

COMPLIANCE AUDIT

City of Greensburg Police Pension Plan Westmoreland County, Pennsylvania For the Period January 1, 2017 to December 31, 2018

December 2019



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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EUGENE A. DePASQUALE
AUDITOR GENERAL

The Honorable Mayor and City Council
City of Greensburg
Westmoreland County
Greensburg, PA 15601

We have conducted a compliance audit of the City of Greensburg Police Pension Plan 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 the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our conclusions based on our audit objective.

The objective of the audit was 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 objective identified above. 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 the plan member who retired subsequent to the current audit period, 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 benefit due to the retired individual and comparing this amount to supporting documentation evidencing the amount determined and actually paid to the recipient.
- We determined whether the January 1, 2015 and January 1, 2017 actuarial valuation reports were prepared and submitted by March 31, 2016 and 2018, 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.

The City of Greensburg 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 Greensburg Police Pension Plan is administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies. In conducting our audit, we obtained an understanding of the 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 objective, 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 objective.

The results of our procedures indicated that, in all significant respects, the City of Greensburg Police Pension Plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies.

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 Greensburg 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.

December 3, 2019

A handwritten signature in black ink, appearing to read "Eugene A. DePasquale", with a long, sweeping horizontal line extending to the right.

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 Greensburg Police Pension Plan 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 November 24, 2015 (P.L. 242, No. 67), as amended, 11 Pa. C.S. § 10101 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 Greensburg Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Chapter 54 of the City's Codified Ordinances, as amended, adopted pursuant to Act 67, formerly Act 317. The plan is also affected by the provisions of collective bargaining agreements between the city and its police officers. The plan was established July 6, 1959. Active members are required to contribute 5 percent of compensation plus \$1 per month for a service increment to the plan. As of December 31, 2018, the plan had 27 active members, no terminated members eligible for vested benefits in the future, and 39 retirees receiving pension benefits from the plan.

BACKGROUND – (Continued)

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

Eligibility Requirements:

Normal Retirement	If hired prior to January 1, 2009, 20 years of service. If hired after January 1, 2009, age 50 and 20 years of service.
Early Retirement	None
Vesting	100% after 12 years of service.

Retirement Benefit:

A monthly benefit equal to 60% (50% if hired after January 1, 2009) of current monthly pay, (or monthly pay averaged over the 5 years of employment that produce the greatest average, if greater) plus service increment, if any. Monthly pay is fixed pay (no overtime). The service increment is an additional monthly benefit of 1/40 of normal retirement benefit for each completed year of service in excess of 20 years, up to a maximum of \$100. Service after age 65 is excluded.

Survivor Benefit:

Before Retirement Eligibility	Refund of member contributions.
After Retirement Eligibility	A monthly benefit equal to 50% of the normal retirement benefit, payable for life. In the event of the spouse's death, the participant's children under age 18 will share the benefit. For active members killed in service or service related disability retirees who die, the percentage is 100%. If there is no spouse or dependent children, a refund of contributions is payable to the beneficiary.

Service Related Disability Benefit:

The normal retirement benefit is payable, there is no service requirement.

Non-Service Related Disability Benefit

After 12 years of service: A monthly benefit equal to 50% of monthly pay (or monthly pay averaged over the 5 years that produce the greatest average).

CITY OF GREENSBURG POLICE PENSION PLAN
STATUS OF PRIOR AUDIT RECOMMENDATION

Status Of Prior Audit Recommendation

Prior to January 1, 2009, the pension plan's governing document provided a normal retirement benefit of 60 percent of the participant's final monthly average salary. Effective January 1, 2009, the city adopted Ordinance No. 1978, which amended the normal retirement benefit to comply with the Third Class City Code for officers hired after January 1, 2009, providing a normal retirement benefit of 50 percent of final monthly average salary. However, excess benefits are still being paid to existing retirees. Since the city received state aid based on unit value during the current audit period, it did not receive state aid attributable to the excess benefits provided. The Department will continue to monitor the impact of the excess benefits being paid to the existing and future retirees on the plan's future state aid allocations.

CITY OF GREENSBURG POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

The supplementary information contained on Pages 4 through 6 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.

