

COMPLIANCE AUDIT

City of Washington Comprehensive Municipal Pension Trust Fund Washington County, Pennsylvania For the Period January 1, 2020 to December 31, 2022

February 2024



Commonwealth of Pennsylvania
Department of the Auditor General

Timothy L. DeFoor • Auditor General



**Commonwealth of Pennsylvania
Department of the Auditor General
Harrisburg, PA 17120-0018
Facebook: Pennsylvania Auditor General
Twitter: @PAAuditorGen
www.PaAuditor.gov**

**TIMOTHY L. DEFOOR
AUDITOR GENERAL**

The Honorable Mayor and City Council
City of Washington
Washington County
Washington, PA 15301

We have conducted a compliance audit of the City of Washington Comprehensive Municipal Pension Trust Fund for the period January 1, 2020 to December 31, 2022. 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 trust fund was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, 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 trust fund was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, 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 plans' governing documents and applicable laws and regulations by examining the municipality's calculation of the plans' annual financial requirements and minimum municipal obligation (MMO) and comparing these calculated amounts to amounts actually budgeted and deposited into the pension trust fund as evidenced by supporting documentation.
- We determined whether annual employee contributions were calculated, deducted, and deposited into the pension trust fund 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 plans' governing documents in effect for all years within the period under audit and examining documents evidencing the deposit of these employee contributions into the pension trust fund.
- 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 plans' governing documents, 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, 2021 actuarial valuation reports were prepared and submitted by March 31, 2022 in accordance with Act 205 and whether selected information provided on these reports are 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 the pension trust fund 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 and through the completion of our fieldwork procedures.

- 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.
- We determined whether provisions of the Deferred Retirement Option Plan (DROP) in the firefighter's pension plan were in accordance with the provisions of Act 205 by examining provisions stated in the plan's governing documents.

The City of Washington contracted with an independent certified public accounting firm for annual audits of the City of Washington Comprehensive Municipal Pension Trust Fund 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 Washington Comprehensive Municipal Pension Trust Fund is administered in compliance with applicable state laws, regulations, contracts, administrative procedures, 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, 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 Washington Comprehensive Municipal Pension Trust Fund was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, local ordinances and policies, except as noted in the following findings further discussed later in this report:

Police and Firefighter's Pension Plans:

- Finding No. 1 – Noncompliance With Prior Recommendation – Incorrect Pension Benefit Calculations

Police Pension Plan:

- Finding No. 2 – Noncompliance With Prior Recommendation – Inconsistent And Unauthorized Pension Benefits

Firefighter's Pension Plan:

- Finding No. 3 – Noncompliance With Prior Recommendation – Inconsistent And Unauthorized Pension Benefits

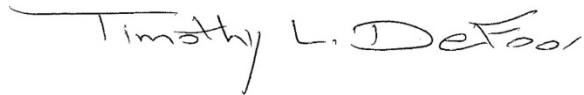
Officers and Employees Pension Plan:

Finding No. 4 – Incorrect Data On Certification Form AG 385 Resulting In An Underpayment Of State Aid

Finding Nos. 1, 2, and 3 contained in this report repeat conditions that were cited in our previous released report that have not been corrected by city officials. We are concerned by the city's failure to correct those previously reported findings and strongly encourage timely implementation of the recommendations noted in this report.

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 Washington 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 to the left of the first letter.

Timothy L. DeFoor
Auditor General
January 19, 2024

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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 two 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 Washington 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 Firefighters Postretirement Adjustment Act, Act of December 14, 1988 (P.L. 1192, No. 147), as amended, 53 P.S. § 896.101 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 Washington Comprehensive Municipal Pension Trust Fund was established by Ordinance No. 1371, effective April 9, 1987. This ordinance required the city to aggregate the assets of its police, officers and employees, and firefighter's pension plans into a single pension trust fund pursuant to Section 607(b) of Act 205.

The City of Washington Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 1878, adopted pursuant to Act 67. The plan is also affected by the provisions of collective bargaining agreements between the city and its police officers. The plan was established February 19, 1936. Active members are required to contribute seven and one-half percent of compensation to the plan plus \$4 per month until age 65. As of December 31, 2022, the plan had 31 active members, no terminated members eligible for vested benefits in the future, and 44 retirees receiving pension benefits from the plan.

BACKGROUND

The City of Washington Officers and Employees Pension Plan is locally controlled by the provisions of Ordinance No. 1897, 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, 1950. Active members are required to contribute three and one-half percent of the pay taxed by Social Security and five percent of pay in excess of the taxable wage base. Participants may contribute five percent to eliminate the Social Security offset and an extra one percent for the survivor benefit coverage. Participants hired after December 31, 1992, contribute five percent monthly plus an extra one percent for the survivor benefit coverage. As of December 31, 2022, the plan had 26 active members, no terminated members eligible for vested benefits in the future, and 25 retirees receiving pension benefits from the plan.

