



**CITY OF DUBOIS POLICE
PENSION PLAN**

CLEARFIELD 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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EUGENE A. DePASQUALE
AUDITOR GENERAL

The Honorable Mayor and City Council
City of DuBois
Clearfield County
DuBois, PA 15801

We have conducted a compliance audit of the City of DuBois Police 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 finding and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our finding 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 the special ad hoc postretirement adjustment granted to eligible pensioners is in accordance with applicable laws and regulations and whether the ad hoc reimbursement received by the municipality was treated in accordance with applicable laws and regulations.

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

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

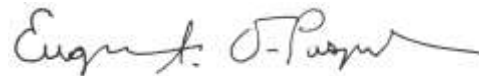
The results of our tests indicated that, in all significant respects, the City of DuBois Police Pension Plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies, except as noted in the following finding further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

Finding – Overpayment Of State Aid Due To The Provision Of Excess 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 DuBois and, where appropriate, their responses have been included in the report.

April 22, 2013



EUGENE A. DEPASQUALE
Auditor General

CONTENTS

	<u>Page</u>
Background	1
Status of Prior Findings	2
Finding and Recommendation:	
Finding – Overpayment Of State Aid Due To The Provision Of Excess Pension Benefits...	3
Potential Withhold of State Aid.....	6
Supplementary Information	7
Report Distribution List	11

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.

Annual state aid allocations are provided from a 2 percent foreign (out-of-state) casualty insurance premium tax, a portion of the foreign (out-of-state) fire insurance tax designated for paid firefighters and any investment income earned on the collection of these taxes. Generally, municipal pension plans established prior to December 18, 1984, are eligible for state aid. For municipal pension plans established after that date, the sponsoring municipality must fund the plan for three plan years before it becomes eligible for state aid. In accordance with Act 205, a municipality's annual state aid allocation cannot exceed its actual pension costs.

In addition to Act 205, the City of DuBois 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 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 DuBois Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 1780, as amended, 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 OF DUBOIS POLICE PENSION PLAN
STATUS OF PRIOR FINDINGS

Compliance With Prior Audit Recommendations

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

· Restated Plan Document Not Adopted By Ordinance

City officials adopted Ordinance No. 1780 which formally adopted the restated plan agreement of the pension plan effective January 1, 2008.

· Incorrect Data On Certification Form AG 385 Resulting In An Overpayment Of State Aid

During the current audit period, the city reimbursed \$6,997 to the Commonwealth for the overpayment of state aid received in 2009.

CITY OF DUBOIS POLICE PENSION PLAN
FINDING AND RECOMMENDATION

Finding - Overpayment Of State Aid Due To The Provision Of Excess Pension Benefits

Condition: The audit reports for the police pension plan dating back to January 1, 1997, through December 31, 2007, contained a finding that the pension plan's governing document and the collective bargaining agreement between the city and its police officers contained benefit provisions that were inconsistent with the Third Class City Code. The finding in the audit report for the period January 1, 2006, to December 31, 2007, recommended that the city comply with the Third Class City Code at their earliest opportunity to do so. To the extent that the city has obligated itself to pay benefits to existing retirees 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, the plan's actuary may be required to determine the impact, if any, of the excess benefits on the city's future state aid allocations and submit this information to the department. Furthermore, it was recommended that to the extent that the city has failed to provide benefits which are mandated by the Third Class City Code, the city increase those benefits to the levels prescribed by the code at their earliest opportunity to do so.

The prior audit report for the period January 1, 2008, to December 31, 2009, noted that the city subsequently amended and restated the plan agreement to ensure the plan's benefit provisions are in compliance with the Third Class City Code. Certain provisions of the restated plan agreement apply to police officers hired on or after January 1, 2004. Since the city had received its state aid allocations based on unit value, there was no effect noted on the city's state aid allocations received during the prior audit period.

During the current audit period, as recommended in prior audit reports, the plan's prior actuary prepared 2 actuarial valuation reports dated January 1, 2009, to reflect the costs of the excess benefits provided by the plan. Based on these valuations, it has been determined that the city received excess state aid totaling \$43,746 in 2011 attributable to the provision of pension benefits in excess of the Third Class City Code.

Criteria: 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 retirees in excess of those authorized by the Third Class City Code, such benefits are deemed ineligible for funding with state pension aid.

Cause: Excess benefits must be reflected in the Act 205 actuarial valuation reports for the plan and funded in accordance with Act 205 funding standards. Because the city's state aid allocation is determined, in part, by the information contained in the actuarial valuation report, the correct inclusion of excess benefits in the actuarial valuation report resulted in the allocation of excess state aid to the city attributable to excess benefits provided.

CITY OF DUBOIS POLICE PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

Effect: Based upon the January 1, 2009, actuarial valuation reports prepared by the plan’s prior actuary, it was determined that for the year 2011, the impact of the excess benefits on the city’s state aid allocation totaled \$43,746. The excess benefits had no effect on the city’s 2010 and 2012 state aid allocations.

