

# COMPLIANCE AUDIT

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## City of Washington Comprehensive Municipal Pension Trust Fund Washington County, Pennsylvania For the Period January 1, 2015 to December 31, 2016

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March 2018



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 Washington  
Washington County  
Washington, PA 15301

We have conducted a compliance audit of the City of Washington Comprehensive Municipal Pension Trust Fund for the period January 1, 2015 to December 31, 2016. 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 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 non-uniformed employee 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 individual and comparing these amounts to supporting documentation evidencing amounts determined and actually paid to the recipient.
- We determined whether the January 1, 2013, January 1, 2015 and January 1, 2017 actuarial valuation reports were prepared and submitted to the former Public Employee Retirement Commission (PERC) by March 31, 2014, 2016 and 2018, respectively, in accordance with Act 205 and whether selected information provided on these 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 the pension plan is in compliance with Act 205 for distressed municipalities through inquiry of plan officials and evaluation of the recovery remedies implemented during the audit period.
- We determined whether the terms and methodologies of the issuance of pension obligation bonds by the municipality, and any restrictions were in compliance with plan provisions and Act 205 through inquiry of plan officials and examination of supporting documentation for pension obligation bonds issued during the current 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.

The City of Washington 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 Washington Comprehensive Municipal Pension Trust Fund 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 Washington Comprehensive Municipal Pension Trust Fund 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 Washington 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.

March 16, 2018



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 Washington Comprehensive Municipal Pension Trust Fund is also governed by implementing regulations adopted by the 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 Firefighters Postretirement Adjustment Act, Act of December 14, 1988 (P.L. 1192, No. 147), as amended, 53 P.S. § 896.101 et seq.
- Act 362 - The Third Class City Code, Act of May 23, 1945 (P.L. 903, No. 362), Article XLIII-A, Optional Retirement System for Officers and Employees, as amended, 53 P.S. § 39371 et seq.

The City of Washington Comprehensive Municipal Pension Trust Fund was established by Ordinance No. 1371, effective April 9, 1987. This ordinance required the city to aggregate the assets of its police, officers and employees, and firefighter's pension plans into a single pension trust fund pursuant to Section 607(b) of Act 205.

## **BACKGROUND – (Continued)**

The City of Washington Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 1878, 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 February 19, 1936. Active members are required to contribute 7.5 percent of compensation to the plan plus \$4 per month until age 65. As of December 31, 2016, the plan had 31 active members, no terminated members eligible for vested benefits in the future, and 37 retirees receiving pension benefits from the plan.

The City of Washington Officers and Employees Pension Plan is locally controlled by the provisions of Ordinance No. 556, as amended, adopted pursuant to Act 362. The plan is also affected by the provisions of collective bargaining agreements between the city and its non-uniformed employees. The plan was established January 1, 1950. Active members are required to contribute 3.5 percent of the pay taxed by Social Security and 5.0 percent of pay in excess of the taxable wage base. Participants may contribute 5.0 percent to eliminate the Social Security offset and an extra 1.0 percent for the survivor benefit coverage. Participants hired after December 31, 1992 contribute 5.0 percent monthly plus an extra 1.0 percent for the survivor benefit coverage. As of December 31, 2016, the plan had 26 active members, no terminated members eligible for vested benefits in the future, and 23 retirees receiving pension benefits from the plan.

The City of Washington Firefighter's Pension Plan is locally controlled by the provisions of Ordinance No. 1897, as amended, adopted pursuant to Act 67. The plan is also affected by the provisions of collective bargaining agreements between the city and its firefighters. The plan was established March 1, 1930. Plan members hired prior to January 1, 2003 are required to contribute 5.0 percent of compensation plus an additional \$4 per month to the plan. Plan members hired after January 1, 2003 are required to contribute 6.5 percent of compensation plus an additional \$4 per month to the plan. As of December 31, 2016, the plan had 22 active members, no terminated members eligible for vested benefits in the future, and 33 retirees receiving pension benefits from the plan.

