

# COMPLIANCE AUDIT

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## City of Coatesville Retirement Income Pension Plan Chester County, Pennsylvania For the Period January 1, 2012 to December 31, 2013

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March 2015



Commonwealth of Pennsylvania  
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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**EUGENE A. DePASQUALE  
AUDITOR GENERAL**

City Council  
City of Coatesville  
Chester County  
Coatesville, PA 19320

We have conducted a compliance audit of the City of Coatesville Retirement Income 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 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 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.

The City of Coatesville 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 Coatesville Retirement Income 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 Coatesville Retirement Income 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 – Partial Compliance With Prior Audit Recommendation –  
Inconsistent and Unauthorized Pension Benefits

Finding No. 2 – Noncompliance With Prior Audit Recommendation – Failure  
To Determine Vested Pension Benefits

The findings contained in this audit report repeat conditions that were cited in our previous audit report that have not been corrected by city officials. We are concerned by the city's failure to correct those previously reported audit findings and strongly encourage timely implementation of the recommendations 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 Coatesville and, where appropriate, their responses have been included in the report.

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

EUGENE A. DEPASQUALE  
Auditor General

January 21, 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 Coatesville Retirement Income 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 177 - General Local Government Code, Act of December 19, 1996 (P.L. 1158, No. 177), as amended, 53 Pa.C.S. § 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.

The City of Coatesville Retirement Income Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 1438-2014, adopted pursuant to Act 317. 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, 1968. Active members are not required to contribute to the plan. As of December 31, 2013, the plan had 25 active members, 43 terminated members eligible for vested benefits in the future, 14 retirees receiving pension benefits from the plan, and 11 retirees receiving benefits funded through annuities purchased with plan assets.

## **BACKGROUND – (Continued)**

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

### Eligibility Requirements:

Normal Retirement    Age 65

Early Retirement     Age 55 and 10 years of service.

Vesting                A member is 100% vested after 5 years of service.

### Retirement Benefit:

Benefit equals a monthly benefit of \$50.00 per year of service completed by the member payable for life with payments guaranteed for 60 months.

### Survivor Benefit:

If a member is eligible for retirement and has been married for at least 1 year, the surviving spouse receives 50% of the benefit the member would have been receiving had he been retired at the time of his death.

### Disability Benefit:

None

CITY OF COATESVILLE RETIREMENT INCOME PENSION PLAN  
STATUS OF PRIOR FINDINGS

Partial Compliance With Prior Audit Recommendation

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

- Inconsistent And Unauthorized Pension Benefits

The city adopted Ordinance No. 1438-2014 eliminating the inconsistencies with the collective bargaining agreement with the exception of a provision related to available pension benefit payment options as disclosed in Finding No. 1 contained in this report. In addition, the changes contained in the newly adopted ordinance are in accordance with the Third Class City Code for union members; however, the amended plan document excludes non-union members. Therefore, the provisions of the prior plan document still apply to non-union members and are not in compliance with the Third Class City Code, as further disclosed in Finding No. 1 in this report.

Noncompliance With Prior Audit Recommendation

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

- Failure To Determine Vested Pension Benefits



CITY OF COATESVILLE RETIREMENT INCOME PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – Partial Compliance With Prior Audit Recommendation – Inconsistent And Unauthorized Pension Benefits**

Condition: As disclosed in the Status of Prior Findings section of this report, the city partially complied with the prior audit recommendation by adopting Ordinance No. 1438-2014, which amended the pension plan’s governing document to comply with the Third Class City Code for members of the bargaining unit hired on, or after January 1, 2001. However, the amended pension plan document continues to contain a benefit provision for available benefit payment options that is not authorized by the Third Class City Code and conflicts with the collective bargaining agreement for union employees hired after January 1, 2001, as noted below:

<u>Benefit Provision</u>	<u>Governing Document</u>	<u>Collective Bargaining Agreement</u>	<u>Third Class City Code</u>
Pension benefit payment options	<p>The monthly pension may be paid under one of the following options:</p> <ol style="list-style-type: none"> <li>1. Lifetime pension – payments payable to retiree until death;</li> <li>2. Joint and survivor pension – payments until the later of the death of retiree or survivor, with survivor’s benefit of 100%, 75%, 66 2/3% or 50% of the retiree’s benefit; or</li> <li>3. Lifetime pension with certain period payments payable to retiree or beneficiary until the later of retiree’s death or a payment of a specified number of payments (120 or 180).</li> </ol>	<p>The City shall provide a Third Class City Pension Benefit to all employees of the bargaining unit hired after January 1, 2001.</p>	<p>Payment options are not provided.</p>

CITY OF COATESVILLE RETIREMENT INCOME PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – (Continued)**

In addition, as disclosed in the prior audit report, the city adopted a home rule charter pursuant to the Home Rule Charter and Optional Plans Law, 53 Pa. C.S. § 2901 *et seq.* (previously 53 P.S. § 1-101 *et seq.*). The pension plan’s governing document continues to contain benefit provisions that are not authorized by the Third Class City Code for non-union employees hired on or after January 1, 2001, who are not members of the bargaining unit, as illustrated below:

