

COMPLIANCE AUDIT

City of Bradford Comprehensive Municipal Pension Trust Fund

McKean County, Pennsylvania

For the Period

January 1, 2019 to December 31, 2020

September 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 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, 2019 to December 31, 2020. 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 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 plans were 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 plans were 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 the plan's governing document and applicable laws and regulations by testing total 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 plan members who retired or elected to vest 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 or payable 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 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 annual audits of its basic financial statements for the year ended December 31, 2019 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.

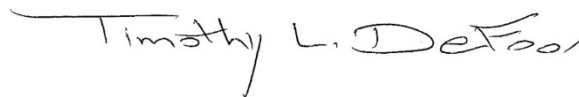
City officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the City of Bradford Comprehensive Municipal Pension Trust Fund is administered in compliance with applicable state laws, regulations, contracts, administrative procedures, 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 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 – Failure To Fully Pay The Minimum Municipal Obligation Of The Plans

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 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.

A handwritten signature in black ink that reads "Timothy L. DeFoor". The signature is written in a cursive style with a long horizontal line extending from the start of the name.

August 26, 2021

Timothy L. DeFoor
Auditor General

CONTENTS

	<u>Page</u>
Background.....	1
Finding and Recommendation:	
Finding – Failure To Fully Pay The Minimum Municipal Obligation Of The Plans	3
Potential Withhold of State Aid.....	5
Supplementary Information	6
Report Distribution List	16

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 Bradford Comprehensive Municipal Pension Trust Fund 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 67 - The Third Class City Code, Act of November 24, 2015 (P.L. 242, No. 67), as amended, 11 Pa. C.S. § 10101 et seq.

Act 147 - Special Ad Hoc Municipal Police and Firefighter Postretirement Adjustment Act, Act of December 14, 1988 (P.L. 1192, No. 147), as amended, 53 P.S. § 896.101 et seq.

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 67, formerly Act 317. The plans are also affected by the provisions of the collective bargaining agreements between the city and its police officers, non-uniformed employees, and firefighters.

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, 2020, the plan had 19 active members, 3 terminated members eligible for vested benefits in the future, and 22 retirees receiving pension benefits from the 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, 2020, the plan had 45 active members, 4 terminated members eligible for vested benefits in the future, and 44 retirees receiving pension benefits from the plan.

BACKGROUND – (Continued)

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, 2020, the plan had 20 active members, 1 terminated member eligible for vested benefits in the future, and 23 retirees receiving pension benefits from the plan.

CITY OF BRADFORD COMPREHENSIVE MUNICIPAL PENSION TRUST FUND
FINDING AND RECOMMENDATION

Finding – Failure To Fully Pay The Minimum Municipal Obligation Of The Plans

Condition: The municipality did not fully pay the minimum municipal obligation (MMO) that was due to the police, non-uniformed, and firemen’s pension plans for the years 2019 and 2020, as required by Act 205. The unpaid MMO balances are as follows:

Plan	2019	2020	Total
Police	\$ 148,365	\$ 299,332	\$ 447,697
Non-Uniformed	38,485	449,783	488,268
Firemen’s	204,431	227,991	432,422
Total	<u>\$ 391,281</u>	<u>\$ 977,106</u>	<u>\$ 1,368,387</u>

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, 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.

CITY OF BRADFORD COMPREHENSIVE MUNICIPAL PENSION TRUST FUND
FINDING AND RECOMMENDATION

Finding – (Continued)

Cause: Plan officials did not comply with the Act 205 requirements because the city is in distress status and did not have the funds to fully pay the MMOs for the police, non-uniformed, and firemen’s pension plans for the years 2019 and 2020.

Effect: The failure to fully pay the police, non-uniformed, and firemen’s pension plans’ MMOs could result in the plans not having adequate resources to meet current and future benefit obligations to their members.