## **BACKGROUND – (Continued)**

### Police Pension Plan

As of December 31, 2016, selected plan benefit provisions are as follows:

#### Eligibility Requirements:

Normal Retirement	If hired prior to January 1, 1994, age 50 and 20 years of service. If hired after January 1, 1994, age 53 and 20 years of service.
Early Retirement	None
Vesting	None

#### Retirement Benefit:

A monthly benefit equal to the greater of 50 percent of monthly salary or final monthly average salary (averaged over the 5 highest years of employment), plus a service increment of 1/40 of the benefit for each full year of continuous service in excess of 20 years, but not including service after age 65. The maximum service increment is \$500 per month.

#### Survivor Benefit:

Before Retirement Eligibility	Refund of member contributions without interest.
After Retirement Eligibility, Disability, or Killed-in-Service	The surviving spouse will receive 100 percent of the participant's benefit until death. In the event of the spouse's death, the participant's dependent children under age 18 will share the benefit.

#### Service Related Disability Benefit:

For total and permanent disablement, 50 percent of base salary at date of disablement.

#### Non-Service Related Disability Benefit:

After completion of 10 years of continuous service, 50 percent of base salary at date of disablement. For disablement that occurs with less than 10 years of continuous service the benefit is 25 percent of base salary.

## **BACKGROUND – (Continued)**

### Officers and Employees Pension Plan

As of December 31, 2016, selected plan benefit provisions are as follows:

#### Eligibility Requirements:

Normal Retirement	If hired prior to January 1, 1993, age 55 and 20 years of service. If hired after January 1, 1993, age 60 and 20 years of service.
Early Retirement	Voluntary termination after 20 years of service and continuation of employee contributions to normal retirement age.
Vesting	Involuntary termination after 12 years of service but before the completion of 20 years of service.

#### Retirement Benefit:

A monthly benefit equal to the greater of 50 percent of monthly salary or 50 percent of average monthly salary averaged over the 5 highest years prior to retirement, less 40 percent of the Social Security primary insurance amount, based on the participant's earnings history as a city employee, for payments after age 65. The benefit reduction does not apply to those participants who contribute 5.0 percent of pay or those hired after December 31, 1992.

#### Survivor Benefit:

Before Retirement Eligibility	Refund of member contributions without interest.
After Retirement Eligibility	A monthly benefit equal to 50 percent of the pension the member was receiving or was entitled to receive on the day of the member's death.

#### Service and Non-Service Related Disability Benefit:

After 15 years of service, a monthly benefit payable for life equal to the normal retirement benefit without regard to reduction for Social Security. The benefit commences at the expiration of insured disability benefits provided by the city.

## **BACKGROUND – (Continued)**

### Firefighter's Pension Plan

As of December 31, 2016, selected plan benefit provisions are as follows:

#### Eligibility Requirements:

Normal Retirement	If hired before January 1, 1994, age 50 and 20 years. If hired after January 1, 1994, age 53 and 20 years.
Early Retirement	None
Vesting	None

#### Retirement Benefit:

A monthly benefit equal to the greater of 50 percent of monthly salary or 50 percent of average monthly salary averaged over the 5 highest years of employment, plus a service increment of 1/40 of the benefit for each full year on continuous service in excess of 20 years, but not including service after age 65. The maximum service is \$400 per month.

#### Survivor Benefit:

Before Retirement Eligibility	Refund of member contributions without interest.
After Retirement Eligibility or Members Killed-in-Service	The surviving spouse will receive 100 percent of the participant's benefit for life. In the event of the spouse's death the participant's dependent children under age 18 will share the benefit.

#### Service Related Disability Benefit:

For total and permanent disablement in the line of duty, 50 percent of base salary at date of disablement.

#### Non-Service Related Disability Benefit:

None

CITY OF WASHINGTON COMPREHENSIVE MUNICIPAL PENSION TRUST FUND  
STATUS OF PRIOR FINDINGS

Compliance With Prior Audit Recommendations

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

POLICE PENSION PLAN

· Inconsistent Service Increment Benefit Provision

The city adopted Ordinance No. 1878 which amended and restated the plan effective January 1, 2016. Specifically, Section 1.30 *Service Increment* was amended to increase the amount to a maximum of \$500. Also, Section 3.01 *Participant Contributions* was amended to require plan members to contribute \$4 towards the service increment benefit. These provisions are now consistent with the provisions of the collective bargaining agreement.