The City of Washington Firefighter's Pension Plan is locally controlled by the provisions of Ordinance No. 1907, adopted pursuant to Act 67. The plan is also affected by the provisions of collective bargaining agreements between the city and its firefighters. The plan was established March 1, 1930. Plan members hired prior to January 1, 2003, are required to contribute five percent of compensation plus an additional \$4 per month to the plan. Plan members hired after January 1, 2003, are required to contribute six and one-half percent of compensation plus an additional \$4 per month to the plan. As of December 31, 2019, the plan had 23 active members, no terminated members eligible for vested benefits in the future, and 32 retirees receiving pension benefits from the plan.

CITY OF WASHINGTON COMPREHENSIVE MUNICIPAL PENSION TRUST FUND
STATUS OF PRIOR FINDINGS

Compliance With Prior Recommendations

The City of Washington has complied with the prior recommendations concerning the following:

Police and Firefighter's Pension Plans

· Failure To Maintain Minutes Of Pension Board Meetings

Plan officials maintained permanent records of all pension board meetings held during the current period under review.

Police Pension Plan

· Incorrect Data On Certification Form AG 490 Resulting In Excess Reimbursements For Special 1989 Ad Hoc Postretirement Adjustments

The City of Washington returned \$900 in total excess reimbursement received to the Commonwealth and complied with the instructions accompanying Certification Form AG 490 in accurately reporting the required pension data during the current audit period.

Noncompliance With Prior Recommendation

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

Police and Firefighter's Pension Plans

· Incorrect Pension Benefit Calculations

Police Pension Plan

· Inconsistent An Unauthorized Pension Benefits

Firefighter's Pension Plan

· Inconsistent An Unauthorized Pension Benefits

CITY OF WASHINGTON COMPREHENSIVE MUNICIPAL PENSION TRUST FUND
FINDINGS AND RECOMMENDATIONS

Police and Firefighter's Pension Plans

Finding No. 1 – Noncompliance With Prior Recommendation – Incorrect Pension Benefit Calculations

Condition: As disclosed in our prior audit report, the city incorrectly calculated service increments in the pension calculations of three police officers and three firefighters, resulting in incorrect monthly benefit amounts. (*Auditor's Note: Subsequent to release of the prior audit report, it was determined that two of the police officer's and one firefighter's service increments were within allowable limits of the plan documents and no longer at issue.*) During the current audit period, the city again calculated service increments using the same methodology in the pension calculations for three additional firefighters resulting in additional incorrect monthly benefit amounts.

Criteria: Section 4.03 of Ordinance No. 1878, governing the police pension plan, state, in part:

Service Increment – Notwithstanding anything contained herein to the contrary, each Participant who shall retire upon completion of twenty (20) or more years of Aggregate Service, may be entitled to receive a monthly Service Increment benefit. Such service increment shall be an amount equal to the number of completed years of Aggregate Service in excess of twenty (20) years multiplied by one-fortieth (1/40) of the Participant's pension benefit which he is entitled to receive, not to exceed five hundred dollars (\$500)

Section 4.03 of Ordinance No. 1907, governing the firefighter's pension plan, states, in part:

Service Increment – Notwithstanding anything contained herein to the contrary, each Participant who shall retire upon completion of twenty (20) or more years of Aggregate Service, may be entitled to receive a monthly Service Increment benefit. Such service increment shall be an amount equal to the number of completed years of Aggregate Service in excess of twenty (20) years multiplied by one-fortieth (1/40) of the Participant's pension benefit which he is entitled to receive, not to exceed four hundred dollars (\$400)

Cause: City officials previously concurred that the service increments were not calculated in accordance with governing plan documents but could not provide justification for the methodology used. During the current audit period, the city changed pension consulting firms (*effective January 1, 2022*), and now believes that the calculation methodology used by the city was accurate and therefore, disagrees with the department's prior recommendation as noted in the Management Response below.

