

COMPLIANCE AUDIT

City of Bradford Comprehensive Municipal Pension Trust Fund

McKean County, Pennsylvania

For the Period

January 1, 2013 to December 31, 2014

August 2015



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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EUGENE A. DePASQUALE
AUDITOR GENERAL

The Honorable Mayor and City Council
City of Bradford
McKean County
Bradford, PA 16701

We have conducted a compliance audit of the City of Bradford Comprehensive Municipal Pension Trust Fund for the period January 1, 2013 to December 31, 2014. We also evaluated compliance with some requirements subsequent to that period when possible. The audit was conducted pursuant to authority derived from Section 402(j) of Act 205 and in accordance with the standards applicable to performance audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our finding and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our finding and conclusions based on our audit objective.

The objective of the audit was 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 objective identified above. To determine whether the pension trust fund was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies, our methodology included the following:

- × We determined whether state aid was properly determined and deposited in accordance with Act 205 requirements by verifying the annual deposit date of state aid and determining whether deposits were made within 30 days of receipt for all years within the period under audit.
- × We determined whether annual employer contributions were calculated and deposited in accordance with each plan's governing document and applicable laws and regulations by examining the municipality's calculation of each plan's annual financial requirements and minimum municipal obligation (MMO) and comparing these calculated amounts to amounts actually budgeted and deposited into each pension plan as evidenced by supporting documentation.

- × We determined whether annual employee contributions were calculated, deducted, and deposited into each pension plan in accordance with each plan's governing document and applicable laws and regulations by testing members' contributions on an annual basis using the rates obtained from each plan's governing document in effect for all years within the period under audit and examining documents evidencing the deposit of these employee contributions into each pension plan.
- × We determined whether retirement benefits calculated for the 2 plan members who retired during the current audit period represent payments to all (and only) those entitled to receive them and were properly determined and disbursed in accordance with each plan's governing document, applicable laws and regulations by recalculating the amount of the monthly pension benefit due to retired individuals and comparing these amounts to supporting documentation evidencing amounts determined and actually paid to recipients.
- × We determined whether the January 1, 2011 and January 1, 2013 actuarial valuation reports were prepared and submitted to the Public Employee Retirement Commission (PERC) by March 31, 2012 and 2014, respectively, in accordance with Act 205 and whether selected information provided on these reports is accurate, complete, and in accordance with each plan's provisions to ensure compliance for participation in the state aid program by comparing selected information to supporting source documentation.
- × We determined whether all annual special ad hoc postretirement reimbursements received by the municipality were authorized and appropriately deposited in accordance with Act 147 by tracing information to supporting documentation maintained by plan officials.
- × We determined whether each pension plan is in compliance with Act 205 for distressed municipalities through inquiry of plan officials and evaluation of the recovery remedies implemented during the audit period.

The City of Bradford contracted with an independent certified public accounting firm for an audit of its basic financial statements for the year ended December 31, 2013, which is 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 Bradford 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 objective, and assessed whether those significant controls were properly designed and implemented. Additionally and as previously described, we tested transactions, assessed official actions, performed analytical procedures, and interviewed selected officials to provide reasonable

assurance of detecting instances of noncompliance with legal and regulatory requirements or noncompliance with provisions of contracts, administrative procedures, and local ordinances and policies that are significant within the context of the audit objective.

The results of our procedures indicated that, in all significant respects, the City of Bradford 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 finding further discussed later in this report:

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

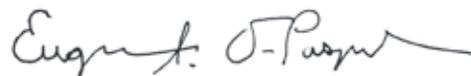
As previously noted, the objective of our audit of the City of Bradford Comprehensive Municipal Pension Trust Fund was to determine compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies. Act 205 was amended on September 18, 2009, through the adoption of Act 44 of 2009. Among several provisions relating to municipal pension plans, the act 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 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 plans contained in the respective schedules of funding progress included in this report which indicate **the police pension plan's funded ratio is 60.9%, the non-uniformed pension plan's funded ratio is 70.5%, and the firemen's pension plan's funded ratio is 64.2% as of January 1, 2013, which is the most recent data available. Based on this information, the Public Employee Retirement Commission issued a notification that the city is currently in Level II moderate distress status.** We encourage city officials to monitor the funding of its pension plans to ensure their long-term financial stability.