FIREFIGHTERS PENSION PLAN

· Inconsistent Pension Benefit Provisions

The city adopted Ordinance No. 1897 which amended and restated the plan effective January 1, 2016. Specifically, Section 1.22 *Normal Retirement Age* was amended for Participants hired after January 1, 1994 to age 53 and 20 years of continuous service. Also, Section 3.01 *Participant Contributions* was amended to require plan members hired prior to January 1, 2003 to contribute 5% of compensation, and for members hired on or after January 1, 2003, a contribution rate of 6.5% of compensation. Additionally, all members are required to contribute \$4 towards the service increment benefit and Section 1.30 *Service Increment* was amended to provide for a maximum service increment of \$400. Lastly, provisions for a DROP benefit were included in Article XIII. As a result the provisions in the plan document are now consistent with the provisions awarded through collective bargaining and outlined in the agreement.

CITY OF WASHINGTON COMPREHENSIVE MUNICIPAL PENSION TRUST FUND  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

The supplementary information contained on pages 7 through 16 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, 2015 AND 2016

POLICE PENSION PLAN

	<u>2015</u>	<u>2016</u>
Total Pension Liability		
Service cost	\$ 509,583	\$ 535,062
Interest	1,470,814	1,543,447
Difference between expected and actual experience	(398,358)	-
Changes of assumptions	1,113,538	-
Benefit payments, including refunds of member contributions	(1,082,566)	(990,647)
Net Change in Total Pension Liability	<u>1,613,011</u>	<u>1,087,862</u>
Total Pension Liability – Beginning	18,917,589	20,530,600
Total Pension Liability - Ending (a)	<u>\$ 20,530,600</u>	<u>\$ 21,618,462</u>
Plan Fiduciary Net Position		
Contributions – employer	\$ 1,826,222	\$ 1,958,948
Contribution – employee	150,853	180,078
Net investment income	110,052	1,480,756
Benefit payments, including refunds of member contributions	(1,082,566)	(990,647)
Administrative expense	(95,597)	(73,685)
Other	-	(2,915)
Net Change in Plan Fiduciary Net Position	<u>908,964</u>	<u>2,552,535</u>
Plan Fiduciary Net Position – Beginning	16,825,480	17,734,444
Plan Fiduciary Net Position - Ending (b)	<u>\$ 17,734,444</u>	<u>\$ 20,286,979</u>
Net Pension Liability - Ending (a-b)	<u>\$ 2,796,156</u>	<u>\$ 1,331,483</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	86.4%	93.8%
Estimated Covered Employee Payroll	\$ 1,935,541	\$ 2,118,794
Net Pension Liability as a Percentage of Covered Employee Payroll	144.5%	62.8%

CITY OF WASHINGTON COMPREHENSIVE MUNICIPAL PENSION TRUST FUND  
 SUPPLEMENTARY INFORMATION  
 (UNAUDITED)

POLICE PENSION PLAN – (Continued)

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:

	<u>1% Decrease (6.50%)</u>	<u>Current Discount Rate (7.50%)</u>	<u>1% Increase (8.50%)</u>
Net Pension Liability - 12/31/15	\$ 5,410,495	\$ 2,796,156	\$ 627,460
Net Pension Liability - 12/31/16	\$ 4,059,922	\$ 1,331,483	\$ (932,834)

CITY OF WASHINGTON COMPREHENSIVE MUNICIPAL PENSION TRUST FUND  
 SUPPLEMENTARY INFORMATION  
 (UNAUDITED)

POLICE PENSION PLAN – (Continued)

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
2007	\$ 326,747	\$ 326,747	\$ -		
2008	336,804	336,804	-	\$1,648,776	20.4%
2009	372,274	401,278	(29,004)	-	-
2010	585,717	880,971	(295,254)	1,678,323	52.5%
2011	586,603	974,451	(387,848)	-	-
2012	762,644	1,787,014	(1,024,370)	1,967,453	90.8%
2013	781,437	1,715,621	(934,184)	-	-
2014	956,859	1,901,201	(944,342)	2,004,917	94.8%
2015	949,015	1,826,222	(877,207)	1,935,541	94.4%
2016	866,916	1,958,948	(1,092,032)	2,118,794	92.5%

\* 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.

