

COMPLIANCE AUDIT

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

May 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 Titusville
Crawford County
Titusville, PA 16354

We have conducted a compliance audit of the City of Titusville 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 lone plan member who retired during the current audit period, 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 individual and comparing these amounts to supporting documentation evidencing amounts determined and actually paid to the recipient.
- 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 the 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.

The City of Titusville contracted with an independent certified public accounting firm for an audit of its basic financial statements for the year ended December 31, 2017, which is 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 Titusville 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 Titusville Police Pension Plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies.

As previously noted, the objective of our audit of the City of Titusville Police Pension Plan was to determine compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies. Through the adoption of Act 44 of 2009, among several provisions relating to municipal pension plans, Act 205 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 or conclude on it and, accordingly, express no form of assurance on it. However, **we are extremely concerned about the funded status of the plan contained in the schedule of funding progress included in this report which indicates the plan's funded ratio is 64.2% as of January 1, 2017**, which is the most recent data available. Based on this information, the city is currently in Level II moderate distress status. We encourage city officials to monitor the funding of the police pension plan to ensure its long-term financial stability.

The contents of this report were discussed with officials of the City of Titusville 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.

April 24, 2019



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 Titusville 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 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 Titusville Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 3226, and a separately executed plan document with an effective date of August 20, 2013. The plan is also affected by the provisions of collective bargaining agreements between the city and its police officers. The plan was established January 17, 1938. Active members are required to contribute 5 percent of compensation if hired prior to January 1, 2005 and 7 percent of compensation if hired on or after January 1, 2005, plus \$1 per month to fund the service increment benefit. As of December 31, 2018, the plan had 8 active members, 1 terminated member eligible for vested benefits in the future, and 23 retirees receiving pension benefits from the plan.

BACKGROUND – (Continued)

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

Normal Retirement If hired before January 1, 2002 – 20 years of service; if hired between January 1, 2002 and January 1, 2005 – 25 years of service; if hired after January 1, 2005 – Age 50 and 25 years of service.

Early Retirement None

Vesting Member is 100% vested after 7 years of service.

Retirement Benefit:

Benefit equals 50% of average monthly pay based on the higher of the final compensation at retirement or the average of the 5 consecutive calendar years preceding retirement, plus a service increment equal to 1/40th of the pension benefit for each year of service in excess of 20 years if hired prior to January 1, 2002 or 25 years if hired after January 1, 2002, up to a maximum of \$100 per month.

Survivor Benefit:

Before Retirement Eligibility Refund of member contributions, without interest.

After Retirement Eligibility A monthly benefit equal to 100% of the pension the member was receiving or was entitled to receive on the day of the member's death.

Service Related Disability Benefit:

Benefit equals 50% of the member's salary at the time the disability was incurred, offset by Social Security disability benefits received for the same injury.

CITY OF TITUSVILLE POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

The supplementary information contained on Pages 3 through 5 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, AND 2015

	<u>2014</u>	<u>2015</u>
Total Pension Liability		
Service cost	\$ 112,542	\$ 90,405
Interest	633,888	615,497
Difference between expected and actual experience	-	(419,764)
Benefit payments, including refunds of member contributions	<u>(520,146)</u>	<u>(548,692)</u>
Net Change in Total Pension Liability	226,284	(262,554)
Total Pension Liability – Beginning	<u>8,071,130</u>	<u>8,297,414</u>
Total Pension Liability – Ending (a)	<u><u>\$ 8,297,414</u></u>	<u><u>\$ 8,034,860</u></u>
Plan Fiduciary Net Position		
Contributions – employer	\$ 310,592	\$ 455,663
Contributions – member	31,277	37,030
Net investment income	325,549	(104,558)
Benefit payments, including refunds of member contributions	(520,146)	(548,692)
Administrative expense	<u>(10,880)</u>	<u>(12,333)</u>
Net Change in Plan Fiduciary Net Position	136,392	(172,890)
Plan Fiduciary Net Position – Beginning	<u>5,216,541</u>	<u>5,352,933</u>
Plan Fiduciary Net Position – Ending (b)	<u><u>\$ 5,352,933</u></u>	<u><u>\$ 5,180,043</u></u>
Net Pension Liability – Ending (a-b)	<u><u>\$ 2,944,481</u></u>	<u><u>\$ 2,854,817</u></u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	64.5%	64.5%
Estimated Covered Employee Payroll	\$ 633,061	\$ 550,000
Net Pension Liability as a Percentage of Covered Employee Payroll	465.1%	519.1%

