



**CITY OF COATESVILLE RETIREMENT INCOME  
PENSION PLAN**

**CHESTER COUNTY**

**COMPLIANCE AUDIT REPORT**

**FOR THE PERIOD**

**JANUARY 1, 2010, TO DECEMBER 31, 2011**

**COMMONWEALTH OF PENNSYLVANIA**

**EUGENE A. DEPASQUALE - AUDITOR GENERAL**

**DEPARTMENT OF THE AUDITOR GENERAL**





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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 Retirement Income 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 Retirement Income Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Chapter 38, Article II 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 nonuniformed employees.







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**EUGENE A. DePASQUALE**  
**AUDITOR GENERAL**

City Council  
City of Coatesville  
Chester County  
Coatesville, PA 19320

We have conducted a compliance audit of the City of Coatesville Retirement Income Pension Plan for the period January 1, 2010, to December 31, 2011. The audit was conducted pursuant to authority derived from Section 402(j) of Act 205 and in accordance with the standards applicable to performance audits contained in *Government Auditing Standards* 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 findings 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. Our methodology addressed determinations about the following:

- Whether state aid was properly determined and deposited in accordance with Act 205 requirements.
- Whether employer contributions are determined and deposited in accordance with the plan's governing document and applicable laws and regulations.
- Whether employee contributions are required and, if so, are determined, deducted and deposited into the pension plan and are in accordance with the plan provisions and applicable laws and regulations.

- Whether benefit payments, if any, represent payments to all (and only) those entitled to receive them and are properly determined in accordance with applicable laws and regulations.
- Whether obligations for plan benefits are accurately determined in accordance with plan provisions and based on complete and accurate participant data; and whether actuarial valuation reports are prepared and submitted to the Public Employee Retirement Commission (PERC) in accordance with state law and selected information provided on these reports is accurate, complete and in accordance with plan provisions to ensure compliance for participation in the state aid program.
- Whether benefit payments have only been made to living recipients, based on the Social Security numbers found in the pension records for retirees and beneficiaries.

City officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the City of Coatesville Retirement Income 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 provide reasonable assurance of detecting instances of noncompliance with legal and regulatory requirements or noncompliance with provisions of contracts, administrative procedures, and local ordinances and policies that are significant within the context of the audit objectives.

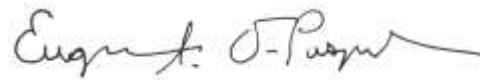
The results of our tests indicated that, in all significant respects, the City of Coatesville Retirement Income Pension Plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies, except as noted in the following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

Finding No. 1 – Noncompliance With Prior Audit Recommendation –  
Inconsistent And Unauthorized Pension Benefits

Finding No. 2 – Noncompliance With Prior Audit Recommendation –  
Failure To Determine Vested Pension Benefits

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 Coatesville and, where appropriate, their responses have been included in the report.



EUGENE A. DEPASQUALE  
Auditor General

March 1, 2013



CITY OF COATESVILLE RETIREMENT INCOME PENSION PLAN  
STATUS OF PRIOR FINDINGS

Compliance With Prior Audit Recommendations

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

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

The city reimbursed \$23,786 to the Commonwealth for the overpayment of state aid.

- Failure To Fully Pay The Minimum Municipal Obligation Of The Plan

The city paid the minimum municipal obligation due to the plan for the year 2010 in accordance with Act 205 requirements.

- Failure To Determine And Submit The Financial Requirements And Minimum Municipal Obligation Of The Plan

The city properly determined and submitted the 2011 minimum municipal obligation to the plan's governing body.

- Failure To Maintain Adequate Minutes Of Pension Board Meetings

The city now maintains adequate minutes of the pension board meetings and they are kept on file at city hall.

Noncompliance With Prior Audit Recommendations

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

- Inconsistent And Unauthorized Pension Benefits
- Failure To Determine Vested Pension Benefits

CITY OF COATESVILLE RETIREMENT INCOME PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Noncompliance With Prior Audit Recommendation – Inconsistent And  
Unauthorized Pension Benefits

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, while the city has amended the collective bargaining agreement to provide pension benefits in accordance with the Third Class City Code for all employees of the bargaining unit hired after January 2001, the pension plan’s governing document continues to contain benefit provisions that are not authorized by the Third Class City Code for employees hired after January 2001 and conflict with the collective bargaining agreement, as illustrated below:

<u>Benefit Provision</u>	<u>Governing Document</u>	<u>Collective Bargaining Agreement</u>	<u>Third Class City Code</u>
Normal retirement eligibility	Age 65 with no service requirement.	The City shall provide a Third Class City Pension Benefit to all employees of the bargaining unit hired after January 2001.	Age 60 with 20 years of service.
Normal retirement benefit	Monthly pension benefit equal to years of service times:  Before 1/1/00, \$25; Effective 1/1/00, \$30; Effective 1/1/01, \$35; Effective 1/1/02, \$40; Effective 1/1/03, \$45; and Effective 1/1/04, \$50	The city will provide a benefit of \$50 per month per year of service as a City employee with a hire date prior to January, 2001. The City shall provide a Third Class City Pension Benefit to all employees of the bargaining unit hired after January 2001.	50% of the highest average annual salary during any 5 years of service.