CITY OF WASHINGTON COMPREHENSIVE MUNICIPAL PENSION TRUST FUND  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

SCHEDULE OF CHANGES IN THE NET PENSION  
LIABILITY AND RELATED RATIOS  
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2016

OFFICERS & EMPLOYEES PENSION PLAN

	<u>2015</u>	<u>2016</u>
Total Pension Liability		
Service cost	\$ 101,095	\$ 90,763
Interest	379,029	393,041
Difference between expected and actual experience	(228,342)	-
Benefit payments, including refunds of member contributions	(295,500)	(269,985)
Net Change in Total Pension Liability	(43,718)	213,819
Total Pension Liability – Beginning	5,326,049	5,282,331
Total Pension Liability - Ending (a)	<u>\$ 5,282,331</u>	<u>\$ 5,496,150</u>
Plan Fiduciary Net Position		
Contributions – employer	\$ 102,991	\$ 60,410
Contribution – member	55,475	65,452
Net investment income	33,315	407,148
Benefit payments, including refunds of member contributions	(295,500)	(269,985)
Administrative expense	(33,675)	(26,716)
Other	-	(1,034)
Net Change in Plan Fiduciary Net Position	(137,394)	235,275
Plan Fiduciary Net Position – Beginning	5,479,746	5,342,352
Plan Fiduciary Net Position - Ending (b)	<u>\$ 5,342,352</u>	<u>\$ 5,577,627</u>
Net Pension Liability - Ending (a-b)	<u>\$ (60,021)</u>	<u>\$ (81,477)</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	101.1%	101.5%
Estimated Covered Employee Payroll	\$ 959,031	\$ 991,160
Net Pension Liability as a Percentage of Covered Employee Payroll	(6.3%)	(8.2%)

CITY OF WASHINGTON COMPREHENSIVE MUNICIPAL PENSION TRUST FUND  
 SUPPLEMENTARY INFORMATION  
 (UNAUDITED)

OFFICERS & EMPLOYEES PENSION PLAN – (Continued)

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:

	<u>1% Decrease (6.50%)</u>	<u>Current Discount Rate (7.50%)</u>	<u>1% Increase (8.50%)</u>
Net Pension Liability - 12/31/15	\$ 433,266	\$ (60,021)	\$ (485,357)
Net Pension Liability - 12/31/16	\$ 412,622	\$ (81,477)	\$ (507,789)

CITY OF WASHINGTON COMPREHENSIVE MUNICIPAL PENSION TRUST FUND  
 SUPPLEMENTARY INFORMATION  
 (UNAUDITED)

OFFICERS & EMPLOYEES PENSION PLAN – (Continued)

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
2007	\$ 34,862	\$ 34,862	\$ 0		
2008	37,187	37,187	0	\$ 952,554	3.9%
2009	580	1,744	(1,164)	-	-
2010	87,184	87,184	0	965,709	9.0%
2011	91,909	91,909	0	-	-
2012	87,074	87,074	0	948,580	9.2%
2013	84,112	84,112	0	-	-
2014	107,424	107,424	0	926,945	11.6%
2015	102,991	102,991	0	959,031	10.7%
2016	60,410	60,410	0	991,160	6.1%

\* 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.

CITY OF WASHINGTON COMPREHENSIVE MUNICIPAL PENSION TRUST FUND  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

SCHEDULE OF CHANGES IN THE NET PENSION  
LIABILITY AND RELATED RATIOS  
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2016

