



**CITY OF WASHINGTON COMPREHENSIVE
MUNICIPAL PENSION TRUST FUND**

WASHINGTON COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2010 TO DECEMBER 31, 2011

COMMONWEALTH OF PENNSYLVANIA

EUGENE A. DEPASQUALE - AUDITOR GENERAL

DEPARTMENT OF THE 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, 2010 to December 31, 2011. 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 findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and 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 trust 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 objectives identified above. Our methodology addressed determinations about the following:

- Whether state aid was properly determined and deposited in accordance with Act 205 requirements.
- Whether employer contributions are determined and deposited in accordance with the plans' governing documents and applicable laws and regulations.
- Whether employee contributions are required and, if so, are determined, deducted and deposited into the pension plans and are in accordance with the plan provisions and applicable laws and regulations.

- Whether benefit payments, if any, represent payments to all (and only) those entitled to receive them and are properly determined in accordance with applicable laws and regulations.
- Whether obligations for plan benefits are accurately determined in accordance with plan provisions and based on complete and accurate participant data; and whether actuarial valuation reports are prepared and submitted to the Public Employee Retirement Commission (PERC) in accordance with state law and 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.
- Whether the special ad hoc postretirement adjustment granted to eligible pensioners is in accordance with applicable laws and regulations and whether the ad hoc reimbursement received by the municipality was treated in accordance with applicable laws and regulations.
- Whether benefit payments have only been made to living recipients, based on the Social Security numbers found in the pension records for retirees and beneficiaries.
- Whether refunds are made to eligible members in accordance with the plan provisions and applicable laws and regulations.
- Whether the pension trust fund is in compliance with state regulations for distressed municipalities.
- Whether the terms and methodologies of the issuance of bonds by the municipality, and any restrictions are in compliance with plan provisions and state regulations.

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, 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 tests 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, except as noted in the following findings further discussed later in this report:

Police and Firefighter’s Pension Plans:

- Finding No. 1 – Incorrect Data On Certification Form AG 64 Resulting In An Excess Reimbursement For Special 2002 Ad Hoc Postretirement Adjustment

Police Pension Plan:

- Finding No. 2 – Inconsistent Service Increment Benefit Provision
- Finding No. 3 – Inconsistent Pension Benefit Calculation

As previously noted, one of the objectives of our audit of the City of Washington Comprehensive Municipal Pension Trust Fund was to determine compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies. Act 205 was amended on September 18, 2009, through the adoption of Act 44 of 2009. Among several provisions relating to municipal pension plans, the bill provides for the implementation of a distress recovery program. Three levels of distress have been established:

<u>Level</u>	<u>Indication</u>	<u>Funding Criteria</u>
I	Minimal distress	70-89%
II	Moderate distress	50-69%
III	Severe distress	Less than 50%

The data from the January 1, 2011, actuarial valuation reports filed with the Public Employee Retirement Commission (PERC) for the city’s police, officers and employees, and firefighter’s plans contained the following aggregated funding data:

<u>Actuarial Valuation of Assets</u>	<u>Actuarial Accrued Liability</u>	<u>Funding Ratio</u>
\$ 21,323,442	\$ 33,857,451	63%

Based on this information, PERC issued a notification that **the City of Washington Comprehensive Municipal Pension Trust Fund is currently in Level II moderate distress status.**

The accompanying supplementary information is presented for purposes of additional analysis. We did not audit the information or conclude on it and, accordingly, express no form of assurance on it. However, we are extremely concerned about the historical trend information contained in the respective schedules of funding progress included in this report which indicate a decline of assets available to satisfy the long-term liabilities of the city's police and firefighter's pension plans. For example, **the police pension plan's funded ratio went from a high of 84.4% as of January 1, 2007, to a ratio of 66.3% as of January 1, 2011. Similarly, the firefighter's pension plan's funded ratio went from 77.2% as of January 1, 2007, to a ratio of 49.0% as of January 1, 2011. In addition, the required contributions to fund the police pension plan in accordance with Act 205 funding standards have increased from \$146,180 in 2006 to \$586,603 in 2011, while the required contributions to fund the firefighter's plan have increased from \$130,211 to \$955,465 over the same time period.** We encourage city officials to monitor the funding of its pension plans to ensure their long-term financial stability.

