

CITY OF COATESVILLE POLICE PENSION PLAN

CHESTER COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2007, TO DECEMBER 31, 2009



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BACKGROUND

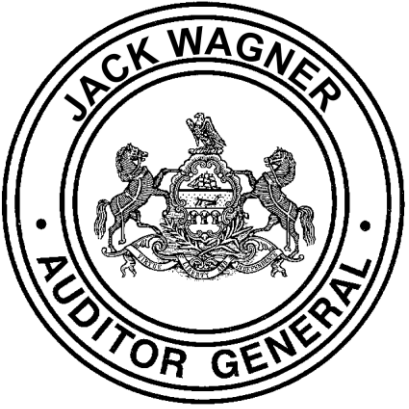
On December 18, 1984, the Pennsylvania Legislature adopted the Municipal Pension Plan Funding Standard and Recovery Act (P.L. 1005, No. 205, as amended, 53 P.S. § 895.101 et seq.). The act established mandatory actuarial reporting and funding requirements and a uniform basis for the distribution of state aid to Pennsylvania's public pension plans. 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 Police 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 147 - Special Ad Hoc Municipal Police and Firefighter Postretirement Adjustment Act, Act of December 14, 1988 (P.L. 1192, No. 147), as amended, 53 P.S. § 896.101 et seq.
- 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 Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Chapter 38, Article I 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 police officers.



City Council
City of Coatesville
Chester County
Coatesville, PA 19320

We have conducted a compliance audit of the City of Coatesville Police Pension Plan for the period January 1, 2007, 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 our 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 finding contained in our prior audit 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. The City of Coatesville contracted with an independent certified public accounting firm for audits of its basic financial statements for the years ending December 31, 2007 and 2008, 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 Coatesville Police 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 objectives, 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 objectives.

The results of our tests indicated that, in all significant respects, the City of Coatesville Police 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 – Partial Compliance With Prior Audit Recommendation – Pension Benefit Not In Compliance With The Third Class City Code
- Finding No. 2 – Incorrect Data On Certification Form AG 385 Resulting In A Net Overpayment Of State Aid
- Finding No. 3 – Failure To Properly Determine And Fully Pay The Minimum Municipal Obligation Of The Plan
- Finding No. 4 – Failure To Determine And Submit The Financial Requirements And Minimum Municipal Obligation Of The Plan
- Finding No. 5 – Ordinance Improperly Amended By Resolution
- 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 POLICE PENSION PLAN
STATUS OF PRIOR FINDING

Partial Compliance With Prior Audit Recommendation

The City of Coatesville has partially complied with the prior audit recommendation concerning the following:

- Provision Of Benefits Not Authorized By The Third Class City Code

City officials adopted a plan agreement effective January 1, 2009, which restated the pension benefit provisions to comply with the Third Class City Code; however, the nonservice-related disability benefit provision is still not in compliance with the Third Class City Code as discussed in the Findings and Recommendations section of this report.

CITY OF COATESVILLE POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Partial Compliance With Prior Audit Recommendation – Pension Benefit Not In Compliance With The Third Class City Code

Condition: The city adopted a home rule charter pursuant to the Home Rule Charter and Optional Plans Law, 53 Pa. C.S. § 2901 *et seq.* (previously 53 P.S. § 1-101 *et seq.*). As disclosed in the prior audit report, the city provided pension benefits to its police officers that were not authorized by the Third Class City Code.

During the current audit period, city officials adopted a plan agreement effective January 1, 2009, which restated the pension benefit provisions to comply with the Third Class City Code; however, the city continues to provide a nonservice-related disability benefit to its police officers that is less than what is authorized by the Third Class City Code, as noted below:

Benefit	Governing Document	Third Class City Code
Nonservice-related disability benefit	After 5 years of service, but less than ten years of service: 12.5% of annual salary;	Before 10 years of service: 25% of annual compensation;
	After 10 years of service, but less than 15 years of service: 25% of annual salary;	After 10 years of service: 50% of annual compensation.
	After 15 years of service: 50% of annual salary.	