FIREFIGHTER'S PENSION PLAN

	<u>2015</u>	<u>2016</u>
Total Pension Liability		
Service cost	\$ 283,749	\$ 297,936
Interest	1,257,827	1,291,172
Difference between expected and actual experience	(191,305)	-
Benefit payments, including refunds of member contributions	(1,128,494)	(1,093,163)
Net Change in Total Pension Liability	<u>221,777</u>	<u>495,945</u>
Total Pension Liability – Beginning	17,232,626	17,454,403
Total Pension Liability - Ending (a)	<u>\$ 17,454,403</u>	<u>\$ 17,950,348</u>
Plan Fiduciary Net Position		
Contributions – employer	\$ 2,324,574	\$ 2,279,055
Contribution – member	81,631	80,926
Net investment income	102,984	1,404,818
Benefit payments, including refunds of member contributions	(1,128,494)	(1,093,163)
Administrative expense	(84,554)	(67,398)
Other	-	(2,551)
Net Change in Plan Fiduciary Net Position	<u>1,296,141</u>	<u>2,601,687</u>
Plan Fiduciary Net Position – Beginning	15,345,206	16,641,347
Plan Fiduciary Net Position - Ending (b)	<u>\$ 16,641,347</u>	<u>\$ 19,243,034</u>
Net Pension Liability - Ending (a-b)	<u>\$ 813,056</u>	<u>\$ 1,292,686</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	95.3%	107.2%
Estimated Covered Employee Payroll	\$ 1,388,595	\$ 1,350,419
Net Pension Liability as a Percentage of Covered Employee Payroll	58.6%	(95.7%)

CITY OF WASHINGTON COMPREHENSIVE MUNICIPAL PENSION TRUST FUND  
 SUPPLEMENTARY INFORMATION  
 (UNAUDITED)

FIREFIGHTER’S PENSION PLAN – (Continued)

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	\$ 2,874,536	\$ 813,056	\$ (905,327)
Net Pension Liability - 12/31/16	\$ 816,419	\$ (1,292,685)	\$ (3,051,700)

CITY OF WASHINGTON COMPREHENSIVE MUNICIPAL PENSION TRUST FUND  
 SUPPLEMENTARY INFORMATION  
 (UNAUDITED)

FIREFIGHTER’S PENSION PLAN – (Continued)

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
2007	\$ 209,548	\$ 209,548	\$ -	-	-
2008	203,118	203,118	-	\$1,130,905	18.0%
2009	381,069	439,950	(58,881)	-	-
2010	944,391	1,406,198	(461,807)	1,185,334	118.6%
2011	955,465	1,562,100	(606,635)	-	-
2012	978,304	2,514,859	(1,536,555)	1,253,571	200.6%
2013	980,346	2,381,621	(1,401,275)	-	-
2014	1,016,657	2,433,170	(1,416,513)	1,295,402	187.8%
2015	1,008,765	2,324,574	(1,315,809)	1,388,595	167.4%
2016	641,006	2,279,055	(1,638,049)	1,350,419	168.8%

\* 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.

CITY OF WASHINGTON COMPREHENSIVE MUNICIPAL PENSION TRUST FUND  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

SCHEDULE OF INVESTMENT RETURNS

COMBINED PENSION PLANS:

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

2016	8.08%
2015	0.66%
2014	6.05%

CITY OF WASHINGTON COMPREHENSIVE MUNICIPAL PENSION TRUST FUND  
 SUPPLEMENTARY INFORMATION  
 (UNAUDITED)

Historical trend information about the plans is presented herewith as supplementary information. It is intended to help users assess the plans' 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:

POLICE PENSION PLAN

	(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	\$ 12,207,166	\$ 17,424,085	\$ 5,216,919	70.1%
01-01-15	16,423,434	19,632,769	3,209,335	83.7%
01-01-17	20,837,084	24,568,481	3,731,397	84.8%

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 4-year averaging period, final value is limited to no less than 80% and no greater than 120% of market value. 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 WASHINGTON COMPREHENSIVE MUNICIPAL PENSION TRUST FUND  
 SUPPLEMENTARY INFORMATION  
 (UNAUDITED)

SCHEDULES OF FUNDING PROGRESS – (Continued)

OFFICERS AND EMPLOYEES PENSION PLAN

	(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	\$ 4,741,618	\$ 4,875,406	\$ 133,788	97.3%
01-01-15	5,361,771	5,097,707	(264,064)	105.2%
01-01-17	5,779,454	5,875,563	96,109	98.4%

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 4-year averaging period, final value is limited to no less than 80% and no greater than 120% of market value. 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 WASHINGTON COMPREHENSIVE MUNICIPAL PENSION TRUST FUND  
 SUPPLEMENTARY INFORMATION  
 (UNAUDITED)

SCHEDULES OF FUNDING PROGRESS – (CONTINUED)

