

# COMPLIANCE AUDIT

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## City of Reading Officers and Employees Pension Plan Berks County, Pennsylvania For the Period January 1, 2020 to December 31, 2021

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March 2023



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 Reading  
Berks County  
Reading, PA 19601

We have conducted a compliance audit of the City of Reading Officers and Employees 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 findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The objectives of the audit were:

1. To determine if municipal officials took appropriate corrective action to address the findings contained in our prior 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 (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 and 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 and payable to the recipients.
- We determined whether the January 1, 2021 actuarial valuation report was prepared and submitted by March 31, 2022 in accordance with Act 205 and whether selected information provided on this report 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 terms and methodologies of the issuance of pension obligation bonds by the municipality, and any restrictions, were in compliance with plan provisions and Act 205 through inquiry of plan officials and examination of supporting documentation.

The City of Reading contracted with an independent certified public accounting firm for annual audits of its basic financial statements which are available at the city's offices. Those financial statements were not audited by us and, accordingly, we express no opinion or other form of assurance on them.

City officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the City of Reading 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.

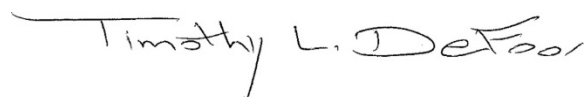
The results of our procedures indicated that, in all significant respects, the City of Reading Officers and Employees Pension Plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies, except as noted in the following findings further discussed later in this report:

- Finding No. 1 – Noncompliance With Prior Audit Recommendation – Incorrect Data On Certification Form AG 385 Resulting In An Overpayment Of State Aid
- Finding No. 2 – Noncompliance With Prior Audit Recommendation – Failure To Implement Mandatory Provisions Of Act 205

Finding Nos. 1 and 2 contained in this pension plan audit report repeat conditions that have not been corrected by city officials. We are concerned by the city's failure to correct these previously reported audit findings and strongly encourage timely implementation of the recommendation noted in the non-uniformed and firemen's pension plan audit reports.

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 City of Reading had previously been declared a financially distressed municipality pursuant to the provisions of the Municipalities Financial Recovery Act (Act of 1987 P.L. 246, No. 47); however, in July 2022, the City of Reading exited its recovery program and the city's status as a financially distressed municipality under Act 47 was terminated.

The contents of this report were discussed with officials of the City of Reading 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  
Auditor General  
February 7, 2023

## CONTENTS

	<u>Page</u>
Background.....	1
Status of Prior Findings .....	2
Findings and Recommendations:	
Finding No. 1 – Noncompliance With Prior Audit Recommendation – Incorrect Data On Certification Form AG 385 Resulting In An Overpayment Of State Aid.....	3
Finding No. 2 – Noncompliance With Prior Audit Recommendation – Failure To Implement Mandatory Provisions Of Act 205.....	5
Supplementary Information .....	8
Report Distribution List .....	12

## 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 Reading 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 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. § 42001 et seq.

The City of Reading Officers and Employees Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Article No. 181 of the Codified Ordinances of the City of Reading, as amended, 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 October 9, 1946. Active members are required to contribute 3 percent of compensation to the plan. As of December 31, 2021, the plan had 252 active members, 32 terminated members eligible for vested benefits in the future, and 279 retirees receiving pension benefits.

CITY OF READING OFFICERS AND EMPLOYEES PENSION PLAN  
STATUS OF PRIOR FINDINGS

Noncompliance With Prior Audit Recommendations

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

- Incorrect Data On Certification Form AG 385 Resulting In A Net Underpayment Of State Aid
- Failure To Implement Mandatory Provisions Of Act 205

CITY OF READING OFFICERS AND EMPLOYEES PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – Noncompliance With Prior Audit Recommendation – Incorrect Data On Certification Form AG 385 Resulting In An Overpayment Of State Aid**

Condition: The prior audit report disclosed that the reported incorrect data on the Certification Form AG 385 filed in 2020 resulting in an underpayment of state aid in the amount of \$59,086. Although the additional state aid was subsequently allocated to the city in February 2021, it was recommended that the city implement adequate internal control procedures to ensure compliance with the instructions that accompany future Certification Forms AG 385 to assist in accurately reporting the required pension data. However, a similar condition occurred during the current audit period.