Criteria: On January 24, 2001, the Commonwealth Court of Pennsylvania issued its opinion in *Municipality of Monroeville v. Monroeville Police Department Wage Policy Committee*. Therein, the court held that Section 2962(c)(5) of the Home Rule Charter and Optional Plans Law, 53 Pa. C.S. § 2962(c)(5), “clearly precludes home rule municipalities from providing pension benefits different from those prescribed in general law including Act 600.” The court’s holding was in accord with the position taken by this department since at least January 1995.

Cause: City officials failed to establish adequate internal control procedures to ensure full compliance with the prior audit recommendation.

Effect: Providing a nonservice-related disability benefit that is not in compliance with the Third Class City Code could result in plan members or their beneficiaries receiving incorrect benefit amounts or being denied benefits to which they are statutorily entitled.

CITY OF COATESVILLE POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Recommendation: We recommend that the city provide a nonservice-related disability benefit in accordance with the Third Class City Code at its earliest opportunity to do so.

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

Finding No. 2 – Incorrect Data On Certification Form AG 385 Resulting In A Net Overpayment Of State Aid

Condition: The city failed to certify 1 eligible nonuniformed employee (1 unit) and understated payroll by \$56,769 in 2008 on Certification Form AG 385. In addition, the city certified 2 ineligible police officers (4 units) and overstated payroll by \$2,739, and certified 5 ineligible nonuniformed employees (5 units) and overstated payroll by \$95,091 in 2009 on Certification Form AG 385. Furthermore, the city understated police payroll by \$46,931 in 2010, and certified 6 ineligible nonuniformed employees (6 units) and overstated payroll by \$105,322 in 2010 on Certification Form AG 385.

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.

In addition, pursuant to the instructions that accompany Certification Form AG 385, the total payroll eligible to be certified should be Internal Revenue Service Form W-2 earnings pertaining to full-time positions.

Cause: Plan officials failed to establish adequate internal control procedures to ensure the accuracy of the data certified.

CITY OF COATESVILLE POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Effect: The data submitted on these certification forms is used, in part, to calculate the state aid due to the city for distribution to its pension plans. Because the city’s state aid allocations for the years 2008 and 2009 were based on pension costs, and 2010 was based on unit value, the incorrect certification of pension data affected the city’s state aid allocations, as identified below:

Year	Type Of Plan	Units Overstated	Unit Value	Normal Cost	Payroll Overstated (Understated)	State Aid Overpayment (Underpayment)
2008	Nonuniformed			5.25764%	\$ (56,769)	\$ (2,985)
2009	Police			19.73601%	\$ 2,739	\$ 540
	Nonuniformed			5.25764%	\$ 95,091	\$ 5,000
2010	Nonuniformed	6	\$ 3,235			<u>\$ 19,410</u>
Net Overpayment of State Aid						<u><u>\$ 21,965</u></u>

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

Recommendation: We recommend that the net overpayment of state aid, in the amount of \$21,965, 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, 11 Stanwix Street, Suite 1450, Pittsburgh, PA 15222. A copy of the interest calculation must be submitted along with the check.

We also recommend that, in the future, plan officials comply with the instructions that accompany Certification Form AG 385 to assist them in accurately reporting the required pension data.

In addition, if the reimbursement to the Commonwealth is made from police pension plan funds, we recommend that any resulting MMO deficiency be paid to the pension plan with interest, at a rate earned by the pension plan.

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

CITY OF COATESVILLE POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – Failure To Properly Determine And 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 police pension plan for the year 2008, as required by Act 205. In addition, plan officials did not properly determine or fully pay the MMO of the police pension plan for the year 2010, as required by Act 205. The 2010 MMO determined by the city understated payroll by \$658,175. Based upon an estimate prepared by this department, the city had unpaid MMO balances of \$309,669 and \$218,602 for the years 2008 and 2010, respectively.

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.

With regard to the payroll estimate used in the preparation of the MMO, the Pennsylvania Code, Title 16, Section 204.1(c)(1) states, in part:

The payroll used in determining the minimum municipal obligation of a pension plan under section 302(c) of the act shall be based on the payroll to be reported on the Internal Revenue Service Form W-2 and shall be calculated as the total payroll for active members of the plan as of the date of the determination, plus the payroll for the same active members of the plan projected to the year's end using the payroll rates in effect as of the date of the determination.

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. . . .

CITY OF COATESVILLE POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

Cause: Plan officials failed to establish adequate internal control procedures to ensure the MMO's were properly determined and fully paid in accordance with Act 205 requirements.