CITY OF WASHINGTON COMPREHENSIVE MUNICIPAL PENSION TRUST FUND
FINDINGS AND RECOMMENDATIONS

Police and Firefighter’s Pension Plans – (Continued)

Finding No. 1 – (Continued)

Effect: Five retirees are receiving pension benefits in excess and one retiree is receiving a pension benefit less than that authorized by the plan’s governing document. As of the date of this report, the impact on the pension benefits paid to the six retirees is as follows:

Police Pension Plan:

<u>Retiree</u>	<u>Service Increment Paid</u>	<u>Service Increment Eligible</u>	<u>Monthly Overpayment (Underpayment)</u>	<u>Number of Months</u>	<u>Total Overpayment (Underpayment)</u>
1	393	329	64	63	4,032

Firefighter’s Pension Plan:

<u>Retiree</u>	<u>Service Increment Paid</u>	<u>Service Increment Eligible</u>	<u>Monthly Overpayment (Underpayment)</u>	<u>Number of Months</u>	<u>Total Overpayment (Underpayment)</u>
2	\$ 472	\$ 400	\$ 72	41	\$ 2,952
3	-	400	(400)	67	(26,800)
4	500	400	100	27	2,700
5	500	400	100	3	300
6	500	400	100	9	900

Recommendation: We again recommend that municipal officials recalculate the service increments in accordance with the provision of the applicable governing document and begin paying the correct amounts to the retirees, accordingly. In addition, we again recommend that the pension trust fund be reimbursed for the improper service increments overpayments. Finally, we again recommend that plan officials implement adequate internal control procedures to ensure that future pension benefits are properly and consistently determined in accordance with the plans’ governing documents.

CITY OF WASHINGTON COMPREHENSIVE MUNICIPAL PENSION TRUST FUND
FINDINGS AND RECOMMENDATIONS

Police and Firefighter’s Pension Plans – (Continued)

Finding No. 1 – (Continued)

Management’s Response: The city disagreed with the finding and provided the following response:

After consulting with [firm name omitted], our plan actuary, and reviewing the applicable City pension plan documents and Third Class City Code (TCCC), the City believes that the current calculation method used by the City is accurate.

In each case where the Service Increment did not exceed the maximum value, it appears that the audit team is relying upon base salary rather than the base pension benefit in determining the Service Increment value. We disagree with the parameter being used and have included relevant City pension plan document and TCCC references as support.

Section 4.03 of each respective City pension plan document, which were referenced by the prior audit findings, state, in part:

Service Increment – Notwithstanding anything contained herein to the contrary, each Participant who shall retire upon completion of twenty (20) or more years of Aggregate Service, may be entitled to receive a monthly Service Increment benefit. Such service increment shall be an amount equal to the number of completed years of Aggregate Service in excess of twenty (20) years multiplied by one-fortieth (1/40) of the Participant’s pension benefit which he is entitled to receive, not to exceed. . .
(emphasis added)

City Police Pension Plan...not to exceed five hundred dollars (\$500)

City Firefighters Pension Plan...not to exceed four hundred dollars (\$400)

Similarly, TCCC sections 14303(d)(1) and 14322(b)(1) indicate that basis of the Service Increment calculation is to be the “retirement allowance that has become payable to the contributor.”
(emphasis added)

Therefore, we believe the calculation used for Service Increment of the City pension plans is as follows:

Service Increment = (1/40) x (Monthly Pension Benefit) x (Full Years of Service greater than 20 Years) Subject to maximum.

CITY OF WASHINGTON COMPREHENSIVE MUNICIPAL PENSION TRUST FUND
FINDINGS AND RECOMMENDATIONS

Police and Firefighter's Pension Plans – (Continued)

Finding No. 1 – (Continued)

Auditor's Conclusion: The department does not take exception to the city's position that service increments are based on the monthly pension benefit, merely that the service increments calculated for the aforementioned individuals did not adhere to amounts prescribed by the plan documents based on documentation provided by the city and as recalculated by this department.

Additionally, based on the management response above, service increments for the firefighter's pension plan are limited to \$400 per month. However, as disclosed in the above *Effect*, there are three firefighter's receiving service increments (*\$500/month*) in excess of the plan's governing document. (*Auditor's Note: It was noted that the recent collective bargaining agreement between the city and its firefighters indicates that the benefit is limited to \$500 per month; however, the service increment is inconsistent with the plan document (refer to Finding No. 3).*) Based on the criteria cited above, the finding remains as stated.

CITY OF WASHINGTON COMPREHENSIVE MUNICIPAL PENSION TRUST FUND
FINDINGS AND RECOMMENDATIONS

Police Pension Plan

Finding No. 2 – Noncompliance With Prior Recommendation – Inconsistent And Unauthorized Pension Benefit

Condition: As disclosed in the prior audit report, the police pension plan’s governing document, Ordinance No. 1878, contains benefit provisions that conflict with the collective bargaining agreement (CBA) between the police officers and are not authorized by the Third Class City Code, as follows:

