COMPLIANCE AUDIT

City of Chester Officers and Employees Pension Plan

Delaware County, Pennsylvania

For the Period
January 1, 2018 to December 31, 2019

May 2021

Commonwealth of Pennsylvania
Department of the Auditor General

Timothy L. DeFoor • Auditor General

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TIMOTHY L. DEFOOR
AUDITOR GENERAL

The Honorable Mayor and City Council
City of Chester
Delaware County
Chester, PA 19013

We have conducted a compliance audit of the City of Chester Officers and Employees Pension Plan for the period January 1, 2018 to December 31, 2019. We also evaluated compliance with some requirements subsequent to that period when possible. The audit was conducted pursuant to authority derived from the Municipal Pension Plan Funding Standard and Recovery Act (Act 205 of 1984, as amended, 53 P.S. § 895.402 (j)), which requires the Auditor General, as deemed necessary, to audit every municipality which receives general municipal pension system state aid and every municipal pension plan and fund in which general municipal pension system state aid is deposited. The audit was not conducted, nor was it required to be, in accordance with Government Auditing Standards issued by the Comptroller General of the United States. We planned and performed 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 finding contained in our prior 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. To determine if municipal officials took appropriate corrective action to address the findings contained in our prior report, we inquired of plan officials and evaluated supporting documentation provided by officials evidencing that the suggested corrective action has been appropriately taken. To determine whether the pension plan 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 the plan's governing document and applicable laws and regulations by examining the municipality's calculation of the plan's annual financial requirements and minimum municipal obligation[1] (MMO) and comparing these calculated amounts to amounts actually budgeted and deposited into the pension plan as evidenced by supporting documentation.

- We determined whether annual employee contributions were calculated, deducted, and deposited into the pension plan in accordance with the plan's governing document and applicable laws and regulations by testing total members' contributions on an annual basis using the rates obtained from the 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 the pension plan.

- We determined whether retirement benefits calculated for plan members who retired during the current audit period, and through the completion of our fieldwork procedures, represent payments to all (and only) those entitled to receive them and were properly determined and disbursed in accordance with the plan's governing document, applicable laws, and regulations by recalculating the amount of the monthly pension benefits due to the retired individuals and comparing these amounts to supporting documentation evidencing amounts determined and actually paid to the recipients.

- We determined whether the January 1, 2017 and January 1, 2019 actuarial valuation reports were prepared and submitted by March 31, 2018 and 2020, respectively, in accordance with Act 205 and whether 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 by comparing selected information to supporting source documentation.

- We determined whether the 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.

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[1] The minimum municipal obligation (MMO) is an annual calculation of the municipality's annual required contribution to the pension plan, prepared by the municipality pursuant to Act 205 provisions. The annual MMO is due by December 31 and is payable to the pension plan from the revenue of the municipality, which may include general fund contributions or general municipal pension system state aid received by the municipality.

City officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the City of Chester Officers and Employees Pension Plan is administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies. As previously described, we tested transactions, interviewed selected officials, and performed procedures to the extent necessary 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 procedures indicated that, in all significant respects, the City of Chester Officers and Employees 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 – Provision Of Benefits Inconsistent With The Third Class City Code

Finding No. 2 – Deficiencies Relative To The City's Enactment Of The Special Taxing Provisions Of Act 205

Finding No. 3 – Failure To Pay The Minimum Municipal Obligation Of The Plan

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

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

Level	Indication	Funding Criteria
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, we 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 the plan's funded ratio is 33.3% as of January 1, 2019, which is the most recent data available. Based in part on this information and when combined with the funded status of the city's other pension plans, the Municipal Pension Reporting Program issued a notification that the aggregate funded status of the city's plans places the city currently in Level III Severe Distress Status.**

While the plan's funded ratio has increased incrementally since a low of 9.6% as of January 1, 2013, to the current level of 33.3% as of January 1, 2019, it has come at a marked increase in the city's annual required contributions to the Officers and Employees pension plan. The annual required contributions were historically below $400,000 prior to 2013 and spiked to over $1 million in 2015 and 2016. Subsequent to the current audit period, the city determined the 2020 and 2021 minimum municipal obligations to again be over $1 million.

