

COMPLIANCE AUDIT

City of Meadville Police Pension Fund

Crawford County, Pennsylvania
For the Period
January 1, 2021 to December 31, 2023

November 2024



Commonwealth of Pennsylvania
Department of the Auditor General

Timothy L. DeFoor • Auditor General



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**TIMOTHY L. DEFOOR
AUDITOR GENERAL**

The Honorable Mayor and City Council
City of Meadville
Crawford County
Meadville, PA 16335

We have conducted a compliance audit of the City of Meadville Police Pension Fund for the period January 1, 2021 to December 31, 2023. We also evaluated compliance with some requirements subsequent to that period when possible. The audit was conducted pursuant to authority derived from the Municipal Pension Plan Funding Standard and Recovery Act (Act 205 of 1984, as amended, 53 P.S. § 895.402(j)), which requires the Auditor General, as deemed necessary, to audit every municipality which receives general municipal pension system state aid and every municipal pension plan and fund in which general municipal pension system state aid is deposited. The audit was not conducted, nor was it required to be, in accordance with Government Auditing Standards issued by the Comptroller General of the United States. We planned and performed 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 fund 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 fund 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 fund as evidenced by supporting documentation. Employer contributions that were deposited into the pension fund for the defined contribution features of the pension fund for the years ended December 31, 2018 to December 31, 2023, are presented on the Summary of Deposited State Aid and Employer Contributions.
- We determined whether annual employee contributions were calculated, deducted, and deposited into the pension fund 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 fund. For the defined contribution features of the pension fund, we also tested individual employee contributions for all ten active employees employed during the year 2021, amounting to \$17,554, all ten active employees employed during the year 2022, amounting to \$16,482, and all six active employees employed during the year 2023, amounting to \$688.
- We determined whether retirement benefits calculated for the plan members who retired during the current audit period (under the defined benefit features of the pension fund) and the plan members who terminated employment and elected a lump-sum form of pension benefit (under the defined contribution features of the pension fund) represent payments to all (and only) those entitled to receive them and were properly determined and disbursed in accordance with the fund's governing document, applicable laws, and regulations by recalculating the amount of the monthly pension benefits due to the retired individuals and comparing these amounts to supporting documentation evidencing amounts determined and actually payable and paid to the recipients.
- We determined whether the January 1, 2021 and January 1, 2023 actuarial valuation reports were prepared and submitted by March 31, 2022 and 2024, 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 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 fund officials.
- We determined whether transfers were properly authorized, timely, and appropriately recorded by plan officials by examining supporting documentation for the transfers made during the audit period.

- 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.

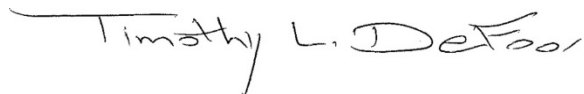
City officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the City of Meadville Police Pension Fund is administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies. As previously described, we tested transactions, interviewed selected officials, and performed procedures to the extent necessary 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 Meadville Police Pension Fund 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 – Ordinance Improperly Amended By Resolution

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 Meadville 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.



Timothy L. DeFoor
Auditor General
September 27, 2024

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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.

Annual state aid allocations are provided from a two 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 Meadville Police Pension Fund is also governed by implementing regulations 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 Meadville Police Pension Fund is a single-employer pension fund locally controlled by the provisions of Article 163 of the city's codified ordinances, adopted pursuant to Act 399 with defined benefit provisions for all police employees hired by December 31, 2014 and included defined contribution features for those police employees (including those collectively bargained) hired after December 31, 2014. Effective February 1, 2023, the police bargained for all the active employees who participated in the defined contribution features of the fund to instead become participants in the defined benefit features of the fund. The pension fund is also affected by the provisions of collective bargaining agreements between the city and its police officers. The pension fund was established December 13, 1949. Under the defined benefit provisions of the fund, active participants are required to contribute 5 percent of base salary into the fund. Until February 1, 2023 when they became defined benefit participants, active participants subject to the defined contribution features of the pension fund were required to contribute 5 percent of base salary into the fund and may also have made voluntary contributions up to 10 percent of base salary as permitted under the Internal Revenue Code. The municipality was required to contribute 7 percent of base salary of participants under the defined contribution features. As of December 31, 2023, the plan (by that time consisting solely of defined benefit participants) had 20 active members, no terminated members eligible for vested benefits in the future, and 29 retirees receiving pension benefits.

