

# COMPLIANCE AUDIT

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## City of Uniontown Police Pension Plan Fayette County, Pennsylvania For the Period January 1, 2016 to December 31, 2018

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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 Uniontown  
Fayette County  
Uniontown, PA 15401

We have conducted a compliance audit of the City of Uniontown Police Pension Plan for the period January 1, 2016 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 finding and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our finding and 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 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 whether retirement benefits calculated for the 2 plan members 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 benefit due to the retired individuals and comparing these amounts to supporting documentation evidencing amounts determined and actually paid to recipients.
- 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.
- We determined whether provisions of the Deferred Retirement Option Plan (DROP) were in accordance with the provisions of Act 205 by examining provisions stated in the plan's governing documents.

The City of Uniontown contracted with an independent certified public accounting firm for annual audits of its basic financial statements for the years ended December 31, 2016 and 2017, 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 Uniontown 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 Uniontown 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 finding further discussed later in this report:

Finding – Incorrect Data On Certification Form AG 385 Resulting In An Underpayment Of State Aid

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 Uniontown 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 11, 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 Uniontown 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.

The City of Uniontown Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of the codified ordinance (Article 171), 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 January 1, 1939. Active members are required to contribute 5 percent of compensation to the plan; however, member contributions are currently waived. As of December 31, 2018, the plan had 20 active members, 1 terminated member eligible for vested benefits in the future, and 31 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	Eligible with 20 years of service
Early Retirement	None
Vesting	100% after 12 years of service

### Retirement Benefit:

Benefit equals 50% of monthly compensation at retirement date or the highest 60 months average, plus a service increment of 1/40<sup>th</sup> of the retirement benefit to a maximum of \$100 per month for each year of service in excess of 20 years.

### Survivor Benefit:

Before Retirement Eligibility	Refund of member contributions.
After Retirement Eligibility	A monthly benefit equal to 50% of the pension the member was receiving or was entitled to receive on the day of the member's death.

### Service Related Disability Benefit:

50% of the member's salary at the time the disability was incurred.

### Non- Service Related Disability Benefit

If less than 10 years of service, 25% of member's compensation, otherwise 50% of compensation.

CITY OF UNIONTOWN POLICE PENSION PLAN  
FINDING AND RECOMMENDATION

**Finding – Incorrect Data On Certification Form AG 385 Resulting In An Underpayment Of State Aid**

Condition: The city failed to certify 1 eligible police officer (2 units) and understated payroll by \$36,684 on the Certification Form AG 385 filed in 2017. The data contained on this certification form is based on prior calendar year information.

Criteria: Pursuant to Act 205, at Section 402(e)(2), an employee who has been employed on a full-time basis for at least six consecutive months and has been participating in a pension plan during the certification year is eligible for certification.

Cause: Plan officials failed to establish adequate internal control procedures to ensure the accuracy of the data certified.

Effect: The data submitted on this certification form is used, in part, to calculate the state aid due to the municipality for distribution to its pension plans. Because the city’s state aid allocation was based on pension costs, the city received an underpayment of state aid of \$8,301 as identified below:

Year	Normal Cost	Payroll Understated	State Aid Underpayment
2017	22.62956%	\$ 36,684	\$ 8,301

Although the additional state aid will be allocated to the city, the full amount of the 2017 state aid allocation was not available to be deposited timely and therefore was not available to pay operating expenses or for investment.

Recommendation: We recommend that in the future, plan officials establish adequate internal control procedures, such as having at least two people review the data certified, to ensure compliance with the instructions that accompany Certification Form AG 385 to assist them in accurately reporting the required pension data.

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

Auditor’s Conclusion: Compliance will be evaluated during our next audit of the plan.



CITY OF UNIONTOWN 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 YEARS ENDED DECEMBER 31, 2014, 2015, 2016, AND 2017