The contents of this report were discussed with officials of the City of Bradford and, where appropriate, their responses have been included in the report. We would like to thank city officials for the cooperation extended to us during the conduct of the audit.

July 29, 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 Bradford 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 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 Bradford Comprehensive Municipal Pension Trust Fund was established by Ordinance No. 3113, as amended, to serve as a common administrative and investment agent for the city's police, non-uniformed, and firemen's pension plans pursuant to the provisions of Section 607(b) of Act 205. The city's police, non-uniformed, and firemen's pension plans are controlled by the provisions of Ordinance General File No. 3165, as amended, adopted pursuant to Act 317. The plans are also affected by the provisions of collective bargaining agreements between the city and its police officers, non-uniformed employees, and firefighters.

BACKGROUND – (Continued)

POLICE PENSION PLAN

The police pension plan was established January 1, 1911. Active members are required to contribute 5 percent of base and longevity pay, plus \$5 per month, to the plan. As of December 31, 2014, the plan had 19 active members, no terminated members eligible for vested benefits in the future, and 24 retirees receiving pension benefits from the plan.

As of December 31, 2014, selected plan benefit provisions are as follows:

Eligibility Requirements:

Normal Retirement	Employees hired pre-1988 - 20 years of service. Employees hired post-1987 - 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 final monthly pay or 5-year average pay if higher, plus a service increment for each full year after 20 years, but prior to age 65, equal to 1/40th of the retirement allowance, not to exceed \$500 per month.

Survivor Benefit:

Before Retirement Eligibility	Employees not married: Refund of member contributions, without interest. Married employees: Before 10 years of service - 25% of compensation; With 10 years of service or more - 50% of compensation, payable immediately.
After Retirement Eligibility	If employee was a disability retiree or the employee was hired pre-1988 - 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. If employee was not a disability retiree or the employee was hired post-1987 - A monthly benefit equal to 50% of the pension the member was receiving or was entitled to receive on the day of the member's death.

BACKGROUND – (Continued)

POLICE PENSION PLAN – (Continued)

Disability Benefit:

Service Related	Normal Retirement Benefit payable immediately.
Non-Service Related	Before 10 years of service - 25% of compensation; with 10 years of service or more - 50% of compensation, payable immediately.

BACKGROUND – (Continued)

NON-UNIFORMED PENSION PLAN

The non-uniformed pension plan was established December 14, 1924. Active members are required to contribute 3.5 percent of compensation on which Social Security is payable and 5 percent of compensation in excess of that on which Social Security is payable, to the plan. As of December 31, 2014, the plan had 60 active members, 1 terminated member eligible for vested benefits in the future, and 40 retirees receiving pension benefits from the plan.

As of December 31, 2014, selected plan benefit provisions are as follows:

Eligibility Requirements:

Normal Retirement	Employees hired pre-1988 - Age 60. Employees hired post-1987 - Age 60 and 20 years of service.
Early Retirement	None
Vesting	Employees hired pre-1988 - 0% for less than 5 years, 25% for 5 years, increasing 5% for each year up to 50% after 10 years and increasing 10% for each year over 10 years until 100% is reached after 15 years. Employees hired post-1987 - 100% after 12 years of service.

Retirement Benefit:

Benefit equals 50% of average monthly compensation during the highest 5 years, minus 40% of the primary insurance amount of Social Security paid or payable to the plan. (Members may elect to contribute 5% of compensation to the plan in order to eliminate the offset.) In addition, pre-1988 hires receive a service increment for each full year of service after 15 years, but prior to age 70, equal to 1/40th of the retirement allowance.

BACKGROUND – (Continued)

NON-UNIFORMED PENSION PLAN – (Continued)

Survivor Benefit:

Before Retirement Eligibility Refund of member contributions, without interest.

