

COMPLIANCE AUDIT

City of Warren Firefighters Pension Plan Warren County, Pennsylvania For the Period January 1, 2016 to December 31, 2017

October 2018



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



**Commonwealth of Pennsylvania
Department of the Auditor General
Harrisburg, PA 17120-0018
Facebook: Pennsylvania Auditor General
Twitter: @PAAuditorGen
www.PaAuditor.gov**

**EUGENE A. DePASQUALE
AUDITOR GENERAL**

The Honorable Mayor and City Council
City of Warren
Warren County
Warren, PA 16365

We have conducted a compliance audit of the City of Warren Firefighters Pension Plan for the period January 1, 2016 to December 31, 2017. 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 elected to vest during the current audit period represent payments to all (and only) those entitled to receive them and were properly determined in accordance with the plan's governing document, applicable laws and regulations by recalculating the amount of the pension benefits due to the retired individual and comparing these amounts to supporting documentation evidencing amounts determined.
- 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 the terms of the plan's unallocated insurance contract, including ownership and any restrictions, were in compliance with plan provisions, investment policies, and state regulations by comparing the terms of the contract with the plan's provisions, investment policies, and state regulations.

The City of Warren 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 Warren Firefighters 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 Warren Firefighters 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 City of Warren 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.

October 10, 2018

A handwritten signature in black ink, appearing to read "Eugene A. DePasquale". The signature is fluid and cursive, with a long horizontal flourish extending to the right.

EUGENE A. DEPASQUALE
Auditor General

CONTENTS

	<u>Page</u>
Background.....	1
Supplementary Information	3
Comment.....	10
Report Distribution List	12

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 Warren Firefighters 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 Warren Firefighters Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 1782, as amended. The plan is also affected by the provisions of collective bargaining agreements between the city and its firefighters. The plan was established September 1, 1974. Active members are required to contribute 5 percent of base and longevity pays to the plan. As of December 31, 2017, the plan had 19 active members, 1 terminated members eligible for vested benefits in the future, and 21 retirees receiving benefits funded through annuities purchased with plan assets.

BACKGROUND – (Continued)

As of December 31, 2017, selected plan benefit provisions are as follows:

Eligibility Requirements:

Normal Retirement	Age 55 and 20 years of service.
Early Retirement	None
Vesting	A member is 100% vested after 12 years of service.

Retirement Benefit:

Benefit equals 50% of highest 60 months average salary (base pay plus longevity), or the final monthly rate of pay, whichever is higher, plus a service increment of 1/40th of monthly pension benefit for each completed year over 20 years, up to a maximum of \$250 per month.

Survivor Benefit:

Before Retirement Eligibility	A monthly benefit equal to 50% of the vested accrued benefit at the date of death.
After Retirement Eligibility	A monthly benefit equal to 100% of the benefit a participant was receiving or entitled to receive payable to the survivor for life.

Disability Benefit:

Service Related	Benefit equals 50% of final 60 months average salary (base pay plus longevity).
Non-Service Related	If hired on or after January 1, 2010, there is a 10 year service requirement, otherwise no age or service requirement – 30% of final 60 months average salary (base pay plus longevity).

CITY OF WARREN FIREFIGHTERS PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

The supplementary information contained on Pages 3 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 AND 2015

	<u>2014</u>	<u>2015</u>
Total Pension Liability		
Service cost	\$ 139,989	\$ 147,970
Interest	163,856	187,336
Change of benefit terms	-	388,152
Difference between expected and actual experience	-	(332,424)
Changes of assumptions	-	-
Benefit payments, including refunds of member contributions	(12,443)	-
Net Change in Total Pension Liability	<u>291,402</u>	<u>391,034</u>
Total Pension Liability - Beginning	<u>2,386,991</u>	<u>2,678,393</u>
Total Pension Liability - Ending (a)	<u><u>\$ 2,678,393</u></u>	<u><u>\$ 3,069,427</u></u>
Plan Fiduciary Net Position		
Contributions - employer	\$ 255,007	\$ 255,310
Contributions - member	38,551	40,464
Net investment income	116,202	25,278
Benefit payments, including refunds of member contributions	(12,443)	-
Administrative expense	(20,865)	(16,690)
Net Change in Plan Fiduciary Net Position	<u>376,452</u>	<u>304,362</u>
Plan Fiduciary Net Position - Beginning	<u>1,472,478</u>	<u>1,848,930</u>
Plan Fiduciary Net Position - Ending (b)	<u><u>\$ 1,848,930</u></u>	<u><u>\$ 2,153,292</u></u>
Net Pension Liability - Ending (a-b)	<u><u>\$ 829,463</u></u>	<u><u>\$ 916,135</u></u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	69.0%	70.2%
Estimated Covered Employee Payroll	\$ 807,829	\$ 873,664
Net Pension Liability as a Percentage of Covered Employee Payroll	102.7%	104.9%