FIREFIGHTER’S PENSION PLAN

	(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	\$ 10,088,025	\$ 16,373,346	\$ 6,285,321	61.6%
01-01-15	14,957,228	17,041,321	2,084,093	87.8%
01-01-17	19,720,717	20,120,239	399,522	98.0%

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 4-year averaging period, final value is limited to no less than 80% and no greater than 120% of market value. 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 WASHINGTON COMPREHENSIVE MUNICIPAL PENSION TRUST FUND  
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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 WASHINGTON COMPREHENSIVE MUNICIPAL PENSION TRUST FUND  
NOTES TO SUPPLEMENTARY SCHEDULES  
(UNAUDITED)

POLICE PENSION PLAN

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	9 years (aggregate)
Asset valuation method	Fair value, 4-year smoothing
Actuarial assumptions:	
Investment rate of return*	6.5%, net of investment expenses
Projected salary increases *	5.0%, the final year of salary is assumed to increase by an additional 50% of traditionally large increase in the year of retirement.

\* Includes inflation at 3.0%

CITY OF WASHINGTON COMPREHENSIVE MUNICIPAL PENSION TRUST FUND  
NOTES TO SUPPLEMENTARY SCHEDULES  
(UNAUDITED)

OFFICERS AND EMPLOYEES PENSION PLAN

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	12 years
Asset valuation method	Fair value, 4-year smoothing
Actuarial assumptions:	
Investment rate of return*	6.5%, net of investment expenses.
Projected salary increases *	4.5%

\* Includes inflation at 3.0%

CITY OF WASHINGTON COMPREHENSIVE MUNICIPAL PENSION TRUST FUND  
NOTES TO SUPPLEMENTARY SCHEDULES  
(UNAUDITED)

FIREFIGHTER'S PENSION PLAN

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	2 years (aggregate)
Asset valuation method	Fair value, 4-year smoothing
Actuarial assumptions:	
Investment rate of return*	6.5%, net of investment expenses
Projected salary increases *	4.75%, the final year of salary is assumed to increase by an additional 50% of traditionally large increase in the year of retirement.

\* Includes inflation at 3.0%

CITY OF WASHINGTON COMPREHENSIVE MUNICIPAL PENSION TRUST FUND  
COMMENTS

As previously noted in the prior audit report, the City of Washington Police and Firefighter’s Pension Plans are governed by local ordinances adopted pursuant to Act 67, the Third Class City Code. With regard to the determination of pension benefits for police officers, Section 14303 of the Third Class City Code states, in part:

Allowance and service increments.

(a) Allowance. A payment for an allowance shall only be a charge on the police pension fund and may not be a charge on another fund under the control of or in the city treasury.

(b) Apportionment of the pension. The basis of the apportionment of the pension:

(1) Shall be determined by the rate of the monthly pay of the member at the date of injury, death, honorable discharge, vesting under section 14302.1 (relating to limited vested benefit) or retirement, or the highest average annual salary that the member received during any five years of service preceding injury, death, honorable discharge, vesting under section 14302.1 or retirement, whichever is higher. [Emphasis added.]

(2) Except as to service increments provided for in subsection (d), may not exceed in a year one-half the annual pay of the member computed at the monthly or average annual rate, whichever is higher.

Although the Third Class City Code does not contain a definition for the term “pay”, Section 14300(b) does define the term salary as follows:

“Salary.” The fixed amount of compensation paid at regular, periodic intervals by the city to the member and from which pension contributions have been deducted.

Ordinance No. 1878 at Section 4.02 states, in part:

Normal Retirement Benefit – Each Participant who shall become entitled to a benefit pursuant to section 4.01 shall receive a benefit paid monthly in an amount equal to fifty percent (50%) of the Participant’s Final Monthly Average Salary as determined herein.

Ordinance No. 1878 at Section 1.20 states, in part:

“Final Monthly Average Salary” shall mean the rate of monthly Compensation of the Participant as of the date of retirement or the highest average annual Compensation which the participant received during any five (5) Years of Aggregate Service preceding his termination of active Employment, whichever is the greater amount.

CITY OF WASHINGTON COMPREHENSIVE MUNICIPAL PENSION TRUST FUND  
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Ordinance No. 1878 at Section 1.12 states:

“Compensation” shall mean the total amount of a Participant’s earnings, received or receivable during the Participant’s Employment with the City as an Employee.