After Retirement Eligibility Employees hired pre-1988 - 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.

Employees hired post-1987 - A monthly benefit equal to 50% of the pension the member was receiving or was entitled to receive on the day of the member's death.

Disability Benefit:

After 10 years of service and before attaining age 60 – a normal retirement benefit reduced by any applicable workmen's compensation benefits.

BACKGROUND – (Continued)

FIREMEN’S PENSION PLAN

The firemen’s pension plan was established February 26, 1931. Active members are required to contribute 5 percent of base and longevity pay, plus \$5 per month, to the plan. As of December 31, 2014, the plan had 17 active members, no terminated members eligible for vested benefits in the future, and 27 retirees receiving pension benefits from the plan.

As of December 31, 2014, 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 final monthly pay or 5-year average pay if higher, plus a service increment for each full year after 20 years, but prior to age 65, equal to 1/40th of the retirement allowance, not to exceed \$500 per month.

Survivor Benefit:

Before Retirement Eligibility	Refund of member contributions, without 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.

Disability Benefit:

Benefit equals 50% of the normal retirement benefit after 10 years of service and an additional 5% per year thereafter, to a maximum of 100%, payable immediately.

CITY OF BRADFORD COMPREHENSIVE MUNICIPAL PENSION TRUST FUND
FINDING AND RECOMMENDATION

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

Condition: The city failed to certify 1 eligible non-uniformed employee (1 unit) who was hired on April 8, 2013, and understated payroll by \$16,911 on the Certification Form AG 385 filed in 2014. The data contained on this certification form is based on prior calendar year information.

Criteria: Pursuant to Act 205, at Section 402(e)(2), an employee who has been employed on a full-time basis for at least six consecutive months and has been participating in a pension plan during the certification year is eligible for certification.

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

Effect: The data submitted on this certification form is used, in part, to calculate the state aid due to the municipality for distribution to its pension plans. Because the city’s state aid allocation was based on unit value, the city received an underpayment of state aid of \$3,873 as identified below:

<u>Units</u> <u>Understated</u>	<u>Unit</u> <u>Value</u>	<u>State Aid</u> <u>Underpayment</u>
1	\$ 3,873	\$ 3,873

Although the city will be reimbursed for the underpayment of state aid due to the city’s certification error, the full amount of the 2014 state aid allocation was not available to be deposited timely and therefore was not available to pay operating expenses or for investment.

Recommendation: We recommend that in the future, plan officials establish adequate internal control procedures, such as having at least 2 people review the data certified, to ensure compliance with the instructions that accompany Certification Form AG 385 to assist them in accurately reporting the required pension data.

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

Auditor’s Conclusion: Compliance will be subject to verification through our next audit.

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

SCHEDULES OF FUNDING PROGRESS

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

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

POLICE PENSION PLAN

	(1)	(2)	(3)	(4)
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded (Assets in Excess of) Actuarial Accrued Liability (b) - (a)	Funded Ratio (a)/(b)
01-01-09	\$ 4,239,833	\$ 6,078,039	\$ 1,838,206	69.8%
01-01-11	4,322,039	6,652,786	2,330,747	65.0%
01-01-13	4,261,167	6,998,462	2,737,295	60.9%

Note: The market values of the plan's assets at 01-01-09 and 01-01-11 have been adjusted to reflect the smoothing of gains and/or losses subject to a corridor between 70 to 130 percent of the market value of assets. The market value of the plan's assets at 01-01-13 has been adjusted to reflect the smoothing of gains and/or losses over a 4-year averaging period. These methods 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 BRADFORD COMPREHENSIVE MUNICIPAL PENSION TRUST FUND
 SUPPLEMENTARY INFORMATION
 (UNAUDITED)

SCHEDULES OF FUNDING PROGRESS – (Continued)