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Total Pension Liability				
Service cost	\$ 256,691	\$ 267,176	\$ 279,442	\$ 250,149
Interest	571,544	595,840	625,128	648,218
Difference between expected and actual experience	(18,475)	(62,258)	(64,381)	116,187
Changes of assumptions	-	74,292	-	69,988
Benefit payments, including refunds of member contributions	(471,530)	(471,343)	(472,602)	(491,126)
Net Change in Total Pension Liability	<u>338,230</u>	<u>403,707</u>	<u>367,587</u>	<u>593,416</u>
Total Pension Liability – Beginning	8,164,920	8,503,150	8,906,857	9,274,444
Total Pension Liability – Ending (a)	<u>\$ 8,503,150</u>	<u>\$ 8,906,857</u>	<u>\$ 9,274,444</u>	<u>\$ 9,867,860</u>
Plan Fiduciary Net Position				
Contributions – employer	\$ 242,617	\$ 263,716	\$ 249,399	\$ 222,871
Net investment income	407,746	(48,976)	521,850	1,211,568
Benefit payments, including refunds of member contributions	(471,530)	(471,343)	(472,602)	(491,126)
Administrative expense	(16,114)	(17,839)	(14,228)	(23,140)
Other	(3,642)	(2,653)	(3,960)	(596)
Net Change in Plan Fiduciary Net Position	<u>159,077</u>	<u>(277,095)</u>	<u>280,459</u>	<u>919,577</u>
Plan Fiduciary Net Position – Beginning	8,930,168	9,089,245	8,812,150	9,092,609
Plan Fiduciary Net Position – Ending (b)	<u>\$ 9,089,245</u>	<u>\$ 8,812,150</u>	<u>\$ 9,092,609</u>	<u>\$ 10,012,186</u>
Net Pension Liability – Ending (a-b)	<u>\$ (586,095)</u>	<u>\$ 94,707</u>	<u>\$ 181,835</u>	<u>\$ (144,326)</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	106.89%	98.94%	98.04%	101.46%
Estimated Covered Employee Payroll	\$ 1,047,477	\$ 1,075,381	\$ 955,074	\$ 1,033,531
Net Pension Liability as a Percentage of Covered Employee Payroll	(55.95%)	8.81%	19.04%	(13.96%)

CITY OF UNIONTOWN 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, 2014, 2015, 2016, and 2017, calculated using the discount rate of 7.0%, 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 (6.0%)	Current Discount Rate (7.0%)	1% Increase (8.0%)
Net Pension Liability – 12/31/14	\$ 533,800	\$ (586,095)	\$ (1,509,402)
Net Pension Liability – 12/31/15	\$ 1,300,773	\$ 94,707	\$ (895,356)
Net Pension Liability – 12/31/16	\$ 1,416,308	\$ 181,835	\$ (832,313)
Net Pension Liability – 12/31/17	\$ 1,162,364	\$ (144,326)	\$ (1,216,906)

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
2010	\$ -	\$ 104,803	\$ (104,803)	\$ 702,732	14.91%
2011	126,306	141,532	(15,226)	823,793	17.18%
2012	149,523	173,807	(24,284)	920,127	18.89%
2013	196,066	196,941	(875)	1,083,356	18.18%
2014	199,785	242,617	(42,832)	1,099,784	22.06%
2015	237,787	263,716	(25,929)	1,186,501	22.23%
2016	236,860	249,399	(12,539)	1,274,615	19.57%
2017	209,096	222,871	(13,775)	1,159,584	19.22%
2018	205,502	271,512	(66,010)		

\* Covered-Employee Payroll used for MMO. Due to the timing of this audit, covered-employee payroll for 2018 was not provided in this schedule.

CITY OF UNIONTOWN POLICE PENSION PLAN  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

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

2017	13.68%
2016	6.07%
2015	(0.55%)
2014	4.51%
2013	10.36%

CITY OF UNIONTOWN 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	\$ 8,349,495	\$ 8,014,023	\$ (335,472)	104.2%
01-01-15	9,094,447	8,580,464	(513,983)	106.0%
01-01-17	9,542,928	9,521,498	(21,430)	100.2%

Note: The market values 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 3-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 UNIONTOWN 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 UNIONTOWN 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	Not applicable
Remaining amortization period	Not applicable
Asset valuation method	Fair value, 3-year smoothing
Actuarial assumptions:	
Investment rate of return	7.0%, net of expenses
Projected salary increases *	4.5%

\* Includes inflation at 3.0%

CITY OF UNIONTOWN POLICE PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

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Commonwealth of Pennsylvania

**The Honorable Edward Fike**  
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Councilman

**Mr. Joseph P. Czuchan, Jr.**  
Councilman

**Mr. Francis J. Palumbo, III**  
Councilman

**Ms. Kimberly Marshall**  
City Clerk

**Mr. James R. Sileo**  
City Controller

**Mr. Joseph N. Giachetti**  
Treasurer

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