Based on the annual benefit payments owed to beneficiaries as reported in the plan's January 1, 2019 actuarial valuation report, at current funding levels, based on the plan's current benefit obligations and actuarial assumptions (which include 7.5 percent long-term investment return projections), the Officers and Employees plan has assets to fund approximately 4 years of benefit payments as illustrated below:

Plan	Actuarial Valuation of Assets 1-1-19	Annual Benefit Payments Owed To Beneficiaries 1-1-19	Years of Benefit Payments That Can Be Funded By Assets Available 1-1-19
Officers and Employees	$ 2,674,647	$ 642,661	4.16

In its continuing efforts to address the funding deficiencies of its pension plan, utilizing a special tax provision provided in Act 44 of 2009, the city recently modified its earned income tax rate to 3.75 percent for residents and 2.0 percent for non-residents of the city, effective January 1, 2021, for the sole purpose of defraying the additional costs required to be paid pursuant to Act 205 directly related to the city's pension plans. The city anticipates the long-term position of the pension fund to improve over time and we encourage city officials to continue developing and implementing its long-term strategic plan to address its Officers and Employees Pension Plan funding crisis. The city must continue to make fiscally responsible decisions as plan fiduciaries that will benefit the City of Chester and its taxpayers to ensure that the pension plan has adequate resources to meet current and future benefit obligations to the city's hard working non-uniformed employees. Doing so will help to ensure the plan's long-term financial stability.

The contents of this report were discussed with officials of the City of Chester and, where appropriate, their responses have been included in the report.

Timothy L. DeFoor

April 12, 2021

Timothy L. DeFoor
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.

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 Chester Officers and Employees Pension Plan is also governed by implementing regulations 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 362 - The Third Class City Code, Act of May 23, 1945 (P.L. 903, No. 362), Article XLIII-A, Optional Retirement System for Officers and Employees, as amended, 53 P.S. § 39371 et seq.

The City of Chester Officers and Employees Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Article 145, adopted pursuant to Act 362. The plan is also affected by the provisions of collective bargaining agreements between the city and its non-uniformed employees. The plan was established January 1, 1941. Active members are required to contribute 6 percent of compensation to the plan if hired prior to January 1, 1988, and 3.5 percent of compensation if hired on or after January 1, 1988. As of December 31, 2019, the plan had 120 active members, no terminated members eligible for vested benefit in the future, and 52 retirees receiving pension benefits.

CITY OF CHESTER OFFICERS AND EMPLOYEES PENSION PLAN
STATUS OF PRIOR FINDING

Noncompliance With Prior Audit Recommendation

The City of Chester has not complied with the prior recommendation concerning the following as further discussed in the Finding and Recommendation section of this report:

- Provision Of Benefits Inconsistent With The Third Class City Code

Finding No. 1 – Noncompliance With Prior Audit Recommendation – Provision Of Benefits Inconsistent With The Third Class City Code

Condition: 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.). As disclosed in prior audit reports issued since the audit report covering the period January 1, 1998 through December 31, 2000, the plan's governing document contains a benefit provision that is inconsistent with the Third Class City Code (Act 362), as noted below:

Benefit	Governing Document	Third Class City Code
Definition of salary	Salary includes regular wages, overtime wages, longevity wages, holiday pay, education benefits and any payments for reimbursement of health premiums.	Salary is the fixed amount of compensation paid at regular, periodic intervals by the city to the member and from which pension contributions have been deducted.

Criteria: As disclosed in prior audit reports, the Commonwealth Court of Pennsylvania issued its opinion on January 24, 2001, 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." *Municipality of Monroeville v. Monroeville Police Department Wage Policy Committee*, 767 A.2d 596, 598 (Cmmw. Ct. 2001). The court's holding was in accord with the position taken by this Department since at least January 1995.

Cause: Municipal officials failed to take appropriate corrective action to comply with the prior audit recommendation.