NON-UNIFORMED PENSION PLAN

	(1)	(2)	(3)	(4)
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded (Assets in Excess of) Actuarial Accrued Liability (b) - (a)	Funded Ratio (a)/(b)
01-01-09	\$ 6,762,083	\$ 8,680,475	\$ 1,918,392	77.9%
01-01-11	7,011,737	8,843,395	1,831,658	79.3%
01-01-13	6,886,867	9,772,018	2,885,151	70.5%

Note: The market values of the plan's assets at 01-01-09 and 01-01-11 have been adjusted to reflect the smoothing of gains and/or losses subject to a corridor between 70 to 130 percent of the market value of assets. The market value of the plan's assets at 01-01-13 has been adjusted to reflect the smoothing of gains and/or losses over a 4-year averaging period. These methods 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 BRADFORD COMPREHENSIVE MUNICIPAL PENSION TRUST FUND
 SUPPLEMENTARY INFORMATION
 (UNAUDITED)

SCHEDULES OF FUNDING PROGRESS – (Continued)

FIREMEN’S PENSION PLAN

	(1)	(2)	(3)	(4)
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded (Assets in Excess of) Actuarial Accrued Liability (b) - (a)	Funded Ratio (a)/(b)
01-01-09	\$ 5,407,704	\$ 8,036,977	\$ 2,629,273	67.3%
01-01-11	5,666,284	8,446,467	2,780,183	67.1%
01-01-13	5,549,651	8,638,263	3,088,612	64.2%

Note: The market values of the plan’s assets at 01-01-09 and 01-01-11 have been adjusted to reflect the smoothing of gains and/or losses subject to a corridor between 70 to 130 percent of the market value of assets. The market value of the plan’s assets at 01-01-13 has been adjusted to reflect the smoothing of gains and/or losses over a 4-year averaging period. These methods 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 BRADFORD 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.

CITY OF BRADFORD 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
2009	\$ 220,564	100.0%
2010	208,623	100.1%
2011	224,714	100.0%
2012	235,930	100.1%
2013	263,446	100.0%
2014	279,572	100.0%

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

SCHEDULES OF CONTRIBUTIONS FROM EMPLOYER
 AND OTHER CONTRIBUTING ENTITIES – (Continued)

NON-UNIFORMED PENSION PLAN

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2009	\$ 229,218	103.1%
2010	220,612	101.1%
2011	233,676	100.0%
2012	153,823	100.0%
2013	157,963	100.0%
2014	162,746	101.1%

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

SCHEDULES OF CONTRIBUTIONS FROM EMPLOYER
AND OTHER CONTRIBUTING ENTITIES – (Continued)

FIREMEN'S PENSION PLAN

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2009	\$ 397,086	100.1%
2010	338,695	100.2%
2011	349,231	100.0%
2012	346,543	100.0%
2013	399,409	100.0%
2014	413,474	100.0%

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

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

POLICE PENSION PLAN

Actuarial valuation date	January 1, 2013
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	12 years
Asset valuation method	Market value, 4-year smoothing
Actuarial assumptions:	
Investment rate of return	7.5%
Projected salary increases *	4.04%
Cost-of-living adjustments	None assumed

* Includes inflation at 2.5%

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

NON-UNIFORMED PENSION PLAN

Actuarial valuation date	January 1, 2013
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	12 years
Asset valuation method	Market value, 4-year smoothing
Actuarial assumptions:	
Investment rate of return	7.5%
Projected salary increases *	4.1%
Cost-of-living adjustments	None assumed

* Includes inflation at 2.5%

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

FIREMEN'S PENSION PLAN

Actuarial valuation date	January 1, 2013
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	12 years
Asset valuation method	Market value, 4-year smoothing
Actuarial assumptions:	
Investment rate of return	7.5%
Projected salary increases *	4.28%
Cost-of-living adjustments	None assumed

* Includes inflation at 2.5%

CITY OF BRADFORD COMPREHENSIVE MUNICIPAL PENSION TRUST FUND
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

City of Bradford Comprehensive Municipal Pension Trust Fund
McKean County
24 Kennedy Street
Bradford, PA 16701

The Honorable Thomas Riel	Mayor
Mr. Fred Proper	Chief Administrative Officer
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