CITY OF TITUSVILLE POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF CHANGES IN THE NET PENSION
LIABILITY AND RELATED RATIOS
FOR THE YEARS ENDED DECEMBER 31, 2016, AND 2017

	<u>2016</u>	<u>2017</u>
Total Pension Liability		
Service cost	\$ 94,925	\$ 90,701
Interest	627,047	649,955
Difference between expected and actual experience	-	153,832
Benefit payments, including refunds of member contributions	<u>(583,400)</u>	<u>(587,061)</u>
Net Change in Total Pension Liability	138,572	307,427
Total Pension Liability – Beginning	<u>8,034,860</u>	<u>8,173,432</u>
Total Pension Liability – Ending (a)	<u><u>\$ 8,173,432</u></u>	<u><u>\$ 8,480,859</u></u>
 Plan Fiduciary Net Position		
Contributions – employer	\$ 350,894	\$ 356,079
Contributions – member	32,440	32,260
Net investment income	371,532	855,816
Benefit payments, including refunds of member contributions	(583,400)	(587,061)
Administrative expense	<u>(7,630)</u>	<u>(6,000)</u>
Net Change in Plan Fiduciary Net Position	163,836	651,094
Plan Fiduciary Net Position – Beginning	<u>5,180,043</u>	<u>5,343,879</u>
Plan Fiduciary Net Position – Ending (b)	<u><u>\$ 5,343,879</u></u>	<u><u>\$ 5,994,973</u></u>
 Net Pension Liability – Ending (a-b)	<u><u>\$ 2,829,553</u></u>	<u><u>\$ 2,485,886</u></u>
 Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	65.4%	70.7%
 Estimated Covered Employee Payroll	\$ 475,356	\$ 548,179
 Net Pension Liability as a Percentage of Covered Employee Payroll	595.2%	453.5%

CITY OF TITUSVILLE 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, 2016, and 2017, calculated using the discount rate of 8.0%, 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 (7.0%)	Current Discount Rate (8.0%)	1% Increase (9.0%)
Net Pension Liability – 12/31/15	\$ 3,674,174	\$ 2,854,817	\$ 2,169,048
Net Pension Liability – 12/31/16	\$ 3,659,200	\$ 2,829,553	\$ 2,144,514
Net Pension Liability – 12/31/17	\$ 3,333,200	\$ 2,485,886	\$ 1,766,011

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	\$ 250,584	\$ 250,584	\$ -		
2010	260,568	260,568	-		
2011	324,908	326,108	(1,200)		
2012	309,409	309,409	-		
2013	313,703	313,703	-		
2014	310,592	310,592	-	\$ 633,061	49.06%
2015	455,663	455,663	-	550,000	82.85%
2016	350,894	350,894	-	475,356	73.82%
2017	356,079	356,079	-	548,179	64.96%
2018	339,905	339,905	-	*	*

* 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 years prior to 2014. In addition, due to the timing of this audit, covered-employee payroll for 2018 was not provided in this schedule.

CITY OF TITUSVILLE 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	\$ 4,373,345	\$ 7,869,334	\$ 3,495,989	55.6%
01-01-15	5,352,933	7,878,054	2,525,121	67.9%
01-01-17	5,343,879	8,327,264	2,983,385	64.2%

Note: The market value of the plan's assets at 01-01-13 has been adjusted to reflect the smoothing of gains and/or losses over a five-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 TITUSVILLE 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 TITUSVILLE 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.
Remaining amortization period	14 years
Asset valuation method	Market value.
Actuarial assumptions:	
Investment rate of return	8.0%
Projected salary increases	5.0%

CITY OF TITUSVILLE 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 Esther M. Smith
Mayor

Mr. William P. Adelman
Deputy Mayor

Ms. Heather L. Leonardi
Council Member

Mr. Donald D. Frazier
Council Member

Mr. Keith W. Bromley
Council Member

Mr. Larry A. Manross
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Ms. Diana A. Durstine
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