

**CITY OF WASHINGTON COMPREHENSIVE MUNICIPAL PENSION
TRUST FUND**

WASHINGTON COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2008, TO DECEMBER 31, 2009



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CONTENTS

	<u>Page</u>
Background.....	1
Letter from the Auditor General	3
Status of Prior Findings	5
Findings and Recommendations:	
Finding No. 1 – Failure To Adjust Pension Benefit.....	6
Finding No. 2 – Incorrect Data On Certification Form AG 385 Resulting In An Underpayment Of State Aid.....	7
Supplementary Information	8
Report Distribution List	19

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 Washington Comprehensive Municipal Pension Trust Fund 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 317 - The Third Class City Code, Act of June 23, 1931 (P.L. 932, No. 317), as amended, 53 P.S. § 35101 et seq.
- Act 362 - The Third Class City Code, Act of May 23, 1945 (P.L. 903, No. 362), Article XLIII-A, Optional Retirement System for Officers and Employes, as amended, 53 P.S. § 39371 et seq.

The City of Washington Comprehensive Municipal Pension Trust Fund was established by Ordinance No. 1371, effective April 9, 1987. This ordinance required the city to aggregate the assets of its police, officers and employees and firemen's pension plans into a single pension trust fund pursuant to Section 607(b) of Act 205.

The City of Washington Police Pension Plan is locally controlled by the provisions of Ordinance No. 324, 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.

BACKGROUND – (Continued)

The City of Washington Officers and Employees Pension Plan is locally controlled by the provisions of Ordinance No. 556, as amended, adopted pursuant to Act 362. The plan is also affected by the provisions of collective bargaining agreements between the city and its nonuniformed employees.

The City of Washington Firemen's Pension Plan is locally controlled by the provisions of Ordinance No. 1265, as amended, adopted pursuant to Act 317. The plan is also affected by the provisions of collective bargaining agreements between the city and its firefighters.

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

We have conducted a compliance audit of the City of Washington Comprehensive Municipal Pension Trust Fund for the period January 1, 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 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 trust fund 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.

City officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the City of Washington Comprehensive Municipal Pension Trust Fund is administered in compliance with applicable state laws, regulations, contracts, administrative procedures, 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 Washington Comprehensive Municipal Pension Trust Fund 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 Adjust Pension Benefit

Finding No. 2 – Incorrect Data On Certification Form AG 385 Resulting In An Underpayment Of State Aid

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. However, we are extremely concerned about the historical trend information contained in the schedule of funding progress included in this report which indicates a continued decline of assets available to satisfy the long-term liabilities of the firemen's pension plan. This condition is due, in part, to the effect of the collective bargaining agreement as of January 1, 2006, and extended through December 31, 2012, changing the normal retirement eligibility to be the completion of 20 years of service, with no age requirement. Over the past 7 years, the firemen's pension plan's funded ratio went from 90.7% as of January 1, 2005, to a ratio of 46.5% as of January 1, 2009, which is the most recent date available. In addition, the city's annual required contribution to the firemen's pension plan has gone from \$92,184 in 2004, to \$381,069 in 2009. We encourage city officials to monitor the funding of the firemen's pension plan to ensure its long-term financial stability.

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

August 26, 2010

JACK WAGNER
Auditor General

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

Compliance With Prior Audit Recommendations

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

Aggregate Pension Plan

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

The city reimbursed \$6,370 to the Commonwealth for the excess reimbursements received in the years 2005, 2006 and 2007;

- Custodial Account Transactions Not Adequately Monitored the Municipality

The city has established and implemented adequate internal control procedures to ensure that the custodial trust account statements are monitored timely to ensure the accuracy and propriety of the transactions;

Police Pension Plan

- Improper Pension Payments

During the current audit period, the pension plan was reimbursed for the improper benefit payments; and

Firemen's Pension Plan

- Incorrect Pension Calculations

The city recalculated the pensions for the two retired firefighters and adjusted their monthly pension benefits to the correct amounts. The city also paid the retirees retroactively the benefits due from the dates of their respective retirements.