The deterioration of the plans' funded status has been exacerbated, as noted in the Comments section of this audit report, by the City's practice of determining pension benefits for its police officers and firefighters based on their final months accumulated earnings, which include overtime, holiday pay and additional payments for special assignments. This methodology has resulted in pension benefit determinations that approximate the respective retirees' final annual base pay. We encourage city officials to make fiscally responsible decisions as plan fiduciaries that will benefit the City of Washington and its taxpayers to ensure the city's pension plans have adequate resources to meet current and future benefit obligations to the city's hard working police officers and firefighters that are determined in accordance with the provisions and the intent of the Third Class City Code.

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.

February 22, 2013



EUGENE A. DEPASQUALE
Auditor General

CONTENTS

	<u>Page</u>
Background.....	1
Status of Prior Findings	3
Findings and Recommendations:	
Finding No. 1 – Incorrect Data On Certification Form AG 64 Resulting In An Excess Reimbursement For Special 2002 Ad Hoc Postretirement Adjustment	4
Finding No. 2 – Inconsistent Service Increment Benefit Provision	6
Finding No. 3 – Inconsistent Pension Benefit Calculation	7
Supplementary Information	9
Comments	19
Management’s Response	23
Auditor’s Conclusion	24
Report Distribution List	25

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 147 - Special Ad Hoc Municipal Police and Firefighter Postretirement Adjustment Act, Act of December 14, 1988 (P.L. 1192, No. 147), as amended, 53 P.S. § 896.101 et seq.
- Act 317 - The Third Class City Code, Act of June 23, 1931 (P.L. 932, No. 317), as amended, 53 P.S. § 35101 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.

The City of Washington Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 324, as amended, adopted pursuant to Act 317. The plan is also affected by the provisions of collective bargaining agreements between the city and its police officers.

BACKGROUND - Continued

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 City of Washington Firefighter's Pension Plan is locally controlled by the provisions of Ordinance No. 1265, as amended, adopted pursuant to Act 317. The plan is also affected by the provisions of collective bargaining agreements between the city and its firefighters.

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

· Failure To Adjust Pension Benefit

City officials adjusted the retiree's monthly pension benefit to the correct amount.

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

During the current audit period, city officials established adequate internal control procedures to ensure compliance with the instructions that accompany Certification Form AG 385 and accurately reported the required pension data.

CITY OF WASHINGTON COMPREHENSIVE MUNICIPAL PENSION TRUST FUND
FINDINGS AND RECOMMENDATIONS

Police and Firefighter’s Pension Plans

Finding No. 1 – Incorrect Data On Certification Form AG 64 Resulting In An Excess Reimbursement For Special 2002 Ad Hoc Postretirement Adjustment

Condition: The city overstated the total non-employee contributions made to all pension plans on the Certification Forms AG 64 filed for 2011 and 2012.

Criteria: Section 502.1(a)(2) of Act 147 states, in part:

The determination of the reimbursable amount of the amortization contribution requirement attributable to the special ad hoc postretirement adjustment under Chapter 4 in any year shall be calculated as the amortization contribution requirement attributable to the special ad hoc postretirement adjustments under Chapter 4 and reflected in the determination of the financial requirements of the pension plan under Chapter 3 of the Municipal Pension Plan Funding Standard and Recovery Act for the immediate prior year less the product of that amortization contribution requirement multiplied by the ratio of the amount of general municipal pension system State aid allocated to the retirement system in the immediate prior year to the total amount of municipal contributions made to the retirement system from all sources other than employee contributions in the immediate prior year. (Emphasis added)

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

Effect: The data submitted on these certification forms is used to calculate the reimbursement due to the city for ad hoc postretirement adjustments granted pursuant to Chapter 4 of Act 147. The effect of the incorrect certifications on the city’s reimbursements is identified below:

<u>Year</u>	<u>Reimbursement Claimed</u>	<u>Reimbursement Due</u>	<u>Excess Reimbursement</u>
2011	\$ 17,817	\$ 17,276	\$ 541
2012	16,518	16,462	<u>56</u>
		Total	<u>\$ 597</u>

CITY OF WASHINGTON COMPREHENSIVE MUNICIPAL PENSION TRUST FUND
FINDINGS AND RECOMMENDATIONS

Police and Firefighter’s Pension Plans – (Continued)

Finding No. 1 – (Continued)

Recommendation: We recommend that the total excess reimbursement, in the amount of \$597, be returned to the Commonwealth. A check in this amount, with interest compounded annually from date of receipt to date of repayment, at a rate earned by the pension plan, should be made payable to: Commonwealth of Pennsylvania and mailed to: Department of the Auditor General, Municipal Pension & Fire Relief Programs Unit, 320 Finance Building, Harrisburg, PA 17120. A copy of the interest calculation must be submitted along with the check.