Benefit Provision	Governing Document	Third Class City Code
Normal retirement eligibility	Age 65 with no service requirement.	Age 60 with 20 years of service.
Normal retirement benefit	Monthly pension benefit equal to years of service times:  Effective 1/1/04, \$50, Effective 1/1/14, \$55, Effective 1/1/15, \$60, Effective 1/1/16, \$65, and Effective 1/1/17, \$70	50% of the highest average annual salary during any 5 years of service.
Social Security offset	Not specified	For employees covered by Social Security, a reduction in the pension by 40% of the participant’s primary Social Security insurance amount attributable to city service to be made at the time that the participant becomes eligible to receive the Social Security primary insurance benefit.
Member contribution rate	Member contributions not required.	Two percent (2%), if the employees are not covered by Social Security, or 3.5% of compensation on which Social Security is payable, and 5% of any compensation in excess of that amount.

CITY OF COATESVILLE RETIREMENT INCOME PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – (Continued)**

<u>Benefit Provision</u>	<u>Governing Document</u>	<u>Third Class City Code</u>
Refund of members' contributions	Not specified	For employees ineligible to receive a pension benefit for any reason, their contributions must be returned, without interest, to the member or his estate, if payment is due to death.
Early retirement eligibility	Age 55 with 10 years of service.	20 years of service with no age requirement.
Early retirement benefit	The monthly pension accrued to the early retirement date, actuarially reduced and paid immediately.	A normal pension payable at age 60 if the participant continues paying monthly member's contributions equal to the last amount due while in active employment until the member reaches age 60.
Disability benefits	Not specified	For total and permanent disabilities occurring after 10 years of service and before age 60, benefit equals normal retirement benefit without offset for Social Security benefits.
Vesting eligibility	5 years of service.	12 years of service.
Vested benefit	Employee's accrued pension at termination, payable on normal retirement date.	Base pension times the percentage member's years of service bears to years of service member would have rendered by his earliest retirement date, payable at normal retirement date.

CITY OF COATESVILLE RETIREMENT INCOME PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – (Continued)**

Benefit Provision	Governing Document	Third Class City Code
Pension benefit payment options	<p>The monthly pension may be paid under one of the following options:</p> <ol style="list-style-type: none"> <li>1. Lifetime pension – payments payable to retiree until death;</li> <li>2. Joint and survivor pension – payments until the later of the death of retiree or survivor, with survivor’s benefit of 100%, 75%, 66 2/3% or 50% of the retiree’s benefit; or</li> <li>3. Lifetime pension with certain period payments payable to retiree or beneficiary until the later of retiree’s death or a payment of a specified number of payments (120 or 180).</li> </ol>	Payment options are not provided.
Credit for prior city service	Not specified	Rehired employees who previously withdrew their members’ contributions shall not receive credit for prior city service unless they return the amount withdrawn.

Criteria: On January 24, 2001, the Commonwealth Court of Pennsylvania issued its opinion in *Municipality of Monroeville v. Monroeville Police Department Wage Policy Committee*. Therein, the court held that Section 2962(c)(5) of the Home Rule Charter and Optional Plans Law, 53 Pa. C.S. § 2962(c)(5), “clearly precludes home rule municipalities from providing pension benefits different from those prescribed in general law including Act 600.” The court’s holding was in accord with the position taken by this department since at least January 1995.

CITY OF COATESVILLE RETIREMENT INCOME PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – (Continued)**

The department acknowledges that its position has changed over the years and that, until *Monroeville*, there was no definitive decision as to whether home rule municipalities were obliged to comply with applicable pension law. The department seeks, therefore, to implement the decision in as equitable a fashion as possible, while paying necessary deference to the court's ruling. Accordingly, the department will not penalize a home rule municipality for granting benefits not authorized by the Third Class City Code to existing retirees or to individuals who began full-time employment before January 24, 2001 (the date *Monroeville* was issued). However, the department expects the city to restrict pension benefits to those authorized by the Third Class City Code for all employees who began full-time employment on or after that date.

In addition, a governing document which contains clearly defined and updated benefit provisions is a prerequisite for the consistent, sound administration of retirement benefits. Furthermore, the pension plan's benefit structure should be in compliance with the provisions of the Third Class City Code.

Cause: City officials failed to establish adequate internal control procedures to ensure full compliance with the prior audit recommendation.

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

Providing unauthorized pension benefits could increase the plan's pension costs and reduce the amount of funds available for investment purposes or for the payment of authorized benefits or administrative expenses. Although the city did not receive excess state aid attributable to the unauthorized pension benefits during the current audit period, the provision of unauthorized pension benefits may have resulted in the receipt of excess state aid in the years 2008 and 2009, as previously disclosed in the prior audit report, and could increase the municipal contributions necessary to fund the plan in accordance with Act 205 funding standards.

Recommendation: We again recommend that plan officials amend the plan's governing document, as necessary, to ensure the plan's benefit provisions are in compliance with the Third Class City Code for non-union plan members who began full-time employment on or after January 24, 2001 and eliminate the remaining inconsistency with the collective bargaining agreement for union employees.