Effect: The provision of unauthorized benefits could increase the plan's pension costs and reduce the amount of funds available for investment purposes or the payment of authorized benefits or administrative expenses. Since the city received its state aid allocations based on unit value during the current audit period, it did not receive excess state aid allocations attributable to the unauthorized benefits provided; however, the provision of unauthorized benefits could result in the receipt of excess state aid in the future, or increase required municipal contributions to the plan.

Finding No. 1 – (Continued)

Recommendation: The Department acknowledges 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.

Special note should be taken that the Department's application of *Monroeville* only to employees hired on or after January 24, 2001, does not sanction: (1) a municipality's granting excess benefits to existing or future employees when none had been granted as of January 24, 2001; or (2) a municipality's increasing excess benefits for existing or future employees beyond those that had been granted as of that date.

Management's Response: At our exit conference held on March 23, 2021, municipal officials indicated that a written response to this finding would be provided within 10 days; however, as of May 20, 2021, no such response has been provided.

Auditor's Conclusion: This finding repeats a condition that has been cited in prior audit reports issued since the audit report covering the period January 1, 1998 through December 31, 2000, that has not been corrected by city officials. We are concerned by the city's continued failure to correct this previously reported audit finding and strongly encourage timely implementation of the recommendation noted in this audit report. Any response to the finding provided by officials subsequent to report issuance will be given due consideration upon receipt and compliance will be evaluated during our next audit of the plan, accordingly.

Finding No. 2 – Deficiencies Relative To The City's Enactment Of The Special Taxing Provisions Of Act 205

Condition: The City of Chester's pension plans were determined to be Level III Distressed by the former Pennsylvania Employee Retirement Commission (PERC). Act 44 of 2009 provides short-term fiscal relief to local governments operating public pension plans and includes discretionary remedies available for distressed municipalities to assist with the funding of their pension plans. Utilizing a special tax provision provided in Act 44, the city adopted Ordinance No. 8-2018 *(effective January 1, 2019)* increasing its Earned Income Tax rate for non-residents of the city for the sole purpose of defraying the additional costs required to be paid pursuant to Act 205 directly related to the city's pension plans. In addition, the city's recovery coordinator prepared the calculation necessary to determine the appropriate funding levels mandated by Act 205 after enacting the special taxing legislation. The city subsequently modified its tax rate by enacting Ordinance No. 5-2020 which effectively re-established its Earned Income Tax rates for both residents (3.75 percent of earnings) and non-residents (2.0 percent of earnings) of the city *(effective January 1, 2021)*. However, this department identified the following deficiencies relative to the city's enactment of the special taxing provisions of Act 205:

- Ordinance No. 8-2018 enacted special taxing authority for non-residents of the city; however, such enactment was contrary to provisions of Act 199.

- Although it appears that the city attempted to rectify the aforementioned inconsistency through the passage of Ordinance No. 5-2020 by re-establishing the city's earned income tax rates for residents and non-residents effective 2021, the ordinance does not specify the amount of tax imposed specifically for the sole purpose of defraying the additional costs required to be paid pursuant to Act 205 directly related to the city's pension plans.

- The city did not establish procedures to adequately account for tax revenues received under the special taxing provisions of Act 205 or to differentiate the amount of tax collected and received from the taxing agent generated pursuant to Act 205 for its distressed pension plans, as opposed to tax revenue generated under Act 511 which can be used for general government purposes during 2019 and 2020.

- The city did not maintain adequate supporting documentation evidencing that amounts received under the special taxing authority of Act 205 and designated for its distressed pension plans were appropriately deposited into the pension plans during 2019 and 2020.

- The city failed to implement procedures to effectively monitor and evidence that required contributions under the special taxing provisions of Act 205 were made by the city to its pension plans during the years 2019 and 2020 from funds in existence prior to implementation of the special tax, in amounts determined by the coordinator.

