

COMPLIANCE AUDIT

City of Coatesville Firefighters' Pension Plan Chester 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



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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 Firefighters' 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 Firefighters' 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 Firefighters' 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:

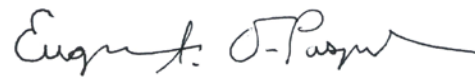
- Finding No. 1 – Noncompliance With Prior Audit Recommendation - Plan's Governing Document Fails To Include A Service-Related Disability Benefit Provision
- Finding No. 2 – Noncompliance With Prior Audit Recommendation - Ordinance Improperly Amended By Resolution

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. However, we are extremely concerned about the funded status of the plan contained in the schedule of funding progress included in this report which indicates a decline of assets available to satisfy the long-term liabilities of the plan. For example, **the plan's funded ratio went from 76.2% as of January 1, 2011, to a ratio of 58.5% as of January 1, 2013**, which is the most recent date available. We encourage city officials to monitor the funding of the firefighters' pension plan to ensure its long-term financial stability.

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.

January 8, 2015



EUGENE A. DEPASQUALE
Auditor General

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BACKGROUND

On December 18, 1984, the Pennsylvania Legislature adopted the Municipal Pension Plan Funding Standard and Recovery Act (P.L. 1005, No. 205, as amended, 53 P.S. § 895.101 et seq.). The act established mandatory actuarial reporting and funding requirements and a uniform basis for the distribution of state aid to Pennsylvania's public pension plans. Section 402(j) of Act 205 specifically requires the Auditor General, as deemed necessary, to make an audit of every municipality which receives general municipal pension system state aid and of every municipal pension plan and fund in which general municipal pension system state aid is deposited.

Annual state aid allocations are provided from a 2 percent foreign (out-of-state) casualty insurance premium tax, a portion of the foreign (out-of-state) fire insurance tax designated for paid firefighters and any investment income earned on the collection of these taxes. Generally, municipal pension plans established prior to December 18, 1984, are eligible for state aid. For municipal pension plans established after that date, the sponsoring municipality must fund the plan for three plan years before it becomes eligible for state aid. In accordance with Act 205, a municipality's annual state aid allocation cannot exceed its actual pension costs.

In addition to Act 205, the City of Coatesville Firefighters' 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 Firefighters' Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Chapter 38, Article III of the city's codified ordinances, adopted pursuant to Act 317. The plan is also affected by the provisions of collective bargaining agreements between the city and its firefighters. The plan was established January 1, 2007. Active members are required to contribute 5 percent of compensation plus \$1 per month to the plan. As of December 31, 2013, the plan had 4 active members, no terminated members eligible for vested benefits in the future, and no retirees receiving pension benefits.

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 average monthly compensation plus an incremental monthly increment of 1/40th of such pension (maximum \$100) for each year of service in excess of 20 years but not including service after age 65. Compensation based on final monthly rate of pay or highest 5 years if greater.

Survivor Benefit:

Before Retirement Eligibility	Refund of member contributions plus interest.
After Retirement Eligibility	A monthly benefit equal to 100% of the pension the member was receiving or was entitled to receive on the day of the member's death.

Service Related Disability Benefit:

None (See Finding No. 1)

CITY OF COATESVILLE FIREFIGHTERS' PENSION PLAN
STATUS OF PRIOR FINDINGS

Noncompliance With Prior Audit Recommendations

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

- Plan's Governing Document Fails To Include A Service-Related Disability Benefit Provision; and
- Ordinance Improperly Amended By Resolution

CITY OF COATESVILLE FIREFIGHTERS' PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Noncompliance With Prior Audit Recommendation – Plan's Governing Document Fails To Include A Service-Related Disability Benefit Provision

Condition: As disclosed in the prior audit report, the pension plan's governing document does not contain a provision for a service-related disability benefit as required by the Third Class City Code.

Criteria: 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. In the case of the payment of pensions to members for permanent injury incurred in service, and to families of members killed or who die in service, the amount and commencement of the payment of pensions shall be fixed by regulations of the board. Such regulations shall not take into consideration the amount and duration of workmen's compensation allowed by law. (Emphasis added)

Cause: Municipal officials failed to adopt adequate internal control procedures to ensure compliance with the prior audit recommendation.

Effect: The continued failure to provide a service-related disability benefit could result in the denial of pension benefits to which plan members are entitled under the Third Class City Code.

Recommendation: We again recommend that city officials, after consulting with their solicitor, take whatever action is necessary to ensure the plan's governing document includes a service-related disability benefit provision that is in compliance with the Third Class City Code at their earliest opportunity to do so.

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

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 FIREFIGHTERS' PENSION PLAN
FINDINGS AND RECOMMENDATIONS

**Finding No. 2 – Noncompliance With Prior Audit Recommendation – Ordinance
Improperly Amended By Resolution**

Condition: As disclosed in the prior audit report, the pension plan's governing ordinance was improperly restated in its entirety by Resolution No. 2009-27A.

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

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

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

Recommendation: We again recommend that the city amend the plan's governing document with a properly executed ordinance.

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

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 FIREFIGHTERS' 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	\$ 133,140	\$ 477,533	\$ 344,393	27.9%	\$ 153,317	224.6%
01-01-11	492,184	645,975	153,791	76.2%	322,817	47.6%
01-01-13	579,136	989,303	410,167	58.5%	314,129	130.6%

CITY OF COATESVILLE FIREFIGHTERS' 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 FIREFIGHTERS' PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER
AND OTHER CONTRIBUTING ENTITIES

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2008	\$ 66,509	100.0%
2009	72,867	100.0%
2010	76,833	100.0%
2011	109,475	101.1%
2012	74,794	100.0%
2013	70,951	100.0%

CITY OF COATESVILLE FIREFIGHTERS' 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	6 years
Asset valuation method	Fair value
Actuarial assumptions:	
Investment rate of return	7.0%
Projected salary increases	5.0%
Cost-of-living adjustments	None assumed

CITY OF COATESVILLE FIREFIGHTERS' PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

City of Coatesville Firefighters' Pension Plan
Chester County
One City Hall Place
Coatesville, PA 19320

Mr. Joseph Hamrick Council President

Mr. Kirby Hudson City Manager

Mr. John Marcarelli Finance Director

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