CITY OF WARREN FIREFIGHTERS 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	\$ 154,629	\$ 154,335
Interest	208,864	225,122
Change of benefit terms	-	-
Difference between expected and actual experience	-	(142,810)
Changes of assumptions	-	(87,452)
Benefit payments, including refunds of member contributions	(21,854)	-
Net Change in Total Pension Liability	<u>341,639</u>	<u>149,195</u>
Total Pension Liability – Beginning	3,069,427	3,411,066
Total Pension Liability - Ending (a)	<u>\$ 3,411,066</u>	<u>\$ 3,560,261</u>
Plan Fiduciary Net Position		
Contributions – employer	\$ 293,375	\$ 298,185
Contributions – member	42,398	46,872
Net investment income	189,906	374,329
Benefit payments, including refunds of member contributions	(21,854)	-
Administrative expense	(14,707)	(14,168)
Net Change in Plan Fiduciary Net Position	<u>489,118</u>	<u>705,218</u>
Plan Fiduciary Net Position - Beginning	2,153,292	2,642,410
Plan Fiduciary Net Position - Ending (b)	<u>\$ 2,642,410</u>	<u>\$ 3,347,628</u>
Net Pension Liability - Ending (a-b)	<u>\$ 768,656</u>	<u>\$ 212,633</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	77.5%	94.0%
Estimated Covered Employee Payroll	\$ 940,445	\$ 1,039,727
Net Pension Liability as a Percentage of Covered Employee Payroll	81.7%	20.5%

CITY OF WARREN FIREFIGHTERS 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 6.50%, 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 (5.50%)	Current Discount Rate (6.50%)	1% Increase (7.50%)
Net Pension Liability - 12/31/14	\$ 1,222,910	\$ 829,463	\$ 500,882
Net Pension Liability - 12/31/15	\$ 1,403,800	\$ 916,135	\$ 516,631
Net Pension Liability - 12/31/16	\$ 1,294,417	\$ 768,656	\$ 337,269

In addition, the following presents the net pension liability of the city as of December 31, 2017, calculated using the discount rate of 6.75%, 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 (5.75%)	Current Discount Rate (6.75%)	1% Increase (7.75%)
Net Pension Liability- 12/31/17	\$ 757,147	\$ 212,633	\$ (232,500)

CITY OF WARREN FIREFIGHTERS 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
2008	\$ 79,850	\$ 81,653	\$ (1,803)	\$ 702,840	11.6%
2009	75,251	79,889	(4,638)	-	
2010	73,598	98,339	(24,741)	741,390	13.3%
2011	99,007	107,671	(8,664)	-	
2012	101,786	101,786	-	805,823	12.6%
2013	300,800	300,800	-	-	
2014	255,007	255,007	-	807,829	31.6%
2015	255,310	255,310	-	873,664	29.2%
2016	293,375	293,375	-	940,445	31.2%
2017	298,185	298,185	-	1,039,727	28.7%

* 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.

SCHEDULE OF INVESTMENT RETURNS

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

2017	13.97%
2016	8.67%
2015	1.34%
2014	7.73%

CITY OF WARREN FIREFIGHTERS 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	\$ 1,062,663	\$ 2,115,985	\$ 1,053,322	50.2%
01-01-15	1,848,930	2,734,121	885,191	67.6%
01-01-17	2,642,410	3,180,804	538,394	83.1%

CITY OF WARREN FIREFIGHTERS 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 WARREN FIREFIGHTERS 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	4 years
Asset valuation method	Contract value
Actuarial assumptions:	
Investment rate of return	6.75%
Projected salary increases*	4.50%
Cost-of-living adjustments	None assumed

