

**CITY OF COATESVILLE FIREFIGHTERS' PENSION PLAN**

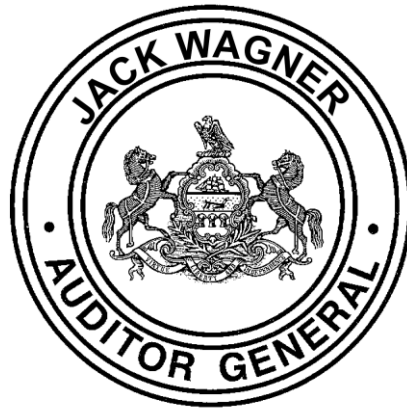
**CHESTER COUNTY**

**COMPLIANCE AUDIT REPORT**

**FOR THE PERIOD**

**JANUARY 1, 2008, TO DECEMBER 31, 2009**





**CITY OF COATESVILLE FIREFIGHTERS' PENSION PLAN**

**CHESTER COUNTY**

**COMPLIANCE AUDIT REPORT**

**FOR THE PERIOD**

**JANUARY 1, 2008, TO DECEMBER 31, 2009**



# CONTENTS

	<u>Page</u>
Background .....	1
Letter from the Auditor General .....	3
Findings and Recommendations:	
Finding No. 1 – Failure To Fully Pay The Minimum Municipal Obligation Of The Plan .....	5
Finding No. 2 – Plan’s Governing Document Fails To Include A Service-Related Disability Benefit Provision .....	6
Finding No. 3 – Ordinance Improperly Amended By Resolution .....	7
Finding No. 4 – Pension Benefits Modified Without Prior Cost Estimate .....	7
Finding No. 5 – Failure To Determine And Submit The Financial Requirements And Minimum Municipal Obligation Of The Plan .....	8
Finding No. 6 – Failure To Maintain Adequate Minutes Of Pension Board Meetings .....	10
Potential Withhold of State Aid .....	11
Supplementary Information .....	12
Report Distribution List .....	17



## 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. Section 402(j) of Act 205 specifically requires the Auditor General, as deemed necessary, to make an audit of every municipality which receives general municipal pension system State aid and of every municipal pension plan and fund in which general municipal pension system State aid is deposited.

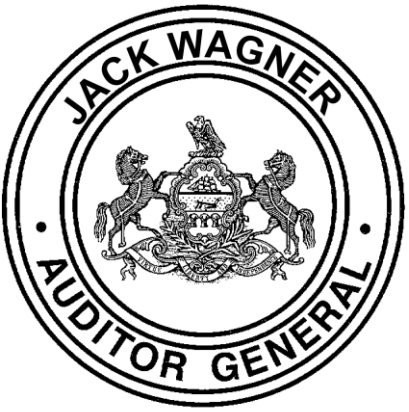
Pension plan aid is provided from a 2 percent foreign casualty insurance premium tax, a portion of the foreign fire insurance tax designated for paid firefighters and any investment income earned on the collection of these taxes. Generally, municipal pension plans established prior to December 18, 1984, 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 Coatesville Firefighters' Pension Plan is also governed by implementing regulations adopted by the Public Employee Retirement Commission published at Title 16, Part IV of the Pennsylvania Code and applicable provisions of various other state statutes including, but not limited to, the following:

Act 177 - General Local Government Code, Act of December 19, 1996 (P.L. 1178, No. 177), as amended, 53 Pa.C.S. § 101 et seq.

Act 317 - The Third Class City Code, Act of June 23, 1931 (P.L. 932, No. 317), as amended, 53 P.S. § 35101 et seq.

The City of Coatesville Firefighters' Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Chapter 38, Article III of the city's codified ordinances, adopted pursuant to Act 317. The plan is also affected by the provisions of collective bargaining agreements between the city and its firefighters.





City Council  
City of Coatesville  
Chester County  
Coatesville, PA 19320

We have conducted a compliance audit of the City of Coatesville Firefighters' Pension Plan for the period January 1, 2008, to December 31, 2009. The audit was conducted pursuant to authority derived from Section 402(j) of Act 205 and in accordance with *Government Auditing Standards* applicable to performance audits issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

The objective of the audit was 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 objective identified above. The City of Coatesville contracted with an independent certified public accounting firm for an audit of its basic financial statements for the year ending December 31, 2008, which is 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 Coatesville Firefighters' Pension Plan is administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies. In conducting our audit, we obtained an understanding of the city's internal controls as they relate to the city's compliance with those requirements and that we considered to be significant within the context of our audit objective, and assessed whether those significant controls were properly designed and implemented. Additionally, we tested transactions, assessed official actions, performed analytical procedures and interviewed selected officials to the extent necessary to satisfy the audit objective.