Finding No. 2 – (Continued)

Additionally, it was further noted that based on records provided during the audit by the taxing entity responsible for collecting local taxes, the city reportedly received tax revenues amounting to $7 million and $3.5 million during 2019 and 2020, respectively. However, the department was unable to determine whether the amounts received under the special taxing provisions of Act 205 were deposited into the city's pension plans and, accordingly, whether the city continued to meet the special tax provisions under Act 205 for the years 2019 and 2020.

Criteria: With regard to the MMO, Section 302(c) of Act 205 states, in part:

> Annually, the chief administrative officer of the pension plan shall determine the minimum obligation of the municipality with respect to the pension plan for the following plan year.

Section 302(d) of Act 205 states, in part:

> The minimum obligation of the municipality shall be payable to the pension plan from the revenue of the municipality.

Furthermore, relative to the additional remedies available to distressed municipalities to assist with the funding of their pension plans, Section 607(f) of Act 205 further states:

> **(f) Special municipal taxing authority.**
> (1) If the tax rates set by the municipality on earned income or on real property are at the maximum provided by applicable law, the municipality may increase its tax on either earned income or real property above those maximum rates. The proceeds of this special municipal tax increase shall be used solely to defray the additional costs required to be paid pursuant to this act, which are directly related to the pension plans of the municipality. The municipality utilizing this special municipal taxing authority shall not reduce the level of municipal contributions to the pension plans prior to the implementation of the special municipal taxing authority. [Emphasis added.]

Finding No. 2 – (Continued)

> (2) The average level of municipal contributions to the pension plans from all revenue sources for the three years immediately prior to the implementation of the special municipal taxing authority shall be expressed as a percentage of the average covered payroll for that same three-year period: Provided, however, that any supplemental contributions made to the plans pursuant to any pension recovery legislation enacted by the municipalities shall be excluded for purposes of determining the level of municipal contribution to the pension plans prior to the implementation of the special municipal taxing authority. <u>In each year subsequent to the implementation of the special municipal taxing authority, the municipal contributions to the pension plan from all revenue sources existing prior to the implementation of the special existing municipal taxing authority, reduced by any supplemental pension recovery contributions, shall equal or exceed this average percentage of the current covered payroll.</u> [Emphasis added.] A municipality utilizing the provisions of section 404 may levy or continue to levy the special municipal tax increase under this subsection provided that the municipality does not reduce the level of municipal contributions to the pension plans prior to the implementation of the special municipal taxing authority. In executing the procedure prescribed in this subsection to determine the level of municipal contributions, the debt service payments for bonds or notes issued under section 404 shall be considered municipal contributions.

Moreover, Section 34 of Act 199 of 2014 pertaining to distressed municipalities, states:

> For tax years beginning after the effective date of this section, a financially distressed municipality shall be prohibited from using the special taxing authority in section 607(f) of the act of December 18, 1984 (P.L. 1005, No. 205), known as the Municipal Pension Plan Funding Standard and Recovery Act, to impose an increase in the rate, over the rate imposed as of June 30, 2014, of taxation on nonresident income <u>unless an equal or greater increase in the rate of taxation on resident income, over the highest rate levied in the previous fiscal year, is imposed in the same tax year.</u> [Emphasis added.]

<u>Cause</u>: Although the city's recovery coordinator prepared the calculation necessary to determine the appropriate funding levels mandated by Section 607(f) of Act 205 after enacting the special taxing legislation, the city lacked adequate internal control procedures to ensure that the city did not reduce its level of contributions to its pension plans and from funding sources in effect prior to the implementation of the special municipal tax. Nor did the city maintain appropriate substantive evidence to ensure that funds received under distress provisions of Act 205 were used for their intended purpose.

Finding No. 2 – (Continued)

Effect: The failure to properly apply the provisions of Section 607(f) of Act 205 and fund the pension plans accordingly resulted in less annual funding towards the city's distressed pension plans than afforded under the provisions of Act 205 during 2019 and 2020 and could result in the plans not having the necessary resources to meet current and future benefit obligations to its members. In addition, the failure to maintain the levels of contribution prior to enacting the additional special tax reduced the net overall contributions to the plan, potentially negating benefits of the additional tax. Furthermore, since the city failed to maintain a separate accounting for the tax designated for distressed pension payments, it could not be determined how much was actually received by the city and deposited into its pension plans pursuant to Act 205 for the sole purpose of defraying the additional costs directly related to the city's pension plans during 2019 and 2020.