<u>Benefit Provision</u>	<u>Governing Document</u>	<u>Collective Bargaining Agreement January 1, 2019 to December 31, 2023</u>	<u>Third Class City Code</u>
Retirement Eligibility	Hired before 1/1/1994: Age 50 with 20 years of service. Hired on or after 1/1/1994: Age 53 with 20 years of service. <i>(Section 1.22)</i>	Hired after 1/1/1975: Age 50 with 20 years of service. <i>(Section 16.7)</i>	A minimum service requirement of at least 20 years of service and age of 50 years if a minimum age is prescribed.
Retirement Benefit	A monthly benefit in an amount equal to 50% of the Participant’s Final Monthly Average Salary. <i>(Section 4.02)</i>	Hired after 1/1/2019: Pension capped at 65% of base pay plus any additional earnings. <i>(Section 16.8)</i>	A monthly pension benefit of up to 50% of the higher of the rate of monthly pay at the date of termination or the highest average annual salary during any 5 years of service.

CITY OF WASHINGTON COMPREHENSIVE MUNICIPAL PENSION TRUST FUND
FINDINGS AND RECOMMENDATIONS

Police Pension Plan – (Continued)

Finding No. 2 – (Continued)

Benefit Provision	Governing Document	Collective Bargaining Agreement January 1, 2019 to December 31, 2023	Third Class City Code
Vesting	Not addressed.	Any employee, before completing the minimum age and minimum period for continuous service requirement but after having completed 12 years of continuous service, then employee, shall be entitled to vest his/her retirement benefits. <i>(Section 16.9)</i>	A minimum of 12 years of full-time service.

In addition, the actuarial valuation reports Form Type C for the police pension plan with valuation dates of January 1, 2019 and January 1, 2021, submitted to the Municipal Pension Reporting Program (MPRP), reported the benefit provisions included in the collective bargaining agreement.

Criteria: A governing document which contains clearly defined and updated benefit provisions, including those negotiated through collective bargaining, is a prerequisite for the consistent, sound administration of retirement benefits. Also, the pension plan’s benefit structure should be in compliance with the provisions of the Third Class City Code.

Cause: The city again failed to update the plan’s governing document to incorporate the pension benefits collectively bargained for and agreed to in the CBA *(effective January 1, 2019 to December 31, 2023)*. The city also believed that the Third Class City Code authorized the benefit granted regarding the retirement benefit but failed to establish adequate internal control procedures to ensure the plan’s governing document and the CBA contained consistent benefit provisions and compliance with the prior recommendation.

CITY OF WASHINGTON COMPREHENSIVE MUNICIPAL PENSION TRUST FUND
FINDINGS AND RECOMMENDATIONS

Police Pension Plan – (Continued)

Finding No. 2 – (Continued)

Effect: Inconsistent plan documents could result in inconsistent or improper benefit calculations and incorrect benefit payments from the pension plan.

Recommendation: We again recommend that plan officials amend the plan’s governing document as necessary to reflect all benefit obligations of the pension plan and eliminate inconsistencies among the various plan documents. We also recommend that the city comply with the Third Class City Code upon the renewal, extension, or renegotiation of the collective bargaining agreement.

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

Auditor’s Conclusion: We are concerned that the municipality has not complied with the prior audit recommendation and encourage compliance at the earliest opportunity to do so.

Firefighter’s Pension Plan

Finding No 3 – Noncompliance With Prior Recommendation – Inconsistent And Unauthorized Pension Benefit

Condition: As disclosed in our prior audit report, the pension plan’s governing document, Ordinance No. 1907, contains benefit provisions that conflict with the collective bargaining agreement (CBA) between the firefighters and the city and a benefit provision that is not authorized by the Third Class City Code, as follows:

<u>Benefit Provision</u>	<u>Governing Document</u>	<u>Collective Bargaining Agreement</u>	<u>Third Class City Code</u>
Retirement Eligibility	Hired before 1/1/1994: Age 50 with 20 years of service. Hired on or after 1/1/1994: Age 53 with 20 years of service. <i>(Section 1.22)</i>	Hired after 1/1/1994: Age 50 with 20 years of service. <i>(Section 11.1)</i>	A minimum service requirement of at least 20 years of service and 50 years if a minimum age is prescribed.