We also recommend that in the future, plan officials comply with the instructions that accompany Certification Form AG 64 to assist them in accurately reporting the required pension data.

Management’s Response: City officials agreed with the finding without exception. Subsequent to the current audit period, the city reimbursed \$791 to the Commonwealth for the overpayment of the ad hoc postretirement adjustment.

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

CITY OF WASHINGTON COMPREHENSIVE MUNICIPAL PENSION TRUST FUND
FINDINGS AND RECOMMENDATIONS

Police Pension Plan

Finding No. 2 – Inconsistent Service Increment Benefit Provision

Condition: The police pension plan’s governing document contains a service increment benefit provision that conflicts with the collective bargaining agreement between the police officers and the city as illustrated below:

<u>Benefit Provision</u>	<u>Governing Document – Codified Ordinance</u>	<u>Collective Bargaining Agreement</u>
Service increment	<p>Section 833(5)(D) states each member who becomes entitled to a pension benefit shall become entitled to payment of a service increment benefit which shall be equal to the number of whole years in excess of twenty (20) years of continuous service. No service increment benefit shall be paid to a member which is in excess of one hundred dollars (\$100.00) per month.</p> <p>Section 824(2) states in addition to the amount provided in 824(1), there shall also be deducted a service increment contribution from the wage of each member of the plan under the age of sixty-five (65) years. Such payment shall be equal to one half of one percent (1/2%) of the wage of each member of the plan but shall not in any case exceed the sum of one dollar (\$1.00) per month.</p>	<p>Section 16.5 states the parties agree to raise the retirement increments from \$100.00 to \$500.00 maximum. The Employee contribution shall be \$4.00 per month.</p>

The plan’s actuarial valuation report form 201C, with a valuation date of January 1, 2011, reported the service increment benefit provision included in the collective bargaining agreement.

In addition, the service increments included in the pension benefits for police officers are currently being determined in accordance with the provisions contained in the collective bargaining agreement.

CITY OF WASHINGTON COMPREHENSIVE MUNICIPAL PENSION TRUST FUND
FINDINGS AND RECOMMENDATIONS

Police Pension Plan – (Continued)

Finding No. 2 – (Continued)

Criteria: The plan's governing document and the collective bargaining agreement should contain a consistent service increment benefit provision to ensure the sound administration of retirement benefits.

Cause: City officials failed to establish adequate internal control procedures to ensure the plan's governing document and the collective bargaining agreement contained a consistent service increment benefit provision.

Effect: Inconsistent plan documents could result in inconsistent or improper benefit calculations and incorrect benefit payments from the pension plan.

Recommendation: We recommend that city officials take appropriate action to ensure the plan's governing document and the collective bargaining agreement contain a consistent service increment benefit provision at their earliest opportunity to do so.

Management's Response: City officials agreed with finding without exception.

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

Finding No. 3 – Inconsistent Pension Benefit Calculation

Condition: The city determined the monthly pension benefit for a police officer who retired on March 19, 2011, based on 100 percent of his base pay, excluding longevity payments. This resulted in the member's pension benefit being calculated at \$4,615 per month. As noted in the Comments section of this audit report, the city has determined pension benefits for other police officers who retired during and subsequent to the current audit period differently and based their pensions on their final months accumulated earnings, which included overtime, holiday pay and additional payments for special assignments. We question whether it is appropriate to use inconsistent methods to calculate pension benefits and to determine pension benefits based on the final month's accumulated earnings. Our concerns regarding this methodology are raised on page 19 of this report.

Criteria: Codification Ordinance, at Section No. 833(5)(C), states, in part:

A member entitled to a pension benefit shall receive during his lifetime a monthly retirement income which shall be equal to one-half (1/2) of his final monthly average salary.