Recommendation: We recommend that the total excess state aid received, in the amount of \$43,746, 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 the impact of the excess benefits on the city’s state aid allocations in years subsequent to 2012 be determined and any overpayments be reimbursed to the Commonwealth.

Management’s Response (from the city’s labor relations attorney): The city is disputing the finding relating to what the prior actuary identified as “excess benefits.” After a detailed review, it is the city’s position that the prior actuary erred by identifying “excess benefits.” It appears that the prior actuary differentiated the permissible and excess benefits based on the definition of compensation in the plan versus the definition of salary under the Third Class City Code. While there is a plain difference between the two definitions/standards, we believe the Plan language (and any underlying standards adopted through collective bargaining and/or past practice) preceded the amendment to Section 39309 of the Third Class City Code. This is a fairly common scenario and ordinarily the inclusion of overtime in those circumstances would not be considered an excess benefit. We believe that this error may underlie the current confusion.

In terms of the COLA, the Plan used to have language that did not comport with the newer COLA provision in the Third Class City Code. In accordance with earlier audit findings, the language was amended to comport with the Code. Furthermore, the documents reviewed from the relevant time period do not reflect the payment of any excess COLA benefits. Specifically, the records indicate that no retirees were receiving benefits that included a COLA as of 1/1/2009 (or anytime thereafter) that exceeded the “50% of highest paid officer” cap in the Code.

In short, it seems that the Finding may be based on the error of a prior actuary as outlined above. If so, we would ask that your Office revisit the issue. If there is another basis for the Finding, we would appreciate a more detailed explanation so that we can review and respond to the same.

CITY OF DUBOIS POLICE PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

Auditor’s Conclusion: As previously noted, the city has been cited for the provision of excess pension benefits going back to 1997. While the city did take action to ensure the plan’s benefit structure is in compliance with the Third Class City Code for police officers hired subsequent to January 1, 2004, the city is still obligated to pay pension benefits in excess of the Third Class City Code for police officers hired prior to that date. Pursuant to the recommendations contained in prior audit reports, the plan’s actuary prepared actuarial valuations to determine the effect on the city’s state aid allocations due to the provision of excess pension benefits. Based on the reports dated January 1, 2009, it was determined that the city received an excess state aid allocation in 2011 in the amount of \$43,746.

In the Management Response submitted by the city’s labor relations attorney, he noted that the previous actuary may have been mistaken in what was classified as excess benefits, thereby affecting the data in the actuarial valuation reports. In such case, municipal officials should consult with the plan’s current actuary to determine if Supplemental Actuarial Information Form AG-MP-1 should be prepared and 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 any overpayment to the Commonwealth. Pending the receipt of any additional documentation, the overpayment of state aid cited in the finding and recommendation remains as stated.

CITY OF DUBOIS POLICE PENSION PLAN
POTENTIAL WITHHOLD OF STATE AID

The finding contained in this audit report cites an overpayment of state aid to the city in the amount of \$43,746. A condition of this nature may lead to a total withholding of state aid in the future unless the 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.

CITY OF DUBOIS 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. 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	\$ 5,037,128	\$ 5,396,440	\$ 359,312	93.3%	\$ 734,757	48.9%
01-01-09	5,652,615	6,067,630	415,015	93.2%	763,059	54.4%
01-01-11	5,496,241	6,060,700	564,459	90.7%	816,898	69.1%

Note: The market values of the plan's assets at 01-01-09 and 01-01-11 have been adjusted to reflect the smoothing of gains and/or losses over a 4-year averaging period. 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 DUBOIS 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. When assets are in excess of the actuarial accrued liability, the higher the bracketed percentage, the stronger the plan.

CITY OF DUBOIS POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER
AND OTHER CONTRIBUTING ENTITIES

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2006	\$ 221,133	100.0%
2007	230,582	100.0%
2008	222,937	100.0%
2009	248,166	100.0%
2010	210,932	100.0%
2011	181,198	110.7%

CITY OF DUBOIS 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, 2011
Actuarial cost method	Entry age normal
Amortization method	Level dollar, closed
Remaining amortization period	12 years
Asset valuation method	Fair value, 4-year smoothing
Actuarial assumptions:	
Investment rate of return *	7.0%
Projected salary increases *	4.5%
Cost-of-living adjustments	None assumed

* Includes inflation at 3.0%

CITY OF DUBOIS POLICE PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania

City of DuBois Police Pension Plan
Clearfield County
16 West Scribner Avenue
DuBois, PA 15801

The Honorable Gary D. Gilbert	Mayor
Mr. John Suplizio	City Manager
Ms. DeLean Wagner	Finance Officer

This report is a matter of public record and is available online at www.auditorgen.state.pa.us. Media questions about the report can be directed to the Pennsylvania Department of the Auditor General, Office of Communications, 231 Finance Building, Harrisburg, PA 17120; via email to: news@auditorgen.state.pa.us.