The results of our tests indicated that, in all significant respects, the City of Coatesville Firefighters' 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 – Failure To Fully Pay The Minimum Municipal Obligation Of The Plan
- Finding No. 2 – Plan's Governing Document Fails To Include A Service-Related Disability Benefit Provision
- Finding No. 3 – Ordinance Improperly Amended By Resolution
- Finding No. 4 – Pension Benefits Modified Without Prior Cost Estimate
- Finding No. 5 – Failure To Determine And Submit The Financial Requirements And Minimum Municipal Obligation Of The Plan
- Finding No. 6 – Failure To Maintain Adequate Minutes Of Pension Board Meetings

The accompanying supplementary information is presented for purposes of additional analysis. We did not audit the information and, accordingly, express no form of assurance on it.

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

February 11, 2011

JACK WAGNER  
Auditor General

CITY OF COATESVILLE FIREFIGHTERS' PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Failure To Fully Pay The Minimum Municipal Obligation Of The Plan

Condition: The city did not fully pay the minimum municipal obligation (MMO) that was due to the firefighters' pension plan for the year 2007, as required by Act 205. The city had an unpaid MMO balance of \$11,547 for the year 2007.

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

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

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

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

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

Any amount of the minimum obligation of the municipality which remains unpaid as of December 31 of the year in which the minimum obligation is due shall be added to the minimum obligation of the municipality for the following year, with interest from January 1 of the year in which the minimum obligation was first due until the date the payment is paid. . . .

Cause: Plan officials failed to establish adequate internal control procedures to ensure the 2007 MMO was fully paid in accordance with Act 205 requirements.

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

Due to the city's failure to fully pay the 2007 MMO by the December 31, 2007, deadline, the city must add the 2007 MMO balance to the current year's MMO and include interest, as required by Act 205.

Recommendation: We recommend that the city pay the MMO due to the firefighters' pension plan for the year 2007, with interest, in accordance with Section 302(e) of Act 205. A copy of the interest calculation must be maintained by the city for examination during our next audit of the plan.

CITY OF COATESVILLE FIREFIGHTERS' PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Furthermore, we recommend that plan officials establish adequate internal control procedures to ensure the plan's MMO is fully paid in accordance with Act 205 requirements.

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

Finding No. 2 – Plan's Governing Document Fails To Include A Service-Related Disability Benefit Provision

Condition: The pension plan's governing document does not contain a provision for a service-related disability benefit as required by the Third Class City Code.

Criteria: Section 4322(a) of the Third Class City Code states, in part:

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 4320.1 or retirement, or the highest average annual salary which he received during any five years of service preceding retirement, whichever is the higher, whether for disability, or by reason of age or service, and except as to service increments provided for in subsection (b) of this section, shall be one-half the annual salary of such member at the time of vesting under section 4320.1 or retirement computed at such monthly or average annual rate, whichever is the higher. In the case of the payment of pensions to members for permanent injury incurred in service, and to families of members killed or who die in service, the amount and commencement of the payment of pensions shall be fixed by regulations of the board. Such regulations shall not take into consideration the amount and duration of workmen's compensation allowed by law.

Cause: Municipal officials were unaware that the Third Class City Code mandated a service-related disability benefit.

Effect: The failure to provide a service-related disability benefit could result in a potential unfunded liability to the plan or the denial of benefits to which plan members are entitled under the Third Class City Code.

CITY OF COATESVILLE FIREFIGHTERS' PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Recommendation: We recommend that municipal officials, after consulting with their solicitor, take whatever action is necessary to bring the pension plan's benefit structure into compliance with the Third Class City Code at their earliest opportunity to do so.

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

Finding No. 3 – Ordinance Improperly Amended By Resolution

Condition: The pension plan's governing document, Ordinance No. 1304-2008, was restated in its entirety by Resolution No. 2009-27A.

