

COMPLIANCE AUDIT

City of Monessen Firemen's Pension Plan Westmoreland County, Pennsylvania For the Period January 1, 2017 to December 31, 2018

September 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 Monessen
Westmoreland County
Monessen, PA 15062

We have conducted a compliance audit of the City of Monessen Firemen's 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 our audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our 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 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 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 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 that there were no employee contributions required for the years covered by our audit period due to the fact that employee contributions were appropriately waived by the municipality.
- We determined that there were no benefit calculations prepared for the years covered by our audit period.
- 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 this 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 transfers were properly authorized, timely, and appropriately recorded by plan officials by examining supporting documentation for all of the transfers made during the audit period and through the completion of our fieldwork procedures.

The 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 Firemen's 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 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 Monessen Firemen's 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 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.

September 4, 2019



EUGENE A. DEPASQUALE
Auditor General

CONTENTS

	<u>Page</u>
Background.....	1
Status Of Prior Findings.....	3
Supplementary Information	4
Report Distribution List	11

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 Monessen Firemen's 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 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 Firemen's Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 5 of 2000, as amended, adopted pursuant to Act 67. The plan was established January 1, 1939. Active members are required to contribute 4 percent of their base salary plus \$12 a year for service increments to the plan. As of December 31, 2018, the plan had no active members, no terminated members eligible for vested benefits in the future, and 2 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 Age 50 and 20 years of service if hired before January 1, 1984.
 Age 55 and 20 years of service if hired after January 1, 1984.
- Early Retirement None
- Vesting 100% vesting available after 12 years of service.

Retirement Benefit:

Benefit equals 50% of final monthly compensation (or average compensation over the highest continuous 5 years, if greater) plus a monthly service increment of 1/40 of pension benefit for each year of service in excess of 20 years, but excluding service after age 65. Maximum increment of \$100 per month.

Survivor Benefit:

- Before Retirement Eligibility Refund of member contributions.
- After Retirement Eligibility
or Killed-In-Service The spouse will receive the amount the participant was receiving or entitled to receive for life. In the event of the spouse's death, the participant's children under age 18 will share the benefit.

Service Related Disability Benefit:

For total and permanent disablement, a monthly benefit equal to 50% of final monthly compensation (or Average Compensation as above, if greater) will be payable, reduced by any disability benefits received.

CITY OF MONESSEN FIREMEN'S PENSION PLAN
STATUS OF PRIOR FINDINGS

Compliance With Prior Audit Recommendations

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

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

On November 28, 2018, the city reimbursed \$691 to the Commonwealth consisting of \$600 for the excess reimbursement received in 2016 and interest of \$91.

- Awarding Of Professional Services Contract Inconsistent With Provisions Of Act 44

The city implemented procedures for the procurement of professional and investment services for the city's pension plans as developed and enacted by the city via Resolution No. 7 of 2011, in accordance with Act 205 (as amended by Act 44). In August 2018, the city rebid its Request For Proposal (RFP) for the procurement of asset management and custodial work for its defined benefit pension plans, advertised the RFP accordingly in accordance with the city's established procedures, and after initiating its own interview, assessment, review, and notification procedures, the pension board selected a new asset manager and custodian for its pension plans effective February 28, 2019. On May 8, 2019, the assets of the firemen's pension plan were transferred to the new custodian and asset manager. The procedures established, implemented, and executed by the City of Monessen provided a high degree of transparency during the entire process for the procurement and awarding of the professional investment and advisory services contracts for its defined benefit pension plans and we commend the city for its timely efforts in complying with the prior recommendation.

CITY OF MONESSEN FIREMEN'S PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

The supplementary information contained on Pages 4 through 7 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 YEARS ENDED DECEMBER 31, 2014, 2015, AND 2016