CITY OF MEADVILLE POLICE PENSION FUND
FINDING AND RECOMMENDATION

Finding – Ordinance Improperly Amended By Resolution

Condition: The police pension fund, controlled by the provisions of Article 163 of the city’s codified ordinances, was amended by Resolution No. 4 of 2023.

Criteria: In Wynne v. Lower Merion Township, 181 Pa. Superior Ct., 524, the Pennsylvania Superior Court held that an ordinance may be amended only by another ordinance and not by a resolution.

Cause: Municipal officials were not aware that a resolution cannot amend an ordinance.

Effect: The failure to properly adopt the restated pension fund document could result in inconsistent or improper benefit calculations and incorrect benefit payments from the pension fund.

Recommendation: We recommend that the city amend the pension fund’s governing document with a properly executed ordinance.

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

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

CITY OF MEADVILLE POLICE PENSION FUND
(DEFINED BENEFIT)
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, 2019, 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)
01-01-19	\$ 12,841,407	\$ 15,788,379	\$ 2,946,972	81.3%
01-01-21	13,920,146	17,152,291	3,232,145	81.2%
01-01-23	17,929,729	17,896,417	(33,312)	100.2%

Note: The market values of the plan’s assets at 01-01-19, 01-01-21, and 01-01-23 have been adjusted to reflect the smoothing of gains and/or losses over a 4-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.

The city issued a \$7,460,000 general obligation bond in 2022, part of the proceeds of which were deposited into the police pension fund and are reflected in the 01-01-23 valuation.

CITY OF MEADVILLE POLICE PENSION FUND
(DEFINED BENEFIT)
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 MEADVILLE POLICE PENSION FUND
(DEFINED BENEFIT)
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER
AND OTHER CONTRIBUTING ENTITIES

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2018	\$ 447,041	100.0%
2019	472,819	100.0%
2020	654,060	100.0%
2021	630,132	100.0%
2022	255,598	1,286.5%*
2023	322,097	100.0%

* Reflects the deposit of bond proceeds in the amount of \$3,032,743 in addition to the deposit of state aid and municipal contributions equal to the amount of the 2022 annual required contribution.

CITY OF MEADVILLE POLICE PENSION FUND
(DEFINED BENEFIT)
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, 2023
Actuarial cost method	Entry age normal
Amortization method	Not applicable
Remaining amortization period	None
Asset valuation method	Plan assets are valued using the method described in Section 210 of Act 205, as amended, subject to a corridor between 80-120% of the market value of assets.
Actuarial assumptions:	
Investment rate of return	7.5%
Projected salary increases *	3.0%
Cost-of-living adjustments	Discretionary cost-of-living adjustments for those in pay status before January 1, 1998 assumed not to be granted.

* Includes inflation at 2.5%

CITY OF MEADVILLE POLICE PENSION FUND
 (DEFINED CONTRIBUTION)
 SUMMARY OF DEPOSITED STATE AID AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid	Employer Contributions
2018	None	\$ 15,782
2019	None	16,880
2020	None	23,109
2021	None	23,584
2022	None	23,074
2023	None	964

Note: In 2021, the city met the plan's \$24,575 funding requirement through the deposit of \$23,584 in employer contributions and the allocation of \$991 in terminated employee forfeitures.

CITY OF MEADVILLE POLICE PENSION FUND
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Joshua D. Shapiro
Governor
Commonwealth of Pennsylvania

The Honorable Jaime A. Kinder
Mayor

Mr. Larry McKnight
Deputy Mayor

Ms. Maryann Menanno
City Manager

Ms. April Smith
Finance Director

Ms. Diana Dederick
City Controller

Ms. M. Michelle Sampson
City Treasurer

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