* Includes inflation at 2.75%

CITY OF WARREN FIREFIGHTERS PENSION PLAN
COMMENT

The city adopted a home rule charter pursuant to the Home Rule Charter and Optional Plans Law, 53 Pa. C.S. §2901 et seq. (previously 53 P.S. §1-101 et seq.). The 5 prior audits for the city's firefighters pension plan covering the years 1997 through 2007, disclosed that the pension plan's governing document includes provisions which are not in compliance with the Third Class City Code. It was noted in the prior audit reports that certain provisions are in excess of Third Class City Code requirements, and certain provisions provide for lesser benefits than mandated by the Third Class City Code. The prior audit report for the period January 1, 2006, to December 31, 2007, recommended that the city restrict pension benefits to those authorized by the Third Class City Code for all employees who began full-time employment on or after January 24, 2001 (the date *Municipality of Monroeville v. Monroeville Police Department Wage Policy Committee* was issued) upon the renewal, extension, or renegotiation of the collective bargaining agreement. To the extent that the city is not in compliance with the Third Class City Code and/or is contractually obligated to provide benefits in excess of those authorized by the Third Class City Code to employees who began employment on or after January 24, 2001, the excess benefits must be reflected in the Act 205 actuarial valuation reports for the plan and funded in accordance with Act 205 funding standards. Furthermore, to the extent that the city has failed to provide benefits which are mandated by the Third Class City Code, it was recommended that the city increase those benefits for all active plan members to the levels prescribed by the code at its earliest opportunity to do so.

The City of Warren has maintained that pension benefits are subject to collective bargaining and interest arbitration processes. In addition, the city has argued that these matters have been the subject of litigation, which included an appeal and Memorandum Opinion issued by the Commonwealth Court. In particular, certain retired firefighters and the International Association of Firefighters appealed the fact that retired firefighters were receiving benefits below the levels established by the Third Class City Code. In concluding that the pension benefits below those required by the Third Class City Code were not void as against public policy, the Court concluded that the retirees and the Union, "through collective bargaining, bargained away their pension rights." This is particularly true, according to the Court when the parties, as here, negotiated the issue of compliance with the Third Class City Code and, ultimately agreed to lesser benefits which cost less than if the plan were entirely Third Class City Code compliant. Furthermore, the City of Warren had an actuarial cost study done of its plan provisions and the cost to bring them into compliance with the Third Class City Code. That cost study revealed that for the police and firefighter plans, it would be more expensive to comply with the Third Class City Code (and the Department's recommendations) than it would to leave the benefits unchanged.

During the prior audit period, the city negotiated a collective bargaining agreement with its firefighters covering the period January 1, 2015, to December 31, 2017, and the plan's governing document remains not in compliance with the Third Class City Code, as noted in the prior audit reports.

CITY OF WARREN FIREFIGHTERS PENSION PLAN
COMMENT

However, on December 21, 2009, the City adopted Ordinance No. 1782, which restated the firefighters pension plan. Through this ordinance, with an effective date of January 1, 2010, changes were made to the following provisions which are now in compliance with the Third Class City Code: Normal Retirement Benefit; Service Requirement for Vesting; Return of Employee Contributions; and the Elimination of the Early Retirement Benefit. In addition, on May 18, 2015, the City adopted Ordinance No. 1855, which changed some provisions for terminations after January 1, 2015.

The Department recognizes that the city is unable to make any unilateral changes to its pension plans due to collective bargaining agreements that have been negotiated. In addition, the Department also recognizes that all of the benefit provisions that deviate from the Third Class City Code do not result in increased pension costs and, to the extent that the city has provided pension benefits which are less than those mandated by the Third Class City Code, it has consequently resulted in lower annual pension costs for the city. However, it remains the Department's position that the city restrict pension benefits to those authorized by the Third Class City Code for all employees who began full-time employment on or after January 24, 2001 (the date *Monroeville* was issued) upon the renewal, extension, or renegotiation of the collective bargaining agreement and to the extent that the city has failed to provide benefits which are mandated by the Third Class City Code, we again recommend that the city increase those benefits for all active plan members to the levels prescribed by the code at its earliest opportunity to do so. Since the city received its state aid allocations based on unit value during the current audit period, the city did not receive any state aid attributable to pension benefits that deviate from the Third Class City Code. We will continue to monitor the city's compliance with the prior audit recommendations and the effect of providing pension benefits not in compliance with the Third Class City Code on the city's state aid allocations during future audits of the plan.

CITY OF WARREN FIREFIGHTERS PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

The Honorable Maurice Cashman
Mayor

Mr. Gregory Fraser
Council Vice-President

Ms. Elissa Davis
Council Member

Mr. Paul Giannini
Council Member

Mr. Philip Gilbert
Council Member

Mr. Richard Kolcharno
Council Member

Mr. James Zavinski, Sr.
Council Member

Ms. Nancy K. Freenock
City Manager

Ms. Donna M. Risinger
Finance Officer

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.