CITY OF COATESVILLE RETIREMENT INCOME PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

<u>Benefit Provision</u>	<u>Governing Document</u>	<u>Collective Bargaining Agreement</u>	<u>Third Class City Code</u>
Social Security offset	Not specified	The City shall provide a Third Class City Pension Benefit to all employees of the bargaining unit hired after January 2001.	For employees covered by Social Security, a reduction in the pension by 40% of the participant's primary Social Security insurance amount attributable to city service to be made at the time that the participant becomes eligible to receive the Social Security primary insurance benefit.
Member contribution rate	Member contributions not required	The City shall provide a Third Class City Pension Benefit to all employees of the bargaining unit hired after January 2001.	Two percent (2%), if the employees are not covered by Social Security, or 3.5% of compensation on which Social Security is payable, and 5% of any compensation in excess of that amount.
Refund of members' contributions	Not specified	The City shall provide a Third Class City Pension Benefit to all employees of the bargaining unit hired after January 2001.	For employees ineligible to receive a pension benefit for any reason, their contributions must be returned, without interest, to the member or his estate, if payment is due to death.

CITY OF COATESVILLE RETIREMENT INCOME PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

<u>Benefit Provision</u>	<u>Governing Document</u>	<u>Collective Bargaining Agreement</u>	<u>Third Class City Code</u>
Early retirement eligibility	Age 55 with 10 years of service.	The City shall provide a Third Class City Pension Benefit to all employees of the bargaining unit hired after January 2001.	20 years of service with no age requirement.
Early retirement benefit	The monthly pension accrued to the early retirement date, actuarially reduced and paid immediately.	The City shall provide a Third Class City Pension Benefit to all employees of the bargaining unit hired after January 2001.	A normal pension payable at age 60 if the participant continues paying monthly member's contributions equal to the last amount due while in active employment until the member reaches age 60.
Disability benefits	Not specified	The City shall provide a Third Class City Pension Benefit to all employees of the bargaining unit hired after January 2001.	For total and permanent disabilities occurring after 10 years of service and before age 60, benefit equals normal retirement benefit without offset for Social Security benefits.
Vesting eligibility	5 years of service.	The City shall provide a Third Class City Pension Benefit to all employees of the bargaining unit hired after January 2001.	12 years of service.



CITY OF COATESVILLE RETIREMENT INCOME PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

<u>Benefit Provision</u>	<u>Governing Document</u>	<u>Collective Bargaining Agreement</u>	<u>Third Class City Code</u>
Vested benefit	Employee's accrued pension at termination, payable on normal retirement date.	The City shall provide a Third Class City Pension Benefit to all employees of the bargaining unit hired after January 2001.	Base pension times the percentage member's years of service bears to years of service member would have rendered by his earliest retirement date, payable at normal retirement date.
Pension benefit payment options	<p>The monthly pension may be paid under one of the following options:</p> <ol style="list-style-type: none"> <li>1. Lifetime pension – payments payable to retiree until death;</li> <li>2. Joint and survivor pension – payments until the later of the death of retiree or survivor, with survivor's benefit of 100%, 75%, 66 2/3% or 50% of the retiree's benefit; or</li> <li>3. Lifetime pension with certain period payments payable to retiree or beneficiary until the later of retiree's death or a payment of a specified number of payments (120 or 180).</li> </ol>	The City shall provide a Third Class City Pension Benefit to all employees of the bargaining unit hired after January 2001.	Payment options are not provided.

CITY OF COATESVILLE RETIREMENT INCOME PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

<u>Benefit Provision</u>	<u>Governing Document</u>	<u>Collective Bargaining Agreement</u>	<u>Third Class City Code</u>
Credit for prior city service	Not specified	The City shall provide a Third Class City Pension Benefit to all employees of the bargaining unit hired after January 2001.	Rehired employees who previously withdrew their members' contributions shall not receive credit for prior city service unless they return the amount withdrawn.

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.