The city certified an ineligible non-uniformed employee (1 unit) and overstated payroll by \$31,882 on the Certification Form AG 385 filed in 2021. The ineligible member retired effective June 15, 2020. The city also certified an ineligible firefighter (2 units) and overstated payroll by \$89,824 on the Certification Form AG 385 filed in 2022. The ineligible member retired effective February 13, 2021 and entered the city’s Deferred Retirement Option Program (DROP). The data contained on these certification forms are based on prior calendar year information.

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

Furthermore, Act 205 at Section 402(e)(2) states, in part:

For the purpose of computing and reporting the applicable number of units, a DROP participant shall not be reported to the Auditor General as an active employee.

Cause: Plan officials failed to establish adequate internal control procedures to ensure the accuracy of the data certified. In addition, plan officials were unaware that DROP participants and their compensation are not eligible for certification.

Effect: The data submitted on these certification forms 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 allocations were based on unit value, the incorrect certification of pension data affected the city’s state aid allocations, as identified below:



CITY OF READING OFFICERS AND EMPLOYEES PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – (Continued)**

<u>Year</u>	<u>Type of Plan</u>	<u>Units Overstated</u>	<u>Unit Value</u>	<u>State Aid Overpayment</u>
2021	Officers and Employees	1	\$ 4,797	\$ 4,797
2022	Firemen's	2	\$ 5,180	\$ 10,360
			Total	<u>\$ 15,157</u>

In addition, the city used the overpayment of state aid to pay the minimum municipal obligation(s) (MMO(s)) due to the pension plans; therefore, if the reimbursement to the Commonwealth is made from the pension plans, the plans' MMO(s) will not be fully paid.

Recommendation: We recommend that the total excess state aid, in the amount of \$15,157, plus interest, be returned to the Commonwealth. A check in this amount, with interest compounded annually from date of receipt to date of repayment, at a rate earned by the pension plan, should be made payable to: Commonwealth of Pennsylvania and mailed to: Department of the Auditor General, Municipal Pension & Fire Relief Programs Unit, 321 Finance Building, Harrisburg, PA 17120. A copy of the interest calculation must be submitted along with the check.

We also recommend that in the future, plan officials establish adequate internal control procedures, such as having at least two 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: City officials provided the following response:

The City of Reading agrees with this finding. The employee that was incorrectly certified on the 2020 personnel roster was a RAWA employee. The City will obtain, at least annually, payroll reports from RAWA and will inquire with RAWA Human Resources, if needed, on employee terminations that could affect the City's annual O & E DBP AG-385 personnel roster.

The employee that was incorrectly certified on the 2021 personnel roster entered the DROP program in the early part of 2021 and did not realize six or more consecutive months of service. The Pension Coordinator will update DROP report monthly and at least semi-annually, report to the City Controller and Director of Finance all Fire employees that enter (and exit) the DROP program, including dates entered and exited. Director of Finance will oversee the work of the Pension Coordinator.

CITY OF READING OFFICERS AND EMPLOYEES PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – (Continued)**

Auditor’s Conclusion: Compliance will be monitored subsequent to the release of the audit report and through our next audit of the pension plan.

**Finding No. 2 – Noncompliance With Prior Audit Recommendation – Failure To Implement Mandatory Provisions Of Act 205**

Condition: As disclosed in the prior audit report, although plan officials were notified of the passage of Act 44 of 2009, which effectively amended Act 205 for the procurement of professional services contracts, and it was recommended that the city adopt the mandatory provisions, accordingly, during the current audit period, the city again failed to adopt such mandatory provisions.

Criteria: Section 701-A of Act 205, as amended by Act 44, defines a “Professional Services Contract”, as follows:

“Professional services contract.” A contract to which the municipal pension system is a party that is:

- (1) for the purchase or provision of professional services, including investment services, legal services, real estate services and other consulting services; and
- (2) not subject to a requirement that the lowest bid be accepted.

In addition, Section 702-A (a) of Act 205 states, in part:

Each municipal pension system ... shall develop procedures to select the most qualified person to enter into a professional services contract. The procedures shall ensure that the availability of a professional services contract is advertised to potential participants in a timely and efficient manner. Procedures shall include applications and disclosure forms to be used to submit a proposal for review and to receive the award of a professional services contract.

Additionally, Section 702-A (c), (e), (f) and (h) state, in part:

**Review.** Procedures to select the most qualified person shall include a review of the person’s qualifications, experience and expertise and the compensation to be charged.