Recommendation: We recommend that the city develop and implement adequate procedures to account for the receipt and distribution of tax revenues collected under the special taxing authority afforded by Act 205 and maintain adequate, substantive documentation evidencing that funds collected under the special tax are used solely to defray the additional costs related to its pension plans in accordance with Act 205.

We also recommend that city officials implement adequate internal control procedures to ensure that the city does not reduce its level of contributions to its pension plans from funding sources prior to the implementation of the special municipal tax in accordance with Act 205 for periods subsequent to this report. Such procedures should include maintaining appropriate supporting documentation identifying the sources of its annual contributions to its pension plans as well as an annual reconciliation evidencing that funding requirements were properly met in accordance with Section 607(f) of Act 205.

Furthermore, we recommend that the city, along with its solicitor, review the ordinance enacting the special taxing authority by the city and ensure compliance with provisions of Act 205 and Act 199.

Finally, we recommend that the city provide documentation that funds previously collected under provisions of Section 607(f) of Act 205 during 2019 and 2020 were used for their intended purpose under the act.

Management's Response: At our exit conference held on March 23, 2021, municipal officials indicated that a written response to this finding would be provided within 10 days; however, as of May 20, 2021, no such response has been provided.

Auditor's Conclusion: Although the municipality did not provide a written response as of the issuance of this report, any response to the finding provided by officials subsequent to report issuance will be given due consideration upon receipt and compliance will be evaluated during our next audit of the plan, accordingly.

Finding No. 3 – Failure To Pay The Minimum Municipal Obligation Of The Plan

Condition: The city did not pay the minimum municipal obligation (MMO) of the officers and employees pension plan for the years 2019 and 2020, as required by Act 205. The total MMO for 2019 for the officers and employees pension plan as determined by the city amounted to $810,917 and the total MMO for 2020 was $1,041,780; however, the city did not make any deposits for 2019 or 2020 into the pension plan.

Additionally, although the city has made a formal commitment to pay the full amounts of the MMOs due the plan by recording these amounts as receivables, thereby including amounts in plan assets, the city has an unpaid 2019 MMO balance for the officers and employees pension plan of $941,711 (including interest) and an unpaid 2020 MMO balance of $1,122,656 (including interest). The interest calculations were provided by the city as of December 31, 2020.

Criteria: With regard to the MMO, Section 302(c) of Act 205 states, in part:

> Annually, the chief administrative officer of the pension plan shall determine the minimum obligation of the municipality with respect to the pension plan for the following plan year.

Section 302(d) of Act 205 states, in part:

> Annually the municipality shall provide for the full amount of the minimum obligation of the municipality in the budget of the municipality. The minimum obligation of the municipality shall be payable to the pension plan from the revenue of the municipality.

Furthermore, Section 302(e) of Act 205 states:

> Any amount of the minimum obligation of the municipality which remains unpaid as of December 31 of the year in which the minimum obligation is due shall be added to the minimum obligation of the municipality for the following year, with interest from January 1 of the year in which the minimum obligation was first due until the date the payment is paid at a rate equal to the interest assumption used for the actuarial valuation report or the discount rate applicable to treasury bills issued by the Department of Treasury of the United States with a six-month maturity as of the last business day in December of the plan year in which the obligation was due, whichever is greater, expressed as a monthly rate and compounded monthly.

Finding No. 3 – (Continued)

Cause: The city could not properly budget for the drastic annual increases in its pension liability and allocate the necessary financial resources to meet its annual municipal pension obligation.

Effect: The failure to pay the MMOs could result in the plan not having adequate resources to meet current and future benefit obligations to its members.

Due to the city's failure to pay the 2019 and 2020 MMOs by the December 31, 2019 and 2020 deadlines, the city must add the 2019 and 2020 MMO balances to the current year's MMO and include interest, as required by Act 205.