CITY OF WASHINGTON COMPREHENSIVE MUNICIPAL PENSION TRUST FUND
FINDINGS AND RECOMMENDATIONS

Firefighter's Pension Plan – (Continued)

Finding No. 3 – (Continued)

Service Increment	Each Participant who shall retire upon completion of 20 or more years of Aggregate Service, may be entitled to receive a monthly Service Increment benefit. Such service increment shall be an amount equal to the number of completed years of Aggregate Service in excess 20 years multiplied by one-fortieth (1/40) of the Participant's pension benefit which he is entitled to receive, not to exceed \$400, nor reflect any Employment after the Participant has attained age 65 and shall be paid monthly in addition to the amount of Normal Retirement Benefit. <i>(Section 4.03)</i>	Each member who becomes entitled to a pension benefit shall also become entitled to payment of a service increment benefit, which shall be equal to the number of whole years in excess of 20 years of continuous service, multiplied by one-fortieth (1/40) of the members pension benefit, which he/she is entitled to receive. No service increment benefit shall be paid to a member more than \$500 per month, nor shall such increment reflect any employment after the age of 65. <i>(Section 11.7)</i>	A service increment provision, indicating that additional benefits accrue to age 65 for service exceeding the minimum required for retirement in an amount equal to 1/40 th (2.5%) times the monthly pension benefit for each whole year over the minimum not to exceed \$500 per month.
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CITY OF WASHINGTON COMPREHENSIVE MUNICIPAL PENSION TRUST FUND
FINDINGS AND RECOMMENDATIONS

Firefighter’s Pension Plan – (Continued)

Finding No. 3 – (Continued)

Benefit Provision	Governing Document	Collective Bargaining Agreement	Third Class City Code
Retirement Benefit	A monthly benefit in an amount equal to 50% of the Participant’s Final Monthly Average Salary. <i>(Section 4.02)</i>	Hired after January 1, 2020: Pension capped at 65% of base pay plus any additional earnings. <i>(Section 11.1)</i>	A monthly pension benefit of 50% of the higher of the monthly salary at the date of termination or the highest average annual salary during any 5 years of service.
Vesting	Not addressed.	Any employee, who separates their employment before completing the minimum age and minimum period for continuous service requirement but having completed 12 years of continuous service, will be entitled to the benefits provided for within Section 4302.1 of the Third Class City Code (Limited Vesting Benefits). <i>(Section 11.12)</i>	A minimum of 12 years of full-time service.

Criteria: A governing document which contains clearly defined and updated benefit provisions, including those negotiated through collective bargaining, is a prerequisite for the consistent, sound administration of retirement benefits. Also, the pension plan’s benefit structure should be in compliance with the provisions of the Third Class City Code.

CITY OF WASHINGTON COMPREHENSIVE MUNICIPAL PENSION TRUST FUND
FINDINGS AND RECOMMENDATIONS

Firefighter’s Pension Plan – (Continued)

Finding No. 3 – (Continued)

Cause: The city failed to update the plan’s governing document to incorporate the pension benefits collectively bargained for and agreed to in the most recent CBA (*effective January 1, 2020 to December 31, 2023*). The city also believed that the Third Class City Code authorized the benefit granted regarding the plans retirement benefit but failed to establish adequate internal control procedures to ensure the plan’s governing document and the CBA contained consistent benefit provisions and compliance with the prior recommendation.

Effect: Inconsistent plan documents could result in inconsistent or improper benefit calculations and incorrect benefit payments from the pension plan.

Recommendation: We again recommend that plan officials amend the plan’s governing document as necessary to reflect all benefit obligations of the pension plan and eliminate inconsistencies among the various plan documents. We also recommend that the city comply with the Third Class City Code upon the renewal, extension, or renegotiation of the collective bargaining agreement.

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

Auditor’s Conclusion: We are concerned that the municipality has not complied with the prior audit recommendation and encourage compliance at the earliest opportunity to do so.

Officers and Employees Pension Plan

Finding No. 4 – Incorrect Data On Certification Form AG 385 Resulting In An Underpayment Of State Aid

Condition: The city failed to certify an eligible non-uniformed employee and understated payroll by \$26,761 on the Certification Form AG 385 filed in 2023. The data contained on this certification form is based on prior calendar year information.

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

Cause: City officials attributable the error to a clerical oversight and the city’s internal control procedures were not adequate to timely detect the oversight and ensure the accuracy of the reported pension data prior to submission.

CITY OF WASHINGTON COMPREHENSIVE MUNICIPAL PENSION TRUST FUND
FINDINGS AND RECOMMENDATIONS

Officers and Employees Pension Plan – (Continued)

Finding No. 4 – (Continued)

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

<u>Year</u>	<u>Units Understated</u>	<u>Unit Value</u>	<u>State Aid Underpayment</u>
2023	1	\$ 5,828	\$ 5,828

Although the city will be reimbursed for the underpayment of state aid due to the city’s certification error, the full amount of the 2023 state aid allocation was not available to be deposited timely and therefore was not available to fund benefits, pay operating expenses or for investment.

Recommendation: We recommend that in the future, plan officials establish adequate internal control procedures, such as having at least 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: Municipal officials agreed with the finding without exception.

