted previously in the prior report, plan officials failed to ensure that the survivor's benefit was properly determined/paid in accordance with the plan's governing document. In addition, due to a prior change in plan custodians, administration of pension benefit payments was contracted to a third-party provider who was not notified of any change in the status of the retiree. The change in the retiree's status was ultimately discovered after the transfer of plan assets and benefit administration to another plan custodian. The city is currently pursuing the matter legally in an attempt to recoup the improper pension benefit payments against the estate.

Effect: The pension plan disbursed benefits to the recipient in excess of those authorized by the plan's governing document (*approximately \$38,134 from the member's date of death (October 2017) through the widow's death (August 2021)*).

Recommendation: We recommend that the police pension plan be reimbursed for the improper pension benefits paid, plus interest calculated at a rate earned by the pension plan. We also again recommend that plan officials implement adequate and consistent internal control procedures to ensure that future survivor benefits are properly determined and paid in accordance with the plan's governing document.

Management's Response: The city's response, dated August 16, 2022, as provided by the mayor, is included in its entirety, as follows:

CITY OF MONESSEN POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

The City has taken legal action by filing a writ of summons in the Court of Common Pleas for Westmoreland County as well as a Petition against [survivor’s name redacted] estate in Dorchester County Probate Court. The City has taken these actions in an attempt to recoup the improper pension benefit payments.

Auditor’s Conclusion: Based on the management response, it appears municipal officials intend to comply with the recommendation which will be evaluated during our next audit of the pension plan.

Finding No. 2 -- Ordinance Improperly Amended By Resolution

Condition: The pension plan governing document, Ordinance No. 6-2000, Section 1.19 was amended by Resolution No. 10-2001.

Criteria: In Wynne v. Lower Merion Township, 181 Pa. Superior Ct., 524, the Pennsylvania Superior Court held that an ordinance may be amended only by another ordinance and not by a resolution.

Cause: Municipal officials were not aware that a resolution cannot amend an ordinance.

Effect: The failure to properly adopt the restated plan document could result in inconsistent or improper benefit calculations and incorrect benefit payments from the pension plan.

Recommendation: We recommend that the city amend the plan’s governing document with a properly executed ordinance.

Management’s Response: Management indicated during an exit conference held with officials on August 10, 2022, that the city would provide a formal written response to this department within 10 days. On August 16, 2022, the city did provide a written response to Finding No. 1 above; however, the city failed to include a formal response for this disclosure.

Auditor’s Conclusion: Based on the criteria cited above, the finding remains as stated. Any subsequent response submitted by the city will be evaluated during our next audit of the plan.

CITY OF MONESSEN POLICE PENSION PLAN
 SUPPLEMENTARY INFORMATION
 (UNAUDITED)

SCHEDULE OF FUNDING PROGRESS

Historical trend information about the plan is presented herewith as supplementary information. It is intended to help users assess the plan’s funding status on a going-concern basis, assess progress made in accumulating assets to pay benefits when due, and make comparisons with other state and local government retirement systems.

The actuarial information is required by Act 205 biennially. The historical information, beginning as of January 1, 2017, is as follows:

	(1)	(2)	(3)	(4)
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded (Assets in Excess of) Actuarial Accrued Liability (b) - (a)	Funded Ratio (a)/(b)
01-01-17	\$ 4,077,093	\$ 5,959,847	\$ 1,882,754	68.4%
01-01-19	4,291,789	6,085,678	1,793,889	70.5%
01-01-21	5,002,235	6,872,694	1,870,459	72.8%

Note: The market values of the plan’s assets at 01-01-17, 01-01-19, and 01-01-21 have been adjusted to reflect the smoothing of gains and/or losses over a 4-year averaging period. This method will lower contributions in years of less than expected returns and increase contributions in years of greater than expected returns. The net effect over long periods of time is to have less variance in contribution levels from year to year.

CITY OF MONESSEN POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

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

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

CITY OF MONESSEN POLICE PENSION PLAN
 SUPPLEMENTARY INFORMATION
 (UNAUDITED)

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
2012	\$ 291,417	\$ 245,854	\$ 45,563	\$ 724,727	33.9%
2013	292,522	292,522	-	-	
2014	276,090	276,090	-	656,595	42.0%
2015	276,263	276,263	-	663,990	41.6%
2016	232,385	232,385	-	646,191	36.0%
2017	294,954	294,954	-	673,839	43.8%
2018	323,534	141,385	182,149	656,335	21.5%
2019	380,908	-	380,908	626,774	0.0%
2020	341,651	137,867	203,784	730,944	18.9%
2021	319,031	158,310	160,721	866,909	18.3%

* For 2012, 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. As of May 26, 2022, the city had deposited all deficient contributions for the years 2018 through 2021 to the plan accordingly and included interest.

** This schedule is presented pursuant to the implementation of GASB Statement No. 67, *Financial Reporting for Pension Plans* by reporting entities responsible for administering the pension plan to improve financial reporting by state and local governmental pension plans. Due to the statement being implemented only recently, the amount of Covered-Employee Payroll was not provided for the year 2013.

CITY OF MONESSEN POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
NOTES TO SUPPLEMENTARY SCHEDULES
(UNAUDITED)

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

Actuarial valuation date	January 1, 2021
Actuarial cost method	Entry age normal
Amortization method	Level dollar, open
Remaining amortization period	13 years (aggregate)
Asset valuation method	4-year smoothing
Actuarial assumptions:	
Investment rate of return	6.75%
Projected salary increases *	3.75%

* Includes inflation at 2.5%

CITY OF MONESSEN POLICE PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

The Honorable Ron Mozer
Mayor

Mr. Anthony W. Orzechowski
Director of Accounts & Finance

Ms. Cheryl Gordon
City Clerk

This report is a matter of public record and is available online at www.PaAuditor.gov. Media questions about the report can be directed to the Pennsylvania Department of the Auditor General, Office of Communications, 229 Finance Building, Harrisburg, PA 17120; via email to: news@PaAuditor.gov.