Furthermore, the city's future state aid allocations may be withheld until the finding recommendation is complied with.

Recommendation: We recommend that the city pay the outstanding MMOs due to the officers and employees pension plan for the years 2019 and 2020 with interest, in accordance with Section 302(e) of Act 205. A copy of the interest calculation must be maintained by the city for examination during our next audit of the plan.

Furthermore, we recommend that in the future, city officials pay the full MMO due to the plan in accordance with Act 205 requirements.

Management's Response: At our exit conference held on March 23, 2021, municipal officials indicated that a written response to this finding would be provided within 10 days; however, as of May 20, 2021, no such response has been provided.

Auditor's Conclusion: Although the municipality did not provide a written response as of the issuance of this report, any response to the finding provided by officials subsequent to report issuance will be given due consideration upon receipt. Due to the potential withhold of state aid, the city's compliance with the finding recommendation will be evaluated subsequent to the release of the audit report and during our next audit of the plan.

CITY OF CHESTER OFFICERS AND EMPLOYEES PENSION PLAN
POTENTIAL WITHHOLD OF STATE AID

A condition such as that reported by Finding No. 3 contained in this audit report may lead to a total withholding of state aid in the future unless that finding is corrected. However, such action will not be considered if sufficient written documentation is provided to verify compliance with this department's recommendation. Such documentation should be submitted to: Department of the Auditor General, Bureau of Municipal Pension & Liquor Control Audits, 314 Finance Building, Harrisburg, PA 17120.

CITY OF CHESTER OFFICERS AND EMPLOYEES 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, 2015, is as follows:

	(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)
01-01-15	$ 990,525	$ 9,089,783	$ 8,099,258	10.9%
01-01-17	2,019,149	8,350,535	6,331,386	24.2%
01-01-19	2,674,647	8,028,817	5,354,170	33.3%

Note: The market values of the plan's assets at 01-01-15, 01-01-17, and 01-01-19 have been adjusted to reflect the smoothing of gains and/or losses subject to a maximum corridor of 120 percent of the market value of assets. 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 CHESTER OFFICERS AND EMPLOYEES 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.

CITY OF CHESTER OFFICERS AND EMPLOYEES PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF CONTRIBUTIONS

Year Ended December 31	Actuarially Determined Contribution	Actual Contributions	Contribution Deficiency (Excess)	Covered-Employee Payroll	Contributions as a Percentage of Covered-Employee Payroll
2014	$ 709,116	$ 709,116	$ -	$4,493,142	15.78%
2015	1,010,694	1,010,694	-	4,800,000	21.06%
2016	1,027,873	1,027,873	-	4,836,136	21.25%
2017	754,857	754,857	-	4,920,000	15.34%
2018	638,153	638,153	-	5,206,666	12.26%
2019	810,917	(62,954)	873,871	4,974,178	N/A

Note: The City's 12/31/19 outstanding MMO balance including interest for 2019 was $873,871. The City calculated the outstanding 2019 MMO balance including interest to be $941,711 as of 12/31/20. See Finding No. 3 contained in the Findings and Recommendations section of this report.

The 2019 negative contribution made reflects the net imputed interest penalty applied under Act 205, which is the reason the contribution made is negative for 2019.

N/A – Not applicable

CITY OF CHESTER OFFICERS AND EMPLOYEES PENSION PLAN
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:

Actuarial valuation date	January 1, 2019
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	The remaining amortization period cannot be determined since the aggregated amortization contribution is negative and the remaining balance of the aggregated liability is positive.
Asset valuation method	Plan assets are valued using the method described in Section 210 of Act 205, as amended, subject to a ceiling of 120% of the market value of assets.
Actuarial assumptions:	
Investment rate of return	7.5%
Projected salary increases	5.0%
Cost-of-living adjustments	None assumed

CITY OF CHESTER OFFICERS AND EMPLOYEES PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
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Commonwealth of Pennsylvania

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City Controller

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