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

CITY OF WASHINGTON 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, 2017, 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)
01-01-17	\$ 20,837,084	\$ 24,568,481	\$ 3,731,397	84.8%
01-01-19	25,254,866	29,434,838	4,179,972	85.8%
01-01-21	32,168,394	33,862,440	1,694,046	94.9%

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, final value is limited to no less than 80% and no greater than 120% of market value. 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 WASHINGTON COMPREHENSIVE MUNICIPAL PENSION TRUST FUND
 SUPPLEMENTARY INFORMATION
 (UNAUDITED)

SCHEDULE OF FUNDING PROGRESS – (Continued)

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:

OFFICERS AND EMPLOYEES 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)
01-01-17	\$ 5,779,454	\$ 5,875,563	\$ 96,109	98.4%
01-01-19	5,976,444	6,251,669	275,225	95.6%
01-01-21	6,507,246	6,742,062	234,816	96.5%

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, final value is limited to no less than 80% and no greater than 120% of market value. 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 WASHINGTON COMPREHENSIVE MUNICIPAL PENSION TRUST FUND
 SUPPLEMENTARY INFORMATION
 (UNAUDITED)

SCHEDULE OF FUNDING PROGRESS – (Continued)

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:

FIREFIGHTER’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)
01-01-17	\$ 19,720,717	\$ 20,120,239	\$ 399,522	98.0%
01-01-19	23,961,903	22,803,421	(1,158,482)	105.1%
01-01-21	26,922,954	26,998,464	75,510	99.7%

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, final value is limited to no less than 80% and no greater than 120% of market value. 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 WASHINGTON COMPREHENSIVE MUNICIPAL PENSION TRUST FUND
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(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 WASHINGTON COMPREHENSIVE MUNICIPAL PENSION TRUST FUND
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 (UNAUDITED)

POLICE PENSION PLAN

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
2013	\$ 781,437	\$ 1,715,621	\$ (934,184)		
2014	956,859	1,901,201	(944,342)	\$2,004,917	94.8%
2015	949,015	1,826,222	(877,207)	1,935,541	94.4%
2016	866,916	1,958,948	(1,092,032)	2,118,794	92.5%
2017	920,631	2,052,419	(1,131,788)	2,163,159	94.9%
2018	1,150,715	1,922,382	(771,667)	2,262,366	85.0%
2019	1,155,204	2,659,904	(1,504,700)	2,237,555	118.9%
2020	1,024,571	1,908,701	(884,130)	2,355,636	81.0%
2021	1,231,738	1,814,601	(582,863)	2,264,481	80.1%
2022	1,193,619	1,731,275	(537,656)	2,379,277	72.8%

* This schedule is presented pursuant to the implementation of GASB Statement No. 67, *Financial Reporting for Pension Plans* by reporting entities responsible for administering the pension plan to improve financial reporting by state and local governmental pension plans. Due to the statement being implemented only recently, the amount of Covered-Employee Payroll was not provided for odd years prior to 2014.

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

OFFICERS & EMPLOYEES PENSION PLAN

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
2013	\$ 84,112	\$ 84,112	\$ -		
2014	107,424	107,424	-	\$ 926,945	11.6%
2015	102,991	102,991	-	959,031	10.7%
2016	60,410	60,410	-	991,160	6.1%
2017	62,073	62,073	-	971,232	6.4%
2018	113,937	113,937	-	1,069,100	10.7%
2019	121,304	121,304	-	1,034,626	11.7%
2020	115,939	115,939	-	1,111,728	10.4%
2021	163,234	163,234	-	1,125,621	14.5%
2022	235,427	235,427	-	1,252,950	18.8%

* This schedule is presented pursuant to the implementation of GASB Statement No. 67, *Financial Reporting for Pension Plans* by reporting entities responsible for administering the pension plan to improve financial reporting by state and local governmental pension plans. Due to the statement being implemented only recently, the amount of Covered-Employee Payroll was not provided for odd years prior to 2014.

CITY OF WASHINGTON COMPREHENSIVE MUNICIPAL PENSION TRUST FUND
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 (UNAUDITED)

FIREFIGHTER'S PENSION PLAN

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
2013	\$ 980,346	\$ 2,381,621	\$(1,401,275)		
2014	1,016,657	2,433,170	(1,416,513)	\$1,295,402	187.8%
2015	1,008,765	2,324,574	(1,315,809)	1,388,595	167.4%
2016	641,006	2,279,055	(1,638,049)	1,350,419	168.8%
2017	663,511	2,361,194	(1,697,683)	1,472,630	160.3%
2018	635,643	1,793,143	(1,157,500)	1,486,424	120.6%
2019	630,495	630,495	-	1,570,629	40.1%
2020	568,290	568,290	-	1,652,109	34.4%
2021	349,280	349,280	-	1,736,955	20.1%
2022	461,352	461,352	-	1,723,770	26.8%

* This schedule is presented pursuant to the implementation of GASB Statement No. 67, *Financial Reporting for Pension Plans* by reporting entities responsible for administering the pension plan to improve financial reporting by state and local governmental pension plans. Due to the statement being implemented only recently, the amount of Covered-Employee Payroll was not provided for odd years prior to 2014.