Effect: The proper determination of the plan's MMO ensures plan officials can properly allocate the necessary resources to the pension plan for the upcoming year. 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 2008 and 2010 MMOs by the December 31, 2008, and December 31, 2010, deadlines, the city must add the outstanding MMO balances to the current year's MMO and include interest, as required by Act 205.

Recommendation: We recommend that the city pay the MMO balances due to the police pension plan for the years 2008 and 2010, with interest, in accordance with Section 302(e) of Act 205.

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

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

Finding No. 4 – 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 police 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.

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.

CITY OF COATESVILLE POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 4 – (Continued)

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.

Finding No. 5 – Ordinance Improperly Amended By Resolution

Condition: The pension plan's governing document, Ordinance No. 845-89, as amended, was restated in its entirety by Resolution No. 2009-15.

CITY OF COATESVILLE POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 5 – (Continued)

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. 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 POLICE PENSION PLAN
POTENTIAL WITHHOLD OF STATE AID

Finding No. 2 contained in this audit report cites a net overpayment of state aid to the city in the amount of \$21,965. A condition of this nature may lead to a total withholding of state aid in the future unless that finding is corrected. A check in this amount with interest, 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, 11 Stanwix Street, Suite 1450, Pittsburgh, PA 15222.

In addition, a condition such as that reported by Finding No. 3 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 POLICE PENSION PLAN
 SUPPLEMENTARY INFORMATION
 (UNAUDITED)

SCHEDULE OF FUNDING PROGRESS

Historical trend information about the plan is presented herewith as supplementary information. It is intended to help users assess the plan's funding status on a going-concern basis, assess progress made in accumulating assets to pay benefits when due, and make comparisons with other state and local government retirement systems.

The actuarial information is required by Act 205 biennially, except for distressed pension plans, for which annual reporting was required through January 1, 2003. The historical information, beginning as of January 1, 2005, 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)]
01-01-05	\$ 8,199,603	\$ 8,179,205	\$ (20,398)	100.2%	\$ 1,707,850	(1.2%)
01-01-07	10,368,255	7,954,501	(2,413,754)	130.3%	1,733,522	(139.2%)
01-01-09	7,810,524	8,258,265	447,741	94.6%	1,487,807	30.1%

CITY OF COATESVILLE POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

The comparability of trend information is affected by changes in actuarial assumptions, benefit provisions, actuarial funding methods, accounting policies, and other changes. Those changes usually affect trends in contribution requirements and in ratios that use the actuarial accrued liability as a factor.

Analysis of the dollar amount of the actuarial value of assets, actuarial accrued liability, and unfunded (assets in excess of) actuarial accrued liability in isolation can be misleading. Expressing the actuarial value of assets as a percentage of the actuarial accrued liability (Column 4) provides one indication of the plan's funding status on a going-concern basis. Analysis of this percentage, over time, indicates whether the system is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the plan.

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 POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

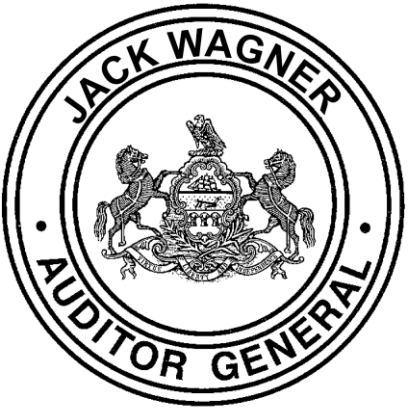
SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER
AND OTHER CONTRIBUTING ENTITIES

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2004	\$ 316,000	100.0%
2005	483,951	103.2%
2006	477,921	100.0%
2007	518,131	103.0%
2008	533,632	42.0%
2009	171,695	100.0%

CITY OF COATESVILLE POLICE 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	15 years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return *	7.0%
Projected salary increases *	5.0%
* Includes inflation at	Moderate inflation based on long-term historical average rates is a component of the actuarial assumptions used herein. Provision is not made for advance funding of sharply higher rates of inflation experienced in some years. The effects of such higher rates are reflected in the funding after occurrence.
Cost-of-living adjustments	6.0%



CITY OF COATESVILLE POLICE PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania

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

Mr. Karl Marking	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.