Criteria: In Wynne v. Lower Merion Township, 181 Pa. Superior Ct., 524, the Pennsylvania Superior Court held that an ordinance may be amended only by another ordinance and not by a resolution.

Cause: Municipal officials were not aware that a resolution cannot amend an ordinance.

Effect: The failure to properly adopt the restated plan document could result in inconsistent or improper benefit calculations and incorrect benefit payments from the pension plan.

Recommendation: We recommend that the city amend the plan's governing document with a properly executed ordinance.

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

Finding No. 4 – Pension Benefits Modified Without Prior Cost Estimate

Condition: The city adopted a vesting pension benefit for the firefighters' pension plan without a cost estimate as required by Act 205.

Section 5.2 of Resolution No. 2009-27A states, in part:

A terminated Member may vest his Accrued Normal Retirement Benefit if he satisfies the following requirements: (a) The Member completes a minimum of twelve (12) continuous Years of Service prior to his termination of employment...

CITY OF COATESVILLE FIREFIGHTERS' PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

Finding No. 4 – (Continued)

Criteria: Section 305(a) of Act 205 states:

Prior to the adoption of any benefit plan modification by the governing body of the municipality, the chief administrative officer of each pension plan shall provide to the governing body of the municipality a cost estimate of the effect of the proposed benefit plan modification.

Furthermore, Section 305(b) of Act 205 states, in part:

If the pension plan is a defined benefit plan which is self-insured in whole or in part, the cost estimate shall be prepared by an approved actuary. . . .

Cause: Plan officials were unaware that the adoption of a vested pension benefit required a cost estimate in accordance with Act 205 requirements.

Effect: Benefit increases without a prior cost estimate could have a negative effect on the plan's ability to meet its current or future obligations. Act 205 requires that any unfunded liability resulting from a benefit change for active members must be amortized in 20 years and for retired members in 10 years.

Recommendation: We recommend that all future benefit modifications be preceded by a cost estimate in accordance with Act 205 requirements.

Furthermore, we recommend the cost of the vested pension benefit be included in future actuarial valuation reports and funded in accordance with Act 205 funding standards.

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

Finding No. 5 – Failure To Determine And Submit The Financial Requirements And Minimum Municipal Obligation Of The Plan

Condition: Plan officials did not determine the financial requirements of the plan (FRP) or the minimum municipal obligation (MMO) of the firefighters' pension plan for the year 2011, as required by Act 205. In addition, the chief administrative officer (CAO) of the plan failed to submit the FRP and MMO to the governing body of the city, as required by Act 205.

CITY OF COATESVILLE FIREFIGHTERS' PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

Finding No. 5 – (Continued)

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

Annually, the chief administrative officer of the pension plan shall determine the financial requirements of the pension plan for the following plan year.

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

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

Furthermore, Section 304 of Act 205 states, in part:

The chief administrative officer of each pension plan shall submit the financial requirements of the pension plan and the minimum obligation of the municipality with respect to the pension plan, with appropriate documenting detail, to the governing body of the municipality on or before the last business day in September, annually.

Cause: Plan officials failed to establish adequate internal control procedures to ensure the 2011 MMO was determined and submitted in accordance with Act 205 requirements.

Effect: The proper determination and submission of the plan's FRP and MMO ensures plan officials can properly allocate the necessary resources to the pension plan for the upcoming year.

Recommendation: We recommend that the CAO determine the FRP and MMO of the pension plan for the year 2011 and submit these calculations to the governing body, as required by Act 205.

In addition, plan officials should establish adequate internal control procedures, which could include a written procedure manual, to assist them in complying with Act 205 reporting and funding requirements.

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

CITY OF COATESVILLE FIREFIGHTERS' PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

Finding No. 6 – Failure To Maintain Adequate Minutes Of Pension Board Meetings

Condition: The city failed to maintain adequate minutes of the pension board meetings.

Criteria: Maintaining documentation of pension board meetings is a prerequisite for the sound administration of pension plans.

Cause: Municipal officials were unaware of their fiduciary responsibility to maintain minutes of pension board meetings.

Effect: The failure to maintain adequate minutes of pension board meetings could lead to undetected errors or improprieties in plan transactions as well as deficiencies in authorizing and implementing pension plan policies.

Recommendation: We recommend that plan officials maintain a permanent record of all pension board meetings. The minutes should include an adequate record of all financial-related business conducted by the pension board.