CITY OF WASHINGTON COMPREHENSIVE MUNICIPAL PENSION TRUST FUND
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POLICE PENSION PLAN

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, closed
Remaining amortization period	4 years (aggregated)
Asset valuation method	Fair Value, 4-year smoothing
Actuarial assumptions:	
Investment rate of return	6.25% net of investment expenses
Projected salary increases *	5.0% the final year of salary is assumed to increase by an additional 55% because of traditionally large pay increases in the year of retirement.

* Includes inflation at 2.5%

CITY OF WASHINGTON COMPREHENSIVE MUNICIPAL PENSION TRUST FUND
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OFFICERS AND EMPLOYEES PENSION PLAN

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, closed
Remaining amortization period	3 years
Asset valuation method	Fair Value, 4-year smoothing
Actuarial assumptions:	
Investment rate of return	6.25% net of investment expenses
Projected salary increases *	4.5%

* Includes inflation at 2.5%

CITY OF WASHINGTON COMPREHENSIVE MUNICIPAL PENSION TRUST FUND
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FIREFIGHTER'S PENSION PLAN

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, closed
Remaining amortization period	10 years (aggregated)
Asset valuation method	Fair Value, 4-year smoothing
Actuarial assumptions:	
Investment rate of return	6.25% net of investment expenses
Projected salary increases *	4.75% the final year of salary is assumed to increase by an additional 55% to reflect the historical trend of significantly greater increases in gross pay in the last year of employment.

* Includes inflation at 2.5%

CITY OF WASHINGTON COMPREHENSIVE MUNICIPAL PENSION TRUST FUND
COMMENTS

As noted earlier in this audit report and disclosed in prior audit reports, the City of Washington Police and Firefighter’s Pension Plans are governed by local ordinances adopted pursuant to Act 67, the Third Class City Code. With regard to the determination of pension benefits for police officers, Section 14303 of the Third Class City Code states, in part:

Allowance and service increments.

(a) Allowance. A payment for an allowance shall only be a charge on the police pension fund and may not be a charge on another fund under the control of or in the city treasury.

(b) Apportionment of the pension. The basis of the apportionment of the pension:

(1) Shall be determined by the rate of the monthly pay of the member at the date of injury, death, honorable discharge, vesting under section 14302.1 (relating to limited vested benefit) or retirement, or the highest average annual salary that the member received during any five years of service preceding injury, death, honorable discharge, vesting under section 14302.1 or retirement, whichever is higher. [Emphasis added.]

(2) Except as to service increments provided for in subsection (d), may not exceed in a year one-half the annual pay of the member computed at the monthly or average annual rate, whichever is higher.¹

Although the Third Class City Code does not contain a definition for the term “pay”, Section 14300(b) does define the term salary as follows:

“Salary.” The fixed amount of compensation paid at regular, periodic intervals by the city to the member and from which pension contributions have been deducted.²

Ordinance No. 1878 at Section 4.02 states, in part:

Normal Retirement Benefit – Each Participant who shall become entitled to a benefit pursuant to section 4.01 shall receive a benefit paid monthly in an amount equal to fifty percent (50%) of the Participant’s Final Monthly Average Salary as determined herein.

Ordinance No. 1878 at Section 1.20 states, in part:

“Final Monthly Average Salary” shall mean the rate of monthly Compensation of the Participant as of the date of retirement or the highest average annual Compensation which the participant received during any five (5) Years of Aggregate Service preceding his termination of active Employment, whichever is the greater amount.

¹ 11 Pa.C.S. § 14303(a), (b).

² 11 Pa.C.S. § 14300(b).

CITY OF WASHINGTON COMPREHENSIVE MUNICIPAL PENSION TRUST FUND
COMMENTS

Ordinance No. 1878 at Section 1.12 states:

“Compensation” shall mean the total amount of a Participant’s earnings, received or receivable during the Participant’s Employment with the City as an Employee.

The City’s practice has been to calculate the police officers’ pension benefits based on the amount of the retiree’s final month’s pay. This includes regular monthly pay plus overtime, holiday pay and additional pay for roadwork projects (*calculated at \$50 per hour*) that a police officer accumulates in their final month of employment.