CITY OF READING OFFICERS AND EMPLOYEES PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 2 – (Continued)**

**Conflict of interest.** The municipal pension system shall adopt policies relating to potential conflicts of interest in the review of a proposal or the negotiation of a contract.

**Public information.** Following the award of a professional services contract, all applications and disclosure forms shall be public except for proprietary information or other information protected by law.

**Notice and summary.** The relevant factors that resulted in the award of the professional services contract must be summarized in a written statement to be included in or attached to the documents awarding the contract. Within ten days of the award of the professional services contract, the original application, a summary of the basis for the award and all required disclosure forms must be transmitted to all unsuccessful applications and posted on the municipal pension system's Internet website, if an Internet website is maintained, at least seven days prior to the execution of the professional services contract.

Section 703-A (c) states, in part:

Upon advertisement for a professional services contract by the municipal pension system, the contractor may not cause or agree to allow a third party to communicate with officials or employees of the municipal pension system except for requests for technical clarification.

Cause: Plan officials again failed to establish adequate procedures to ensure compliance with provisions of Act 205 as previously recommended.

Effect: The municipality's failure to comply in all respects with the provisions stipulated in Act 205 regarding the procurement of professional investment and advisory services for the municipality's pension plan denotes a general lack of overall transparency of the actions taken by plan officials relative to the contracting for custodial and investment services for the municipality's pension plan.

Recommendation: We recommend that municipal officials obtain a comprehensive understanding of Act 205 provisions for the procurement of professional services and develop and implement formal written procedures to ensure compliance with these provisions which should include the maintaining of appropriate and sufficient supporting documentation evidencing every phase of the process to ensure the transparency of the actions taken by plan officials relative to the awarding of any future professional services contracts for its pension plan.

CITY OF READING OFFICERS AND EMPLOYEES PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 2 – (Continued)**

Management’s Response: City officials provided the following response:

The City of Reading agrees with this finding. While the City has not pursued selection of vendors for pension-related professional service contracts since at least 2020, the City has begun, in December 2022, the process to get resolutions in place for each of the City’s defined benefit pension plans and the deferred compensation plan. Currently, only the City’s Police DBP has such a resolution in place. The Director of Finance will work with the Aggregated Pension Board to get such resolutions in place as applicable. The Aggregated Pension Board will oversee the work of the Director of Finance.

Auditor’s Conclusion: Compliance will be evaluated during our next audit of the plan.

CITY OF READING 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, 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	\$ 57,631,113	\$ 75,421,894	\$ 17,790,781	76.4%
01-01-19	60,608,302	76,301,546	15,693,244	79.4%
01-01-21	67,677,814	78,988,308	11,310,494	85.7%

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, which will be limited to a maximum of 120 percent and minimum of 80 percent of the fair market value of assets. 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 READING 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 READING 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
2012	\$ 1,488,269	\$ 1,510,837	\$ (22,568)	\$15,498,759	9.75%
2013	2,836,234	2,860,603	(24,369)	14,888,776	19.21%
2014	2,769,963	2,780,193	(10,230)	14,233,277	19.53%
2015	3,173,811	3,179,616	(5,805)	14,403,603	22.08%
2016	3,005,282	3,005,282	-	14,240,701	21.10%
2017	3,033,047	3,135,808	(102,761)	13,832,568	22.67%
2018	3,532,555	3,532,555	-	13,931,821	25.36%
2019	3,446,705	3,476,030	(29,325)	12,522,275	27.76%
2020	3,500,466	3,500,466	-	13,284,117	26.35%
2021	3,353,417	3,353,417	-	13,318,635	25.18%

CITY OF READING 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, 2021
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	7 years
Asset valuation method	4-year smoothing – the actuarial value of assets will be limited to a maximum of 120% and a minimum of 80% of the fair market value of assets.
Actuarial assumptions:	
Investment rate of return	7.25%
Projected salary increases	4.75%
Cost-of-living adjustments	None assumed



CITY OF READING OFFICERS AND EMPLOYEES PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

**The Honorable Joshua D. Shapiro**  
Governor  
Commonwealth of Pennsylvania

**The Honorable Eddie Moran**  
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**Ms. Donna Reed**  
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**Mr. William Heim**  
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**Mr. Jamar Kelly**  
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**Ms. Maria Rodriguez**  
City Auditor

**Mr. Michael Oppenheimer**  
City Controller

**Ms. Holly Guldin**  
Interim Human Resource Director

**Ms. Lilliana Castillo**  
Pension Coordinator

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