COMPLIANCE AUDIT

City of Butler
Police Pension Plan

Butler County, Pennsylvania

For the Period
January 1, 2020 to December 31, 2021

August 2022

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 Butler
Butler County
Butler, PA 16001

We have conducted a compliance audit of the City of Butler Police Pension Plan for the period January 1, 2020 to December 31, 2021. 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 conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our 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 finding 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 (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 that there were no benefit calculations prepared for the years covered by our audit period.

- We determined whether the January 1, 2019 and January 1, 2021 actuarial valuation reports were prepared and submitted by March 31, 2020 and 2022, 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 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 transfers were properly authorized, timely, and appropriately recorded by plan officials by examining supporting documentation for the transfers made during the audit period.

The City of Butler contracted with an independent certified public accounting firm for an audit of its basic financial statements for the year ended December 31, 2020, 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 Butler Police 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 Butler Police Pension Plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies.

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 Butler 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.

Timothy L. DeFoor

Timothy L. DeFoor
Auditor General
July 1, 2022

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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 Butler Police 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 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 Butler Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 1516, as amended. The plan is also affected by the provisions of collective bargaining agreements between the city and its police officers. The plan was established January 1, 1948. Active members are required to contribute 5 percent of base wages, plus longevity, plus shift differential to the plan. As of December 31, 2021, the plan had 23 active members, 1 terminated member eligible for vested benefits in the future, and 38 retirees receiving pension benefits from the plan.

CITY OF BUTLER POLICE PENSION PLAN
STATUS OF PRIOR FINDING

Compliance With Prior Recommendation

The City of Butler has complied with the prior recommendation concerning the following:

- Incorrect Data On Certification Form AG 385 Resulting In An Overpayment Of State Aid

  During the current audit period, the city returned $12,232 to the Commonwealth for the overpayment of state aid received in the year 2019.

CITY OF BUTLER POLICE 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, 2017, 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)
01-01-17	$ 12,893,472	$13,133,788	$ 240,316	98.2%
01-01-19	13,020,592	14,056,816	1,036,224	92.6%
01-01-21	14,482,669	15,073,657	590,988	96.1%

Note: The market values of the plan's assets at 01-01-17, 01-01-19, and 01-01-21 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 BUTLER POLICE 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 BUTLER POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER
AND OTHER CONTRIBUTING ENTITIES

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2016	$ 186,543	107.7%
2017	175,281	113.6%
2018	167,806	119.0%
2019	257,504	100.0%
2020	359,859	100.0%
2021	372,211	100.0%

CITY OF BUTLER POLICE 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, 2021
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	10 years
Asset valuation method	Fair value, 4-year smoothing
Actuarial assumptions:	
Investment rate of return	7.0%
Projected salary increases	4.5%
Cost-of-living adjustments	None assumed

CITY OF BUTLER POLICE PENSION PLAN
COMMENT

Historically, it has been the practice of the city to recurrently open windows to allow police officers to retire earlier than stipulated in the plan's governing document. The benefits provided through these retirement windows (in 2003, 2014, and 2018) were not in excess of the provisions stipulated in the Third Class City Code, and the city appropriately conducted cost estimates to determine the effect of the benefit changes as required by Act 205; however, as the funding standard for municipal pension plans, the overarching principle of Act 205 is undermined when a plan is funded based on an established plan benefit structure and that structure is repeatedly contradicted for specific populations of plan membership. The practice of recurrently opening windows to allow police officers to retire earlier than stipulated in the plan's governing document could have potential adverse ramifications on the plan and the city and, therefore, is not a common practice among municipal pension plans in the Commonwealth of Pennsylvania. As evidenced by the cost studies, the benefit changes result in increased annual MMOs which, when the city's annual state aid allocation is not sufficient to cover the annual MMO, is borne by the taxpayer in the form of increased required municipal contributions from the general fund.

Although the current plan document defines normal retirement eligibility as age 50 with 25 years of service for police officers hired on or after October 1, 2018, there are numerous police officers who were hired prior to October 1, 2018 and are subject to the normal retirement eligibility provision of age 50 with 20 years of service. Many of these police officers will reach 20 years of service prior to reaching age 50. Although no retirement windows were opened during the current audit period, the city, with its precedent of granting retirement windows, could face the unintended consequence of perceived inequality in the event that a police officer, in the future, attains the required years of service but not the required age and the city either does not pursue a retirement window or does pursue a retirement window and a cost study determines the granting of a window to allow the officer to retire to be unsustainable at that time.

Upon discussing this issue previously with city officials during the conduct of prior audits, officials indicated that relative to the retirement windows, the amendments that were passed are authorized by the Third Class City Code, and the required actuarial studies were prepared prior to the passage of any plan amendments. City officials further pointed out that the City could have defined normal retirement age all along as the completion of 20 years of service with no age requirement or could amend the plan at any time to make that the normal retirement eligibility, under section 14302 of the Third Class City Code as a "20 and out" retirement eligibility which would have resulted in much higher plan liabilities and funding requirements. City officials stated that the Department essentially reprimands the City for having a more conservative retirement eligibility all along and making exceptions via windows for individuals.

CITY OF BUTLER POLICE PENSION PLAN
COMMENT

It is not the intent of this Department to take exception to the benefits provided by the city, merely to point out that the practice of recurrently opening windows to allow retirements earlier than expected under the plan's governing document and funding under Act 205 could have adverse ramifications to the plan and that the city should make fiscally responsible decisions as both plan fiduciaries and city officials that will benefit the City of Butler and its taxpayers to ensure the city's pension fund has adequate resources to meet current and future benefit obligations to the city's hard-working police officers.

CITY OF BUTLER POLICE PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

The Honorable Robert A. Dandoy
Mayor

Ms. Melinda F. Gall
City Clerk

Ms. Kerry M. Dowdy
Administrative Assistant

This report is a matter of public record and is available online at www.PaAuditor.gov. Media questions about the report can be directed to the Pennsylvania Department of the Auditor General, Office of Communications, 229 Finance Building, Harrisburg, PA 17120; via email to: news@PaAuditor.gov.