CITY OF WASHINGTON COMPREHENSIVE MUNICIPAL PENSION TRUST FUND
FINDINGS AND RECOMMENDATIONS

Police Pension Plan

Finding No. 1 – Failure To Adjust Pension Benefit

Condition: The city originally calculated a \$3,904 monthly pension benefit for a police officer who retired on January 21, 2008. Subsequently, the city discovered an error was made in the retired officer's pension calculation and the correct monthly amount should be reduced to \$3,757; however, the city has failed to reduce the retired officer's pension benefit to the correct amount due.

Criteria: Pension benefits should be accurately determined based on the plan's governing documents in effect at the time of a member's retirement.

Cause: Municipal officials failed to adopt adequate internal control procedures to ensure the retiree's monthly pension benefit was adjusted to the correct amount.

Effect: The failure to adjust the pension benefit has resulted in the retiree receiving an excess monthly pension benefit of \$147 per month.

Recommendation: We recommend municipal officials adjust the retiree's monthly pension benefit to the correct amount at their earliest opportunity to do so.

We also recommend that municipal officials establish adequate internal control procedures to ensure that all retirees are paid their correct monthly pension benefits.

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

Finding No. 2 – Incorrect Data On Certification Form AG 385 Resulting In An Underpayment Of State Aid

Condition: The city failed to certify an eligible police officer (2 units) and understated payroll by \$18,714 in 2009 on Certification Form AG 385.

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

Cause: Municipal officials were unaware that the police officer's time on active duty in the military is eligible to be credited towards the six consecutive month employment requirement.

CITY OF WASHINGTON COMPREHENSIVE MUNICIPAL PENSION TRUST FUND
FINDINGS AND RECOMMENDATIONS

Police Pension Plan – (Continued)

Finding No. 2 – (Continued)

Effect: The data submitted on this certification form 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 allocation was based on unit value, the city received an underpayment of state aid of \$6,256 as identified below:

<u>Units</u> <u>Understated</u>	<u>Unit</u> <u>Value</u>	<u>State Aid</u> <u>Underpayment</u>
2	\$ 3,128	\$ 6,256

Although the city will be reimbursed for the underpayment of state aid due to the city’s certification error, the full amount of the 2009 state aid allocation was not available to be deposited timely and therefore was not available to pay operating expenses or for investment.

Recommendation: We recommend that, in the future, plan officials establish adequate internal control procedures to ensure compliance with the instructions that accompany Certification Form AG 385 to assist them in accurately reporting the required pension data.

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

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

SCHEDULES 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:

POLICE PENSION PLAN

	(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	\$ 9,218,069	\$ 10,876,151	\$ 1,658,082	84.8%	\$ 1,286,358	128.9%
01-01-07	9,772,555	11,581,107	1,808,552	84.4%	1,479,398	122.2%
01-01-09	8,707,968	12,413,749	3,705,781	70.1%	1,648,776	224.8%

Note: The market values of the plan's assets at 01-01-05, 01-01-07 and 01-01-09, 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 WASHINGTON COMPREHENSIVE MUNICIPAL PENSION TRUST FUND
 SUPPLEMENTARY INFORMATION
 (UNAUDITED)

SCHEDULES OF FUNDING PROGRESS – (Continued)

OFFICERS AND EMPLOYEES PENSION PLAN

	(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	\$ 4,048,459	\$ 3,579,582	\$ (468,877)	113.1%	\$ 876,467	(53.5%)
01-01-07	4,520,168	3,880,102	(640,066)	116.5%	1,025,252	(62.4%)
01-01-09	4,032,473	4,181,183	148,710	96.4%	952,554	15.6%

Note: The market values of the plan's assets at 01-01-05, 01-01-07 and 01-01-09, 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 WASHINGTON COMPREHENSIVE MUNICIPAL PENSION TRUST FUND
 SUPPLEMENTARY INFORMATION
 (UNAUDITED)