The City’s practice is to calculate the police officers’ pension benefits based on the amount of the retiree’s final month’s pay. This includes regular monthly pay plus overtime, holiday pay and additional pay for roadwork projects (calculated at \$50 per hour) that a police officer accumulates in their final month of employment.

Our prior audit reports disclosed that four police officers retired during previous audit periods and during the final month of their respective employments, in addition to their regular hours, the police officers accumulated additional overtime, holiday and roadwork hours that were included in their final monthly earnings. As a result, the effect of using the retiree’s final month’s accumulated earnings to determine the retiree’s pension benefits instead of using the retiree’s regular monthly base pay to determine the retiree’s monthly pension benefit resulted in 3 of the 4 retirees receiving pension benefits that exceeded the amount of the total base pay the former officers earned during their respective employment with the City.

With regard to the determination of pension benefits for firefighters, Section 14322(a)(2) of the Third Class City Code states:

The basis of the pension of a member shall be determined by the monthly salary of the member at the date of vesting under section 14320.1 (relating to limited vested benefit for firefighters) or retirement or the highest average annual salary which the member received during any five years of service preceding retirement, whichever is higher, whether for disability or by reason of age or service, and, except as to service increments provided for in subsection (b), shall be one-half the annual salary of the member at the time of vesting under section 14320.1 or retirement computed at the monthly or average annual rate, whichever is higher. [Emphasis added.]

Furthermore, Section 14319 of the Third Class City Code states, in part:

“Salary.” The fixed amount of compensation paid at regular, periodic intervals by the city to the member and from which pension contributions have been deducted.

CITY OF WASHINGTON COMPREHENSIVE MUNICIPAL PENSION TRUST FUND  
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Ordinance No. 1897 at Section 4.02 states, in part:

Normal Retirement Benefit – Each Participant who shall become entitled to a benefit pursuant to section 4.01 shall receive a benefit paid monthly in an amount equal to fifty percent (50%) of the Participant’s Final Monthly Average Salary as determined herein.

Ordinance No. 1897 at Section 1.20 states, in part:

“Final Monthly Average Salary” shall mean the rate of monthly Compensation of the Participant as of the date of retirement or the highest average annual Compensation which the participant received during any five (5) Years of Aggregate Service preceding his termination of active Employment, whichever is the greater amount.

Ordinance No. 1897 at Section 1.12 states:

“Compensation” shall mean the total amount of a Participant’s earnings, received or receivable during the Participant’s Employment with the City as an Employee.

The City’s practice is to calculate pension benefits based on the firefighter’s final monthly compensation which includes any overtime and holiday pay that a firefighter accumulates in their final month of employment. As disclosed in prior audit reports, 2 retired firefighters’ pension benefit calculations were determined based on the firefighter’s final monthly compensation which resulted in monthly pension benefits which far exceeded 50% of the base pay earned by one firefighter during his employment with the City and exceeded base pay earned by the other firefighter during his employment with the City.

As of our fieldwork completion, there were no additional retirees for either the police or the firefighters’ pension plans.

Although the funding status of the City’s pension plans has vastly improved, this improvement is primarily attributable to the City’s implementation of the Special Tax authorized by Act 205. We continue to encourage city officials to review the methodology used to calculate pension benefits for its police officers and firefighters. Although it appears the City is actuarially funding for the increases in the salaries of employees in their final year of employment, the City’s practice of allowing police officers and firefighters the opportunity to accumulate large amounts of overtime and other forms of compensation during their last month of employment and including that compensation in the calculation of pension benefits has created apparent windfalls for some retirees and significantly increased the required municipal contributions to the pension funds to

CITY OF WASHINGTON COMPREHENSIVE MUNICIPAL PENSION TRUST FUND  
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maintain their financial stability. We also continue to urge city officials, as plan fiduciaries, to review their methodology for determining pension benefits for its police officers and firefighters in order to ensure future pension benefits are determined in accordance with the provisions and intent of the Third Class City Code, which will ultimately benefit the City of Washington and its taxpayers.

CITY OF WASHINGTON COMPREHENSIVE MUNICIPAL PENSION TRUST FUND  
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This report was initially distributed to the following:

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