CITY OF WASHINGTON COMPREHENSIVE MUNICIPAL PENSION TRUST FUND
FINDINGS AND RECOMMENDATIONS

Police Pension Plan – (Continued)

Finding No. 3 – (Continued)

In addition, Codification Ordinance, at Section No. 833(1), states, in part:

Final Monthly Average Salary shall mean the rate of monthly pay of the Member as of the date of retirement or the highest average annual salary which the Member received during any five (5) Years of Continuous Service preceding his date or retirement, whichever is the greater amount.

Effect: Pension benefits for retired police officers are not determined using a consistent methodology. As noted in the Comments section of this report, in some instances as a result of the methodology that was used certain retirees receive a pension benefit in excess of 100 percent of their base pay including longevity.

Cause: City officials failed to establish adequate internal control procedures to ensure that all pension benefits are determined using a consistent methodology.

Recommendation: We recommend that city officials review the pension benefit calculations for the police officers who retired during and subsequent to the current audit period to determine the appropriate monthly pension benefits due to the police officers.

We also recommend, as noted in the Comments section of this audit report, that city officials undertake a comprehensive review of their methodology for determining pension benefits to ensure all future pension benefits are determined in accordance with the provisions and the intent of the Third Class City Code.

Management's Response: See Management's Response following the Comments section of this report.

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

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

SCHEDULES 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, 2007, is as follows:

POLICE PENSION PLAN

	(1)	(2)	(3)	(4)	(5)	(6)
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)	Covered Payroll (c)	Unfunded (Assets in Excess of) Actuarial Accrued Liability as a % of Payroll [(b-a)/(c)]
01-01-07	\$ 9,772,555	\$ 11,581,107	\$ 1,808,552	84.4%	\$ 1,479,398	122.2%
01-01-09	8,707,968	12,413,749	3,705,781	70.1%	1,648,776	224.8%
01-01-11	9,803,517	14,783,415	4,979,898	66.3%	1,678,323	296.7%

Note: The market values of the plan's assets at 01-01-07, 01-01-09 and 01-01-11, have been adjusted to reflect the smoothing of gains and/or losses over a 4-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 WASHINGTON COMPREHENSIVE MUNICIPAL PENSION TRUST FUND
 SUPPLEMENTARY INFORMATION
 (UNAUDITED)

SCHEDULES OF FUNDING PROGRESS – (Continued)

OFFICERS AND EMPLOYEES PENSION PLAN

	(1)	(2)	(3)	(4)	(5)	(6)
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)	Covered Payroll (c)	Unfunded (Assets in Excess of) Actuarial Accrued Liability as a % of Payroll [(b-a)/(c)]
01-01-07	\$ 4,520,168	\$ 3,880,102	\$ (640,066)	116.5%	\$ 1,025,252	(62.4%)
01-01-09	4,032,473	4,181,183	148,710	96.4%	952,554	15.6%
01-01-11	4,374,671	4,487,322	112,651	97.5%	965,709	11.7%

Note: The market values of the plan's assets at 01-01-07, 01-01-09 and 01-01-11, have been adjusted to reflect the smoothing of gains and/or losses over a 4-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 WASHINGTON COMPREHENSIVE MUNICIPAL PENSION TRUST FUND
 SUPPLEMENTARY INFORMATION
 (UNAUDITED)

SCHEDULES OF FUNDING PROGRESS – (Continued)

FIREFIGHTER’S PENSION PLAN

	(1)	(2)	(3)	(4)	(5)	(6)
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)	Covered Payroll (c)	Unfunded (Assets in Excess of) Actuarial Accrued Liability as a % of Payroll [(b-a)/(c)]
01-01-07	\$ 8,424,205	\$ 10,906,947	\$ 2,482,742	77.2%	\$ 986,185	251.8%
01-01-09	6,546,865	14,070,089	7,523,224	46.5%	1,130,905	665.2%
01-01-11	7,145,254	14,586,714	7,441,460	49.0%	1,185,334	627.8%

Note: The market values of the plan’s assets at 01-01-07, 01-01-09 and 01-01-11, have been adjusted to reflect the smoothing of gains and/or losses over a 4-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 WASHINGTON COMPREHENSIVE MUNICIPAL PENSION TRUST FUND
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.