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

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Total Pension Liability					
Service cost	\$ 381,942	\$ 445,318	\$ 401,747	\$ 526,255	\$ 551,252
Interest	1,563,561	1,540,737	1,589,483	1,706,559	1,768,432
Difference between expected and actual experience	-	(615,009)	-	586,793	-
Changes of assumptions	-	668,343	-	1,068,656	-
Benefit payments, including refunds of member contributions	<u>(976,940)</u>	<u>(1,152,199)</u>	<u>(1,438,059)</u>	<u>(1,411,732)</u>	<u>(1,396,803)</u>
Net Change in Total Pension Liability	968,563	887,190	553,171	2,476,531	922,881
Total Pension Liability – Beginning	<u>19,641,636</u>	<u>20,610,199</u>	<u>21,497,389</u>	<u>22,050,560</u>	<u>24,527,091</u>
Total Pension Liability – Ending (a)	<u>\$ 20,610,199</u>	<u>\$ 21,497,389</u>	<u>\$ 22,050,560</u>	<u>\$ 24,527,091</u>	<u>\$ 25,449,972</u>
Plan Fiduciary Net Position					
Contributions – employer	\$ 1,033,746	\$ 1,208,030	\$ 1,095,987	\$ 1,042,775	\$ 940,430
Contributions – member	107,749	109,813	103,690	112,690	117,742
Net investment income	1,146,823	(154,968)	1,257,193	3,050,175	(1,167,061)
Benefit payments, including refunds of member contributions	(976,940)	(1,152,199)	(1,438,059)	(1,411,732)	(1,396,803)
Administrative expenses	<u>(91,717)</u>	<u>(86,829)</u>	<u>(74,266)</u>	<u>(101,758)</u>	<u>(102,244)</u>
Net Change in Plan Fiduciary Net Position	1,219,661	(76,153)	944,545	2,692,150	(1,607,936)
Plan Fiduciary Net Position – Beginning	<u>17,137,502</u>	<u>18,357,163</u>	<u>18,281,010</u>	<u>19,225,555</u>	<u>21,917,705</u>
Plan Fiduciary Net Position – Ending (b)	<u>\$ 18,357,163</u>	<u>\$ 18,281,010</u>	<u>\$ 19,225,555</u>	<u>\$ 21,917,705</u>	<u>\$ 20,309,769</u>
Net Pension Liability – Ending (a-b)	<u>\$ 2,253,036</u>	<u>\$ 3,216,379</u>	<u>\$ 2,825,005</u>	<u>\$ 2,609,386</u>	<u>\$ 5,140,203</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	89.1%	85.0%	87.2%	89.4%	79.8%
Estimated Covered Employee Payroll	\$ 2,536,533	\$ 2,381,538	\$ 2,408,966	\$ 2,599,916	\$ 2,712,168
Net Pension Liability as a Percentage of Covered Employee Payroll	88.8%	135.1%	117.3%	100.4%	189.5%

CITY OF GREENSBURG POLICE PENSION PLAN
 SUPPLEMENTARY INFORMATION
 (UNAUDITED)

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 (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Net Pension Liability – 12/31/15	\$ 5,574,023	\$ 3,156,612*	\$ 1,228,075
Net Pension Liability – 12/31/16	\$ 5,229,803	\$ 2,825,005	\$ 795,600

* Differs from the Net Pension Liability reported in the Schedule Of Changes in the Net Pension Liability and Related Ratios on page 4, attributable to adjustments subsequently made in that schedule for the year ended December 31, 2015 by the preparer of the city’s audited financial statements.

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 7.25%, 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 (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Net Pension Liability – 12/31/17	\$ 5,327,672	\$ 2,609,386	\$ 333,064
Net Pension Liability – 12/31/18	\$ 7,924,406	\$ 5,140,203	\$ 2,809,095

CITY OF GREENSBURG 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
2009	\$ 681,757	\$ 688,581	\$ (6,824)		
2010	598,799	605,557	(6,758)	\$ 2,315,469	26.2%
2011	771,535	673,375	98,160		
2012	770,466	670,148	100,318	2,421,432	27.7%
2013	947,036	953,884	(6,848)		
2014	1,033,596	1,033,746	(150)	2,536,533	40.8%
2015	1,207,880	1,208,030	(150)	2,381,538	50.7%
2016	1,095,987	1,095,987	-	2,408,966	45.5%
2017	1,042,775	1,042,775	-	2,599,916	40.1%
2018	940,430	940,430	-	2,712,168	34.7%

* 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 and 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.

SCHEDULE OF INVESTMENT RETURNS

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

2018	(5.47)%
2017	16.34%
2016	6.84%
2015	(0.86)%
2014	6.80%
2013	20.23%

CITY OF GREENSBURG 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, 2013, 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)
01-01-13	\$ 14,314,802	\$ 18,630,848	\$ 4,316,046	76.8%
01-01-15	17,579,460	20,663,533	3,084,073	85.1%
01-01-17	20,081,611	23,706,009	3,624,398	84.7%

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, subject to a corridor between 80 to 120 percent of the market value of assets. 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 GREENSBURG 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 GREENSBURG 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, 2017
Actuarial cost method	Entry age normal
Amortization method	Level dollar, closed
Remaining amortization period	5 years
Asset valuation method	Fair value, 4-year smoothing
Actuarial assumptions:	
Investment rate of return	7.25%
Projected salary increases *	4.75%

* Includes inflation at 2.75%

CITY OF GREENSBURG POLICE PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

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City Administrator

Ms. Colleen Gain
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