

COMPLIANCE AUDIT

City of Williamsport Police Pension Plan Lycoming County, Pennsylvania For the Period January 1, 2012 to December 31, 2013

March 2015



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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

**EUGENE A. DePASQUALE
AUDITOR GENERAL**

The Honorable Mayor and City Council
City of Williamsport
Lycoming County
Williamsport, PA 17701

We have conducted a compliance audit of the City of Williamsport Police Pension Plan for the period January 1, 2012 to December 31, 2013. The audit was conducted pursuant to authority derived from Section 402(j) of Act 205 and in accordance with the standards applicable to performance audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our 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 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. 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 plan's governing document and applicable laws and regulations.
- Whether employee contributions are required and, if so, are determined, deducted, and deposited into the pension plan 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 Deferred Retirement Option Plan (DROP) participants' benefit payments are properly determined in accordance with the provisions of the DROP and any other applicable laws and regulations.

The City of Williamsport 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 Williamsport Police Pension Plan is administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies. In conducting our audit, we obtained an understanding of the city's internal controls as they relate to the city's compliance with those requirements and that we considered to be significant within the context of our audit 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 Williamsport Police Pension Plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies, except as noted in the following findings further discussed later in this report:

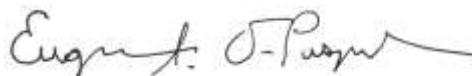
Finding No. 1 – Noncompliance With Prior Audit Recommendation –
Inconsistent Pension Benefits

Finding No. 2 – Unauthorized Pension Benefits

Finding No. 1 contained in this audit report repeats a condition that was cited in our previous audit report that has not been corrected by city officials. We are concerned by the city's failure to correct this previously reported audit finding and strongly encourage timely implementation of the recommendation noted in this audit report.

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 Williamsport and, where appropriate, their responses have been included in the report.



EUGENE A. DEPASQUALE
Auditor General

February 27, 2015

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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 Williamsport Police Pension Plan 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 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 Williamsport Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Article 153 of the city's codified ordinances. The plan is also affected by the provisions of collective bargaining agreements between the city and its police officers. The plan was established May 27, 1942. Active members are required to contribute 5 percent of compensation to the plan. As of December 31, 2013, the plan had 40 active members, 3 terminated members eligible for vested benefits in the future, and 75 retirees receiving pension benefits from the plan.

BACKGROUND - (Continued)

As of December 31, 2013, selected plan benefit provisions are as follows:

Eligibility Requirements:

Normal Retirement	Age 50 and 20 years of service.
Early Retirement	None
Vesting	A member is 100% vested after 12 years of service.

Retirement Benefit:

Benefit equals 50% of compensation averaged over the last 12 months prior to termination, or 5-year average if greater, plus a monthly service increment equal to 1/40th of the pension amount for each completed year of service over 20, up to maximum increment of \$100 per month.

Survivor Benefit:

Before completion of 20 years of service - a refund of member contributions without interest.

After completion of 20 years of service or for members killed in service - a monthly benefit equal to the participant's monthly benefit amount or what the Normal Retirement benefit would be if the officer had retired on date of death.

After retirement - A monthly benefit equal to 100% of the pension the participant was receiving is payable to the participant's spouse.

Service Related Disability Benefit:

For total and permanent disablement, the Normal Retirement Benefit at date of disablement.

CITY OF WILLIAMSPORT POLICE PENSION PLAN
STATUS OF PRIOR FINDINGS

Compliance With Prior Audit Recommendation

The City of Williamsport has complied with the prior audit recommendation concerning the following:

- Incorrect Data On Certification Form AG 385 Resulting In An Overpayment Of State Aid

During the current audit period, the city reimbursed \$25,443 to the Commonwealth for the overpayment of state aid received in 2011.

Noncompliance With Prior Audit Recommendation

The City of Williamsport has not complied with the prior audit recommendation concerning the following as further discussed in the Findings and Recommendations section of this report:

- Inconsistent Pension Benefits

CITY OF WILLIAMSPORT POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Noncompliance With Prior Audit Recommendation – Inconsistent Pension Benefits

Condition: As disclosed in the prior audit report, the pension plan’s governing document, codified at Article 153 of the city’s codified ordinances, contains benefit provisions that conflict with the collective bargaining agreement between the police officers and the city, as follows:

<u>Benefit Provision</u>	<u>Governing Document</u>	<u>Collective Bargaining Agreement</u>
Pension benefit	Fifty percent of the monthly pay as of the date retired, or the highest average annual salary which the member received during any five years.	Fifty percent of the last 12 months of compensation.
Survivor benefits	Fifty percent of the benefit the pensioner was receiving or would have been receiving had he been retired at the time of death, with no increase in the members’ contributions.	The same monthly pension payment as the member, had the member not died.
Members’ contributions	Four percent of monthly compensation, plus one-half of one percent of salary for a service increment contribution. The service increment contribution shall not exceed one dollar per month.	Four percent of monthly compensation, plus an additional one percent for widow’s/widower’s benefit.

In addition, the plan’s January 1, 2011 and January 1, 2013 actuarial valuation reports submitted to the Public Employee Retirement Commission reported the benefit provisions included in the collective bargaining agreement.