Trends in unfunded (assets in excess of) actuarial accrued liability and annual covered payroll are both affected by inflation. Expressing the unfunded (assets in excess of) actuarial accrued liability as a percentage of annual covered payroll (Column 6) approximately adjusts for the effects of inflation and aids analysis of the plan's progress made in accumulating sufficient assets to pay benefits when due. Generally, where there is an unfunded actuarial accrued liability, the smaller this percentage, the stronger the plan. When assets are in excess of the actuarial accrued liability, the higher the bracketed percentage, the stronger the plan.

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

SCHEDULES OF CONTRIBUTIONS FROM EMPLOYER
 AND OTHER CONTRIBUTING ENTITIES

POLICE PENSION PLAN

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2006	\$ 146,180	100.0%
2007	326,747	100.0%
2008	336,804	100.0%
2009	372,274	107.8%
2010	585,717	150.4%
2011	586,603	166.1%

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

SCHEDULES OF CONTRIBUTIONS FROM EMPLOYER
 AND OTHER CONTRIBUTING ENTITIES

OFFICERS AND EMPLOYEES PENSION PLAN

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2006	\$ 23,832	100.0%
2007	34,862	100.0%
2008	37,187	100.0%
2009	580	300.6%
2010	87,184	100.0%
2011	91,909	100.0%

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

SCHEDULES OF CONTRIBUTIONS FROM EMPLOYER
AND OTHER CONTRIBUTING ENTITIES

FIREFIGHTER'S PENSION PLAN

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2006	\$ 130,211	100.0%
2007	209,548	100.0%
2008	203,118	100.0%
2009	381,069	115.5%
2010	944,391	148.9%
2011	955,465	163.5%

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

The information presented in the required supplementary schedules was determined as part of the actuarial valuation at the date indicated. Additional information as of the latest actuarial valuation date follows:

POLICE PENSION PLAN

Actuarial valuation date	January 1, 2011
Actuarial cost method	Entry age normal
Amortization method	Level dollar, closed
Remaining amortization period	14 years (aggregate)
Asset valuation method	Fair value, 4-year smoothing
Actuarial assumptions:	
Investment rate of return	8.0%
Projected salary increases *	5.0%

* Includes inflation at 3.0%

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

OFFICERS AND EMPLOYEES PENSION PLAN

Actuarial valuation date	January 1, 2011
Actuarial cost method	Entry age normal
Amortization method	Level dollar, closed
Remaining amortization period	17 years (aggregate)
Asset valuation method	Fair value, 4-year smoothing
Actuarial assumptions:	
Investment rate of return	8.0%
Projected salary increases *	5.0%

* Includes inflation at 3.0%

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

FIREFIGHTER'S PENSION PLAN

Actuarial valuation date	January 1, 2011
Actuarial cost method	Entry age normal
Amortization method	Level dollar, closed
Remaining amortization period	16 years (aggregate)
Asset valuation method	Fair value, 4-year smoothing
Actuarial assumptions:	
Investment rate of return	8.0%
Projected salary increases *	5.0%

* Includes inflation at 3.0%

CITY OF WASHINGTON COMPREHENSIVE MUNICIPAL PENSION TRUST FUND
COMMENTS

As previously noted in this audit report, the City of Washington Police and Firefighter's Pension Plans are governed by local ordinances adopted pursuant to Act 317, the Third Class City Code. With regard to the determination of pension benefits for police officers, Section 4303 of the Third Class City Code states:

Allowances and Service Increments. (a) Payments for allowances shall not be a charge on any other fund in the treasury of the city or under its control save the police pension fund herein provided for. The basis of the apportionment of the pension shall be determined by the rate of the monthly pay of the member at the date of injury, death, honorable discharge, vesting under section 4302.1 or retirement, or the highest average annual salary which the member received during any five years of service preceding injury, death, honorable discharge, vesting under section 4302.1 or retirement, whichever is the higher, and except as to service increments provided for in subsection (b) of this section, shall not in any case exceed in any year one-half the annual pay of such member computed at such monthly or average annual rate, whichever is the higher. (Emphasis added)

Although the Code does not contain a definition for the term "pay", at Section 4309, the Code defines the term salary as follows:

Definitions. As used in this subdivision, the term "salary" is defined as the fixed amount of compensation paid at regular, periodic intervals by the city to the member and from which pension contributions have been deducted.

The city's practice has been 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 his or her final month of employment.

During and subsequent to the current audit period, four police officers retired on non-disability normal retirement pensions. During the final month of their respective employments, in addition to their regular hours, the police officers accumulated the following number of additional hours that were included in their final monthly earnings. The additional hours included overtime, holiday and roadwork hours.