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



CITY OF COATESVILLE FIREFIGHTERS' PENSION PLAN  
POTENTIAL WITHHOLD OF STATE AID

A condition such as that reported by Finding No. 1 contained in this audit report may lead to a total withholding of state aid in the future unless that finding is corrected. However, such action will not be considered if sufficient written documentation is provided to verify compliance with this department's recommendation. Such documentation should be submitted to: Department of the Auditor General, Bureau of Municipal Pension Audits, 406 Finance Building, Harrisburg, PA 17120.

CITY OF COATESVILLE FIREFIGHTERS' 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, except for distressed pension plans, for which annual reporting was required through January 1, 2003. The historical information, beginning as of January 1, 2007, is as follows:

	(1)	(2)	(3)	(4)	(5)	(6)
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)	Covered Payroll (c)	Unfunded (Assets in Excess of) Actuarial Accrued Liability as a % of Payroll [(b-a)/(c)]
01-01-07	\$ 34,528	\$ 265,495	\$ 230,967	13.0%	\$ 135,264	170.8%
01-01-09	133,140	477,533	344,393	27.9%	153,317	224.6%

Generally accepted accounting principles require the above data to be presented as of the plan's actuarial valuation dates for the past six consecutive fiscal years. Since six years of data were not yet available, this requirement will be implemented prospectively.

CITY OF COATESVILLE FIREFIGHTERS' 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.

Trends in unfunded (assets in excess of) actuarial accrued liability and annual covered payroll are both affected by inflation. Expressing the unfunded (assets in excess of) actuarial accrued liability as a percentage of annual covered payroll (Column 6) approximately adjusts for the effects of inflation and aids analysis of the plan's progress made in accumulating sufficient assets to pay benefits when due. Generally, where there is an unfunded actuarial accrued liability, the smaller this percentage, the stronger the plan. However, when assets are in excess of the actuarial accrued liability, the higher the bracketed percentage, the stronger the plan.

CITY OF COATESVILLE FIREFIGHTERS' PENSION PLAN  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER  
AND OTHER CONTRIBUTING ENTITIES

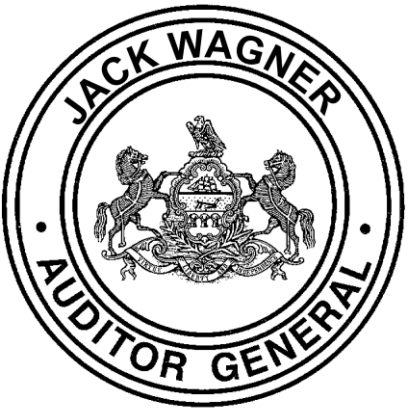
Year Ended December 31	Annual Required Contribution	Percentage Contributed
2007	\$ 46,110	75.0%
2008	66,509	100.0%
2009	72,867	100.0%
2010	63,065	372.5%

Generally accepted accounting principles require the above data to be presented for the past six consecutive fiscal years. Since six years of data were not yet available, this requirement will be implemented prospectively.

CITY OF COATESVILLE FIREFIGHTERS' PENSION PLAN  
SUPPLEMENTARY INFORMATION  
NOTES TO SUPPLEMENTARY SCHEDULES  
(UNAUDITED)

The information presented in the required 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, 2009
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	13 years
Asset valuation method	Fair value
Actuarial assumptions:	
Investment rate of return *	7.0%
Projected salary increases *	5.0%
* Includes inflation at	Not disclosed
Cost-of-living adjustments	None assumed



CITY OF COATESVILLE FIREFIGHTERS' PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett  
Governor  
Commonwealth of Pennsylvania

City of Coatesville Firefighters' Pension Plan  
Chester County  
One City Hall Place  
Coatesville, PA 19320

Mr. Karl Marking	City Council President
Mr. Kirby Hudson	Assistant City Manager
Ms. Stacy Bjorhus	Finance Director

This report is a matter of public record. Copies of this report may be obtained from the Pennsylvania Department of the Auditor General, Office of Communications, Room 318 Finance Building, Harrisburg, PA 17120. If you have any questions regarding this report or any other matter, you may contact the Department of the Auditor General by accessing our website at [www.auditorgen.state.pa.us](http://www.auditorgen.state.pa.us).