CITY OF COATESVILLE RETIREMENT INCOME PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – (Continued)**

To the extent that the city is not in compliance with the Third Class City Code and/or is contractually obligated to pay benefits to existing plan members in excess of those authorized by the Third Class City Code, the excess benefits must be reflected in the Act 205 actuarial valuation reports for the plan and funded in accordance with Act 205 funding standards. Furthermore, such benefits will be deemed ineligible for funding with state pension aid. In such case, as previously recommended, the plan's actuary must determine the impact, if any, of the excess benefits on the city's state aid allocations received in the years 2008 and 2009, by utilizing Supplemental Actuarial Information Form AG-MP 1 and submitting this information to the department. If it is determined that the excess benefits had an impact on the city's state aid allocations received in 2008 and 2009, the form should be submitted to the department. Furthermore, after the submission of this information, the plan's actuary should contact the department to verify the overpayment of state aid received and plan officials should reimburse the overpayment to the Commonwealth. In addition, the plan's actuary may be required to determine the impact, if any, of the excess benefits on the city's future state aid allocations and submit this information to the department.

Management's Response: Finding No. 1 indicates that the Plan's formula for normal retirement benefits is not authorized by the Third Class City Code. The City of Coatesville and the Local 1821 of the American Federation of State, County and Municipal Employees, District Council 88 entered into a collective bargaining agreement, covering the period January 1, 2001 to December 31, 2003. The Non-Uniformed Pension Commission asked its legal counsel to prepare an ordinance that provides for a Third Class City Code-compliant pension for Union employees hired on or after January 1, 2001. That ordinance was enacted by City Council on October 27, 2014. We agree with your findings above that the Plan for non-Union employees and employees hired before January 1, 2001 is not compliant with the Third Class City Code. However, we note that the Plan is currently in compliance with the Third Class City Code with regards to Union employees hired on or after January 1, 2001.

Under binding Pennsylvania Supreme Court precedent, the City is not permitted to remove pension rights for current or retired employees. Therefore, it would be legally impossible for the City to remove pension rights for employees hired prior to January 1, 2001.

Auditor's Conclusion: The department acknowledges that the amended plan governing document is in compliance with the Third Class City Code for union employees hired on, or after January 1, 2001, with the exception of the provision previously outlined in the finding. Compliance with the finding recommendation pertaining to non-union employees will be evaluated during our next audit of the plan.

CITY OF COATESVILLE RETIREMENT INCOME PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 2 – Noncompliance With Prior Audit Recommendation – Failure To Determine Vested Pension Benefits**

Condition: As disclosed in the prior audit report, the city failed to determine vested pension benefits for 7 plan members who terminated employment with the city during prior audit periods. A similar condition occurred during the current audit period. The city failed to determine a vested pension benefit for 3 additional plan members who terminated employment with the city during the current audit period.

Criteria: Sound internal control procedures dictate that vested pension benefits should be determined in a timely manner following a plan member's termination of employment and that the city should maintain adequate supporting documentation to substantiate the accuracy of vested pension benefit determinations to avoid discrepancies occurring in the future when the former employees are eligible to begin receiving their pension benefits.

Cause: The plan consultant is waiting to calculate the vested pension benefits until after a restated plan document is adopted by the city.

Effect: The failure of plan officials to timely determine vested pension benefits could result in inconsistent or improper benefit calculations and incorrect benefit payments from the pension plan.

Recommendation: We again recommend that plan officials establish adequate internal control procedures to ensure that all vested pension benefits are determined timely, supported by adequate documentation and maintained by the city.

Management's Response: Plan officials agreed to research payroll and personnel-related documents to obtain the information necessary to provide to the plan actuary in order to have these vested pension benefit calculations prepared.

Auditor's Conclusion: 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.

CITY OF COATESVILLE RETIREMENT INCOME 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	\$ 924,535	\$ 1,283,370	\$ 358,835	72.0%	\$ 1,466,412	24.5%
01-01-11	1,329,030	1,512,716	183,686	87.9%	1,261,387	14.6%
01-01-13	1,496,953	1,794,615	297,662	83.4%	1,056,000	28.2%



CITY OF COATESVILLE RETIREMENT INCOME 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 COATESVILLE RETIREMENT INCOME PENSION PLAN  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER  
AND OTHER CONTRIBUTING ENTITIES

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2008	\$ 108,085	184.0%
2009	108,518	100.0%
2010	101,673	100.0%
2011	116,556	101.1%
2012	95,574	100.0%
2013	85,154	100.0%

CITY OF COATESVILLE RETIREMENT INCOME 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	9 years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return	7.0%
Projected salary increases	5.0%
Cost-of-living adjustments	None assumed

CITY OF COATESVILLE RETIREMENT INCOME PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf  
Governor  
Commonwealth of Pennsylvania

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Mr. Joseph Hamrick      Council President

Mr. Kirby Hudson      City Manager

Mr. John Marcarelli      Finance Director

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