CITY OF WASHINGTON COMPREHENSIVE MUNICIPAL PENSION TRUST FUND
COMMENTS

Retiree	Total Additional Hours	Overtime Hours	Holiday Pay Hours	Roadwork Pay Hours
1	145.5	24.0	75.0	46.5
2	111.0	83.0	18.0	10.0
3	127.0	29.0	0.0	98.0
4	77.5	21.5	16.0	40.0

The following chart illustrates the effect that 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 has on the pension calculation and ultimately the pension plan and the amount of money needed to fund it.

Retiree – Full Years of Service	Additional Final Monthly Earnings for extra hours	Annual Base Pay per contract (including longevity)	Annual Pension Benefit**	Monthly Pension Benefit**	Monthly Pension without Additional Final Monthly Earnings Included**	Excess Monthly Pension Benefit due to earnings for extra hours**
1 - 36	\$ 5,917	\$ 68,137	\$ 75,624	\$ 6,302	\$ 3,344	\$ 2,958
2 - 23	\$ 4,623	\$ 60,176	\$ 62,460	\$ 5,205	\$ 2,894	\$ 2,311
3* - 22	\$ 6,127	\$ 58,427	\$ 55,380	\$ 4,615	\$ 2,664	\$ 1,951
4 – 22	\$ 3,355	\$ 58,427	\$ 50,592	\$ 4,216	\$ 2,588	\$ 1,628

Through the inclusion of large amounts of additional compensation in the police officers’ final monthly earnings, some retirees are receiving pension benefits that exceed the amount of the total base pay they earned during their employment with the city.

* See Finding

** The final monthly pension benefits include service increments determined pursuant to the Third Class City Code, which authorizes additional pension benefits based upon completed years of service in excess of 20 years, not to exceed \$500 per month.

CITY OF WASHINGTON COMPREHENSIVE MUNICIPAL PENSION TRUST FUND
COMMENTS

With regard to the determination of pension benefits for firefighters, Section 4322(a) of the Third Class City Code states, in part:

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 4320.1 or retirement, or the highest average annual salary which he received during any five years of service preceding retirement, whichever is the higher, whether for disability, or by reason of age or service, and except as to service increments provided for in subsection (b) of this section, shall be one-half the annual salary of such member at the time of vesting under section 4320.1 or retirement computed at such monthly or average annual rate, whichever is the higher. (Emphasis added)

Furthermore, Section 4328 of the Third Class City Code states:

As used in this subdivision, the term “salary” is defined as 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. 1758 at Section 4.02 states:

Normal Retirement Benefit – Each Participant who shall become entitled to a benefit pursuant to section 4.01 hereof, shall receive a benefit commencing on the Participant’s Normal Retirement Date and paid in the Normal Form as provided in section 7.01 hereof. The monthly amount of the Normal Retirement Benefit shall be equal to fifty percent (50%) of the Participant’s Average Compensation at termination of Employment.

Ordinance No. 1758 at Section 1.07 states:

“Average Compensation” shall mean the average of the monthly Compensation of the Participant during the five (5) Years of Continuous Service prior to termination of Employment which provides the highest average, or the monthly rate of Compensation at the time of termination from Employment whichever produces the higher monthly amount of Compensation.

Ordinance No. 1758 at Section 1.14 states, in part:

“Compensation” shall mean the total remuneration paid to an Employee by the Employer with respect to personal services rendered as an Employee and shall exclude all other forms of remuneration including, but not limited to, bonuses and expense reimbursements.

CITY OF WASHINGTON COMPREHENSIVE MUNICIPAL PENSION TRUST FUND
COMMENTS

The city's practice has been to calculate pension benefits based on the firefighter's final monthly compensation which included any overtime and holiday pay that a firefighter accumulates in their final month of employment.

The city granted a pension benefit to a firefighter who retired on September 11, 2011, at age 54 with 20 years of service. At the time of the firefighter's retirement, his base annual salary per the collective bargaining agreement, including longevity pay, was \$55,178.