Our prior audit reports disclosed that ten police officers retired during previous audit periods and during the final month of their respective employments, in addition to their regular hours, the police officers accumulated additional overtime, holiday and roadwork hours that were included in their final monthly earnings. As a result, the effect of using the retiree’s final month’s accumulated earnings to determine the retiree’s monthly pension benefits instead of the retiree’s regular monthly base pay resulted in seven of the ten retirees receiving pension benefits that exceeded the amount of the total base pay the former officers earned during their respective employment with the city. During the current audit period and through the date of this report, this practice allowed for an additional four of the six retiring police officers to receive a higher pension benefit than their final, total base pay earned during their active employment with the city.

With regard to the determination of pension benefits for firefighters, Section 14322(a)(2) of the Third Class City Code states:

The basis of the pension of a member shall be determined by the monthly salary of the member at the date of vesting under section 14320.1 (relating to limited vested benefit for firefighters) or retirement or the highest average annual salary which the member received during any five years of service preceding retirement, whichever is higher, whether for disability or by reason of age or service, and, except as to service increments provided for in subsection (b), shall be one-half the annual salary of the member at the time of vesting under section 14320.1 or retirement computed at the monthly or average annual rate, whichever is higher. [Emphasis added.]

Furthermore, Section 14319 of the Third Class City Code states, in part:

“Salary.” The fixed amount of compensation paid at regular, periodic intervals by the city to the member and from which pension contributions have been deducted.

CITY OF WASHINGTON COMPREHENSIVE MUNICIPAL PENSION TRUST FUND
COMMENTS

Ordinance No. 1907 at Section 4.02 states, in part:

Normal Retirement Benefit – Each Participant who shall become entitled to a benefit pursuant to section 4.01 shall receive a benefit paid monthly in an amount equal to fifty percent (50%) of the Participant’s Final Monthly Average Salary as determined herein.

Ordinance No. 1907 at Section 1.20 states, in part:

“Final Monthly Average Salary” shall mean the rate of monthly Compensation of the Participant as of the date of retirement or the highest average annual Compensation which the participant received during any five (5) Years of Aggregate Service preceding his termination of active Employment, whichever is the greater amount.

Ordinance No. 1907 at Section 1.12 states:

“Compensation” shall mean the total amount of a Participant’s earnings, received or receivable during the Participant’s Employment with the City as an Employee.

The City’s practice has been to calculate pension benefits based on the firefighter’s final monthly compensation which includes any overtime and holiday pay that a firefighter accumulates in their final month of employment. As disclosed in prior audit reports, five retired firefighters’ pension benefit calculations were determined based on the firefighter’s final monthly compensation which resulted in monthly pension benefits which far exceeded 50 percent of the base pay earned by one firefighter during his employment with the City and exceeded base pay earned by three of the other firefighters during his employment with the City. During the current audit period and through the date of this report, this practice allowed for an additional four retiring firefighters to receive a higher pension benefit than their final, total base pay earned during their active employment with the city.

Given the funded statuses of the City’s pension plans and the ever-increasing financial burden of prior, current, and future contributions that will be necessary to adequately fund the plans, we continue to encourage city officials to review the methodology used to calculate pension benefits for its police officers and firefighters. And, although it appears the City has been actuarially funding for the increases in the salaries of employees in their final year of employment, the City’s practice of allowing police officers and firefighters the opportunity to accumulate large amounts of overtime and other forms of compensation during their last month of employment and including that compensation in the calculation of pension benefits has resulted in significantly increased pension benefit payments for some of the retirees, as well as significantly increased municipal contributions to the pension plan, incorrect actuarial projections, and risk to the fiscal soundness of the city’s pension plans.

CITY OF WASHINGTON COMPREHENSIVE MUNICIPAL PENSION TRUST FUND
COMMENTS

The city's practice of including overtime, holiday pay and other forms of compensation accumulated in their final month of employment is not, per se, in excess of the provisions stipulated in the city's governing document, however, it is important to consider 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 an important piece of the overall underlying accrued liability (*i.e., the final monthly earnings containing overtime, holiday pay and roadwork hours worked in the final month of employment for retiring police officers and overtime and holiday pay that a firefighter accumulates in their final month of employment for retiring firefighters which cannot be reasonably estimated until separation from employment*) is unknown and, therefore, cannot be funded over time in accordance with Act 205. This methodology has adverse ramifications on the funded statuses of the plans and also results in increased annual contributions required which, when the city's annual state aid allocation is not sufficient to cover the annual minimum municipal obligation, shall be borne by the taxpayer in the form of increased resources needed from the city's general-purpose funds.

CITY OF WASHINGTON COMPREHENSIVE MUNICIPAL PENSION TRUST FUND
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This report was initially distributed to the following:

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