Due to the city’s failure to fully pay the plans’ MMOs by the December 31, deadline, the city must add the outstanding MMO balance 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 municipality pay the total outstanding MMOs of \$1,368,387 to the police, non-uniformed, and firemen’s pension plans 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, plan officials pay the full MMO due to the plans.

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

Auditor’s Conclusion: Due to the potential withhold of state aid, the city’s compliance with the finding recommendation will be monitored subsequent to the release of the audit report and through our next audit of the pension trust fund.

CITY OF BRADFORD COMPREHENSIVE MUNICIPAL PENSION TRUST FUND
POTENTIAL WITHHOLD OF STATE AID

A condition such as that reported by the finding contained in this audit report may lead to a total withholding of state aid in the future unless the 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 BRADFORD COMPREHENSIVE MUNICIPAL PENSION TRUST FUND
 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:

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)
01-01-15	\$ 5,091,314	\$ 7,454,343	\$ 2,363,029	68.3%
01-01-17	5,558,204	8,171,871	2,613,667	68.0%
01-01-19	6,155,612	8,434,543	2,278,931	73.0%

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 over a 4-year averaging period. This method will lower contributions in years of less than expected returns and increase contributions in years of greater than expected returns. The net effect over long periods of time is to have less variance in contribution levels from year to year.

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

SCHEDULE OF FUNDING PROGRESS

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)
01-01-15	\$ 7,898,130	\$ 11,205,937	\$ 3,307,807	70.5%
01-01-17	8,433,561	12,444,185	4,010,624	67.8%
01-01-19	8,991,066	12,837,186	3,846,120	70.0%

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 over a 4-year averaging period. This method will lower contributions in years of less than expected returns and increase contributions in years of greater than expected returns. The net effect over long periods of time is to have less variance in contribution levels from year to year.

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

SCHEDULE OF FUNDING PROGRESS

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)
01-01-15	\$ 6,481,635	\$ 9,252,744	\$ 2,771,109	70.1%
01-01-17	6,925,971	9,510,889	2,584,918	72.8%
01-01-19	7,533,892	10,001,974	2,468,082	75.3%

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 over a 4-year averaging period. This method will lower contributions in years of less than expected returns and increase contributions in years of greater than expected returns. The net effect over long periods of time is to have less variance in contribution levels from year to year.

CITY OF 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)

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER
 AND OTHER CONTRIBUTING ENTITIES

POLICE PENSION PLAN

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2015	\$ 313,917	100.0%
2016	358,771	100.0%
2017	427,324	100.0%
2018	469,215	100.0%
2019	482,827	69.3%*
2020	497,824	39.9%*

* See finding

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

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER
 AND OTHER CONTRIBUTING ENTITIES

NON-UNIFORMED PENSION PLAN

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2015	\$ 249,092	100.5%
2016	344,854	101.4%
2017	406,645	100.9%
2018	524,007	100.0%
2019	536,178	92.8%*
2020	689,812	34.8%*

* See finding

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

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER
 AND OTHER CONTRIBUTING ENTITIES

FIREMEN'S PENSION PLAN

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2015	\$ 372,380	100.0%
2016	441,381	100.0%
2017	510,502	100.0%
2018	605,184	100.0%
2019	614,251	66.7%*
2020	630,484	63.8%*

* See finding

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, 2019
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	10 years
Asset valuation method	Market value, 4-year smoothing
Actuarial assumptions:	
Investment rate of return	7.35%
Projected salary increases *	4.0%
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, 2019
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	7.35%
Projected salary increases *	4.0%
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, 2019
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	9 years
Asset valuation method	Market value, 4-year smoothing
Actuarial assumptions:	
Investment rate of return	7.35%
Projected salary increases *	4.0%
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:

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The Honorable James McDonald
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Finance Director

Ms. Karen Hector
City Treasurer

Mr. Ronald Orris
City Controller

Mr. Chris Lucco
City Administrator

Ms. Valerie Figula
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