The city determined the pension benefit based on the firefighter's final monthly compensation which included 96 hours of overtime and 8 hours of holiday pay. The compensation for the 96 hours of overtime and 8 hours of holiday pay resulted in \$3,352 of additional monthly earnings which were included by the City to calculate the firefighter's pension benefit. The inclusion of overtime and holiday pay in the calculation added \$1,676 to the retiree's monthly pension benefit. Consequently, the firefighter's monthly pension benefit was determined to be \$3,982 per month, which is an annual pension of \$47,784 or approximately 86.6% of his annual base pay.

We encourage city officials to review the methodology they use to calculate pension benefits for its police officers and firefighters. 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, significantly increased the required municipal contributions to the pension funds, thwarted actuarial projections, and jeopardized the fiscal soundness of the pension plans.

CITY OF WASHINGTON COMPREHENSIVE MUNICIPAL PENSION TRUST FUND
MANAGEMENT'S RESPONSE

The City of Washington anticipates achieving its goal of fully funding its Aggregate Pension Fund (APF) within the next four to six years.

Enacted by the City under its first Act 205 Pension Funding Tax in 2009, the 2.6% earned income tax will remain in effect until the APF assets sufficiently cover accrued liabilities in the future. When the City's Act 205 tax was enacted in 2009, the APF was 63 percent funded, with \$16.1 million in market value assets and \$25.6 million in accrued liabilities. As of January 1, 2013, APF was 70 percent funded with \$27 million in market value assets and \$38.7 million in actuarial liabilities.

Funding of the City's APF from various sources has increased from \$800,000 in 2008 to \$4.7 million in 2012. This \$4.7 million annual funding is comprised of \$3.2 million in Act 205 tax receipts, \$619,000 in general fund contributions, \$464,000 in state aid and \$288,000 in employee contributions. Additionally, the City's general fund is making \$700,000 in annual pension bond payments which will end in 2019.

Improvement in the Aggregate Pension Fund's funding status can also be attributed to the impressive 15.97 percent annualized return for the last four years for the period ending on March 31, 2013.

This 70 percent funding status upgraded the Fund's APF's status to "Level 1 Minimally Distressed Status" from its previous "Level 2 Moderately Distressed Status". Based on expected future retirements and contract adjustments, the actuarial liabilities are expected to grow more slowly in the future while the City's increased funding will eventually cause the APF to be fully funded.

The City and its agents have taken steps to address findings 1, 2 and 3 contained within the report and is in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies, and respectfully requests that those sections be removed from the audit.

CITY OF WASHINGTON COMPREHENSIVE MUNICIPAL PENSION TRUST FUND
AUDITOR'S CONCLUSION

Auditor's Conclusion

Clearly the funding status of the city's pension plans needs to be addressed immediately. The fact that the city is utilizing its authority to collect a special tax dedicated to municipal pension funding to reduce the plans' outstanding actuarial accrued liabilities should result in improvements in the plans' funding ratios going forward. However, the city's response failed to address the city's ongoing practice of determining pension benefits for its police officers and firefighters based on their final months accumulated earnings, which are significantly inflated due to the inclusion of extra forms of compensation. This practice results in retirees receiving pension benefits, which can be paid over a long period of time, that approximate their annual rates of base pay earned during their respective employments with the city. As previously noted in this audit report, these practices have created apparent windfalls for some retirees, significantly increased the required municipal contributions to the pension funds, thwarted actuarial projections, and jeopardized the fiscal soundness of the pension plans, all of which has contributed to the need to impose the Act 205 special tax authority to address the funding crisis the city's plans are currently facing. The city is responsible to meet current and future pension benefit obligations owed to its hardworking municipal employees. We again urge city officials, as plan fiduciaries, to ensure that the city's pension plans have adequate resources through fiscally responsible decision making to meet current and future pension benefit obligations that are determined in accordance with the provisions and the intent of the Third Class City Code. This will ultimately benefit the City of Washington and its taxpayers.

CITY OF WASHINGTON COMPREHENSIVE MUNICIPAL PENSION TRUST FUND
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania

City of Washington Comprehensive Municipal Pension Trust Fund
Washington County
55 West Maiden Street
Washington, PA 15301

The Honorable Brenda Davis	Mayor
Mr. Nicholas Dubina, Sr.	City Controller
Ms. Susan Koehler	Director of Finance/Pension Coordinator
Mr. Robert Wilson	Secretary, Police Pension Plan
Mr. Michael Scott	Co-Secretary, Firefighter's Pension Plan
Mr. Greg Florian	Co-Secretary, Firefighter's Pension Plan

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