Criteria: The plan’s governing document and the collective bargaining agreement should contain consistent benefit provisions to ensure retirees and beneficiaries receive the correct benefit payments and to ensure the sound administration of the pension plan.

Cause: Municipal officials failed to establish adequate internal control procedures to ensure compliance with the prior audit recommendation. Furthermore, management’s staff was unable to revise the plan’s governing document due to an illness in the Human Resource Department that kept municipal officials from completing the required updates to the governing document.

CITY OF WILLIAMSPORT POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

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

Recommendation: We again recommend that municipal officials ensure that the plan's governing document and the collective bargaining agreement contain consistent benefit provisions at their earliest opportunity to do so.

Management's Response: Management agrees that the plan's governing document contains benefit provisions that conflict with the collective bargaining agreement between the union and the City. The City will work with the City's Human Resource Department and Pension Plan's Actuary to complete revisions to the plan's governing document to ensure conflicts between the governing document and collective bargaining agreement are resolved.

Auditor's Conclusion: We are concerned by the city's failure to address the prior audit finding and strongly encourage compliance with the recommendation at the earliest opportunity to do so.

Finding No. 2 – Unauthorized Pension Benefits

Condition: Plan officials granted unauthorized pension benefits to one police officer who retired under normal retirement on July 5, 2014, at age 44 with 18 years of service, and to another police officer who retired under a Deferred Retirement Option Plan (DROP) on March 13, 2012, at age 50 with 17 years of service. The plan's governing document requires a member to attain age 50 with 20 years of service to be eligible for a normal retirement benefit and to be eligible to participate in the DROP; therefore, the first retiree is only entitled to vested pension benefit, and the second police officer should not be participating in the DROP.

Criteria: The City's Codified Ordinance states in part:

Every member of the police bureau may retire at the age of fifty years after twenty years of service.

Furthermore, Resolution No. 6868, at Section 2.3, states, in part:

A retired employee's effective date of participation in a DROP shall begin the day following the effective date of the employee's regular retirement. . .

Cause: Municipal officials failed to establish adequate internal control procedures to ensure the pension benefit determinations were authorized by the plan's governing document.

CITY OF WILLIAMSPORT POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Effect: The plan is paying pension benefits to 2 retirees in excess of those authorized by the plan's governing document.

Recommendation: We recommend that municipal officials review these pension benefit determinations with the city solicitor to determine whether the first police officer's pension benefits should be adjusted prospectively to be in accordance with the vesting provisions contained in the plan's governing document and to determine whether the second police officer should be removed from the DROP at the earliest opportunity to do so.

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

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

CITY OF WILLIAMSPORT POLICE PENSION PLAN
 SUPPLEMENTARY INFORMATION
 (UNAUDITED)

SCHEDULE OF FUNDING PROGRESS

Historical trend information about the plan is presented herewith as supplementary information. It is intended to help users assess the plan's funding status on a going-concern basis, assess progress made in accumulating assets to pay benefits when due, and make comparisons with other state and local government retirement systems.

The actuarial information is required by Act 205 biennially. The historical information, beginning as of January 1, 2009, is as follows:

	(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)]
01-01-09	\$ 27,588,362	\$ 30,809,261	\$ 3,220,899	89.5%	3,201,724	100.6%
01-01-11	27,344,895	34,388,866	7,043,971	79.5%	2,826,463	249.2%
01-01-13	29,039,091	37,268,768	8,229,677	77.9%	2,791,460	294.8%

Note: The market values of the plan's assets at 01-01-09, 01-01-11 and 01-01-13 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 WILLIAMSPORT POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

The comparability of trend information is affected by changes in actuarial assumptions, benefit provisions, actuarial funding methods, accounting policies, and other changes. Those changes usually affect trends in contribution requirements and in ratios that use the actuarial accrued liability as a factor.

Analysis of the dollar amount of the actuarial value of assets, actuarial accrued liability, and unfunded (assets in excess of) actuarial accrued liability in isolation can be misleading. Expressing the actuarial value of assets as a percentage of the actuarial accrued liability (Column 4) provides one indication of the plan's funding status on a going-concern basis. Analysis of this percentage, over time, indicates whether the system is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the plan.

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 WILLIAMSPORT POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER
AND OTHER CONTRIBUTING ENTITIES

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2008	\$ 616,341	100.0%
2009	603,863	100.0%
2010	621,438	100.0%
2011	789,528	100.0%
2012	743,770	100.0%
2013	1,402,048	100.0%

CITY OF WILLIAMSPORT POLICE PENSION PLAN
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:

Actuarial valuation date	January 1, 2013
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	10 years
Asset valuation method	4-year smoothing – the actuarial value of assets will be limited to a maximum of 120% and a minimum of 80% of the fair market value of assets.
Actuarial assumptions:	
Investment rate of return	8.0%
Projected salary increases	5.0%
Cost-of-living adjustments	3.0% per year

CITY OF WILLIAMSPORT POLICE PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

City of Williamsport Police Pension Plan
Lycoming County
245 West Fourth Street
Williamsport, PA 17701

The Honorable Gabriel Campana	Mayor
Mr. Bill Hall	Council President
Mr. William Nichols, Jr.	Chief Administrative Officer
Mr. Joseph Pawlak	Budget and Fiscal Officer
Ms. Margaret Woodring	City Controller
Ms. Janice Frank	City Clerk

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