	<u>2014</u>	<u>2015</u>	<u>2016</u>
Total Pension Liability			
Interest	\$ 28,562	\$ 24,279	\$ 23,007
Benefit payments, including refunds of member contributions	<u>(37,795)</u>	<u>(41,230)</u>	<u>(41,230)</u>
Net Change in Total Pension Liability	(9,233)	(16,951)	(18,223)
Total Pension Liability – Beginning	<u>353,193</u>	<u>343,960</u>	<u>327,009</u>
Total Pension Liability – Ending (a)	<u>\$ 343,960</u>	<u>\$ 327,009</u>	<u>\$ 308,786</u>
Plan Fiduciary Net Position			
Contributions – employer	\$ 23,928	\$ 23,928	\$ 13,200
Net investment income	10,889	(5,956)	19,160
Benefit payments, including refunds of member contributions	(37,795)	(41,230)	(41,230)
Administrative expense	<u>(6,007)</u>	<u>(8,438)</u>	<u>(4,799)</u>
Net Change in Plan Fiduciary Net Position	(8,985)	(31,696)	(13,669)
Plan Fiduciary Net Position – Beginning	<u>313,863</u>	<u>304,878</u>	<u>273,182</u>
Plan Fiduciary Net Position – Ending (b)	<u>\$ 304,878</u>	<u>\$ 273,182</u>	<u>\$ 259,513</u>
Net Pension Liability – Ending (a-b)	<u>\$ 39,082</u>	<u>\$ 53,827</u>	<u>\$ 49,273</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	88.6%	83.5%	84.0%

CITY OF MONESSEN FIREMEN'S PENSION PLAN
 SUPPLEMENTARY INFORMATION
 (UNAUDITED)

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

	<u>2017</u>	<u>2018</u>
Total Pension Liability		
Interest	\$ 22,621	\$ 21,150
Difference between expected and actual experience	17,985	-
Changes of assumptions	5,500	-
Benefit payments, including refunds of member contributions	<u>(41,230)</u>	<u>(44,666)</u>
Net Change in Total Pension Liability	4,876	(23,516)
Total Pension Liability – Beginning	<u>308,786</u>	<u>313,662</u>
Total Pension Liability – Ending (a)	<u>\$ 313,662</u>	<u>\$ 290,146</u>
 Plan Fiduciary Net Position		
Contributions – employer	\$ 13,200	\$ 13,200
Net investment income	37,033	(13,107)
Benefit payments, including refunds of member contributions	<u>(41,230)</u>	<u>(44,666)</u>
Administrative expense	<u>(5,393)</u>	<u>(6,568)</u>
Net Change in Plan Fiduciary Net Position	3,610	(51,141)
Plan Fiduciary Net Position – Beginning	<u>259,513</u>	<u>263,123</u>
Plan Fiduciary Net Position – Ending (b)	<u>\$ 263,123</u>	<u>\$ 211,982</u>
 Net Pension Liability – Ending (a-b)	<u>\$ 50,539</u>	<u>\$ 78,164</u>
 Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	83.9%	73.1%

CITY OF MONESSEN FIREMEN'S 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 7.50%, 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	\$ 77,710	\$ 53,827	\$ 32,869
Net Pension Liability – 12/31/16	\$ 71,638	\$ 49,273	\$ 29,606

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	\$ 72,788	\$ 50,539	\$ 30,937
Net Pension Liability – 12/31/18	\$ 98,884	\$ 78,164	\$ 59,866

CITY OF MONESSEN FIREMEN'S 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	\$ -	\$ -	\$ -	\$ -	N/A
2010	-	-	-	-	N/A
2011	14,258	14,258	-	-	N/A
2012	16,425	16,425	-	-	N/A
2013	16,425	16,425	-	-	N/A
2014	23,928	23,928	-	-	N/A
2015	23,928	23,928	-	-	N/A
2016	13,200	13,200	-	-	N/A
2017	13,200	13,200	-	-	N/A
2018	13,200	13,200	-	-	N/A

* There have not been any active members since December 2002.

SCHEDULE OF INVESTMENT RETURN

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

2018	(5.54%)
2017	16.04%
2016	7.99%
2015	(2.21%)
2014	3.71%

CITY OF MONESSEN FIREMEN'S 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	\$ 317,465	\$ 423,075	\$ 105,610	75.0%
01-01-15	304,878	343,960	39,082	88.6%
01-01-17	259,513	332,271	72,758	78.1%

CITY OF MONESSEN FIREMEN'S 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 FIREMEN'S 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, open
Remaining amortization period	2 years (aggregate)
Asset valuation method	Fair value
Actuarial assumptions:	
Investment rate of return	7.25%
Projected salary increases	Not applicable – no active members

CITY OF MONESSEN FIREMEN'S PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

The Honorable Matthew Shorraw
Mayor

Mr. Anthony W. Orzechowski
Deputy Mayor

Mr. Gilbert Coles
Councilman

Mr. David R. Feehan
Councilman

Ms. Lois Thomas
Councilwoman

Ms. Judith L. Taylor
City Administrator

Mr. Wayne Vlasic
City Controller

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