The department acknowledges that its position has changed over the years and that, until *Monroeville*, there was no definitive decision as to whether home rule municipalities were obliged to comply with applicable pension law. The department seeks, therefore, to implement the decision in as equitable a fashion as possible, while paying necessary deference to the court’s ruling. Accordingly, the department will not penalize a home rule municipality for granting benefits not authorized by the Third Class City Code to existing retirees or to individuals who began full-time employment before January 24, 2001 (the date *Monroeville* was issued). However, the department expects the city to restrict pension benefits to those authorized by the Third Class City Code for all employees who began full-time employment on or after that date.

In addition, a governing document which contains clearly defined and updated benefit provisions is a prerequisite for the consistent, sound administration of retirement benefits. Furthermore, the pension plan’s benefit structure should be in compliance with the provisions of the Third Class City Code.

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

CITY OF COATESVILLE RETIREMENT INCOME PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

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

Providing unauthorized pension benefits increases the plan's pension costs and reduces the amount of funds available for investment purposes or for the payment of authorized benefits or administrative expenses. Although the city did not receive excess state aid attributable to the unauthorized pension benefits during the current audit period, the provision of unauthorized pension benefits may have resulted in the receipt of excess state aid in the years 2008 and 2009, and could increase the municipal contributions necessary to fund the plan in accordance with Act 205 funding standards.

Recommendation: We again recommend that municipal officials amend the plan's governing document, as necessary, to ensure the plan's benefit provisions are in compliance with the Third Class City Code for plan members who began full-time employment on or after January 24, 2001, and to eliminate the inconsistencies with the collective bargaining agreement.

To the extent that the city is not in compliance with the Third Class City Code and/or is contractually obligated to pay benefits to existing plan members in excess of those authorized by the Third Class City Code, the excess benefits must be reflected in the Act 205 actuarial valuation reports for the plan and funded in accordance with Act 205 funding standards. Furthermore, such benefits will be deemed ineligible for funding with state pension aid. In such case, municipal officials should consult with the plan's actuary to determine if Supplemental Actuarial Information Form AG-MP-1 should be prepared to determine the effect of the unauthorized benefits on the city's state aid allocations for the years 2008 and 2009. If it is determined the excess benefits had an impact on the city's state aid allocations received in the years 2008 and 2009, the form should be submitted to the department. Furthermore, after the submission of the form, the plan's actuary should contact the department to verify the overpayment of state aid received and plan officials should then reimburse the overpayment to the Commonwealth.

Management's Response: Municipal officials agreed with the finding without exception and are in the process of writing a restated plan document.

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

CITY OF COATESVILLE RETIREMENT INCOME PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Noncompliance With Prior Audit Recommendation – Failure To Determine Vested Pension Benefits

Condition: As disclosed in the prior audit report, the city failed to determine vested pension benefits for six plan members who terminated employment with the city during the prior audit period. The city also failed to determine a vested pension benefit for one plan member who terminated employment with the city during the current audit period.

Criteria: Sound internal control procedures dictate that vested pension benefits should be determined in a timely manner following a plan member's termination of employment and that the city should maintain adequate supporting documentation to substantiate the accuracy of vested pension benefit determinations to avoid discrepancies occurring in the future when the former employees are eligible to begin receiving their pension benefits.

Cause: The plan consultant is waiting to calculate the vested pension benefits until after a restated plan document is adopted by the city.

Effect: The failure of plan officials to timely determine vested pension benefits could result in inconsistent or improper benefit calculations and incorrect benefit payments from the pension plan.

Recommendation: We again recommend that plan officials establish adequate internal control procedures to ensure that all vested pension benefits are determined timely, supported by adequate documentation and maintained by the city.

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

CITY OF COATESVILLE RETIREMENT INCOME PENSION PLAN  
 SUPPLEMENTARY INFORMATION  
 (UNAUDITED)

SCHEDULE OF FUNDING PROGRESS

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

The actuarial information is required by Act 205 biennially. The historical information, beginning as of January 1, 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	\$ 900,464	\$ 1,093,547	\$ 193,083	82.3%	\$ 1,319,202	14.6%
01-01-09	924,535	1,283,370	358,835	72.0%	1,466,412	24.5%
01-01-11	1,329,030	1,512,716	183,686	87.9%	1,261,387	14.6%

CITY OF COATESVILLE RETIREMENT INCOME 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 RETIREMENT INCOME PENSION PLAN  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER  
AND OTHER CONTRIBUTING ENTITIES

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2006	\$ 110,082	100.0%
2007	88,282	122.8%
2008	108,085	184.0%
2009	108,518	100.0%
2010	101,673	100.0%
2011	116,556	101.1%

CITY OF COATESVILLE RETIREMENT INCOME 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, 2011
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	10 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 RETIREMENT INCOME PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett  
Governor  
Commonwealth of Pennsylvania

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

Mr. David C. Collins	Council President
Mr. Kirby Hudson	City Manager
Mr. John Marcarelli	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).