SCHEDULES OF FUNDING PROGRESS – (Continued)

FIREMEN’S PENSION PLAN

	(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	\$ 7,973,543	\$ 8,786,724	\$ 813,181	90.7%	\$ 1,033,912	78.7%
01-01-07	8,424,205	10,906,947	2,482,742	77.2%	986,185	251.8%
01-01-09	6,546,865	14,070,089	7,523,224	46.5%	1,130,905	665.2%

Note: The market values of the plan’s assets at 01-01-05, 01-01-07 and 01-01-09, 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 WASHINGTON COMPREHENSIVE MUNICIPAL PENSION TRUST FUND
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 WASHINGTON COMPREHENSIVE MUNICIPAL PENSION TRUST FUND
 SUPPLEMENTARY INFORMATION
 (UNAUDITED)

SCHEDULES OF CONTRIBUTIONS FROM EMPLOYER
 AND OTHER CONTRIBUTING ENTITIES

POLICE PENSION PLAN

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2004	\$ 81,598	100.0%
2005	139,673	100.0%
2006	146,180	100.0%
2007	326,747	100.0%
2008	336,804	100.0%
2009	372,274	107.8%

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

SCHEDULES OF CONTRIBUTIONS FROM EMPLOYER
AND OTHER CONTRIBUTING ENTITIES

OFFICERS AND EMPLOYEES PENSION PLAN

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2004	\$ 27,602	100.0%
2005	20,771	100.0%
2006	23,832	100.0%
2007	34,862	100.0%
2008	37,187	100.0%
2009	580	300.6%

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

SCHEDULES OF CONTRIBUTIONS FROM EMPLOYER
AND OTHER CONTRIBUTING ENTITIES

FIREMEN'S PENSION PLAN

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2004	\$ 92,184	100.0%
2005	128,527	100.0%
2006	130,211	100.0%
2007	209,548	100.0%
2008	203,118	100.0%
2009	381,069	115.5%

CITY OF WASHINGTON COMPREHENSIVE MUNICIPAL PENSION TRUST FUND
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:

POLICE PENSION PLAN

Actuarial valuation date	January 1, 2009
Actuarial cost method	Entry age normal
Amortization method	Level dollar, closed
Remaining amortization period	15 years (aggregate)
Asset valuation method	Fair value, 4-year smoothing
Actuarial assumptions:	
Investment rate of return	8.0%
Projected salary increases *	5.0%
* Includes inflation at	3.0%

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

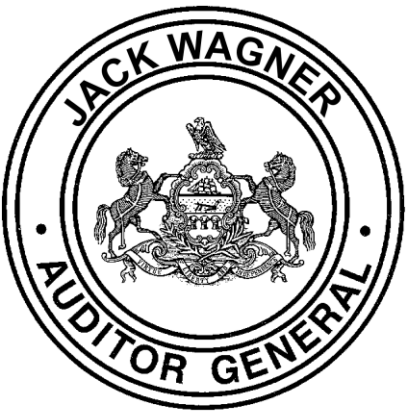
OFFICERS AND EMPLOYEES PENSION PLAN

Actuarial valuation date	January 1, 2009
Actuarial cost method	Entry age normal
Amortization method	Level dollar, closed
Remaining amortization period	20 years (aggregate)
Asset valuation method	Fair value, 4-year smoothing
Actuarial assumptions:	
Investment rate of return	8.0%
Projected salary increases *	5.0%
* Includes inflation at	3.0%

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

FIREMEN'S PENSION PLAN

Actuarial valuation date	January 1, 2009
Actuarial cost method	Entry age normal
Amortization method	Level dollar, closed
Remaining amortization period	18 years (aggregate)
Asset valuation method	Fair value, 4-year smoothing
Actuarial assumptions:	
Investment rate of return	8.0%
Projected salary increases *	5.0%
* Includes inflation at	3.0%



CITY OF WASHINGTON COMPREHENSIVE MUNICIPAL PENSION TRUST FUND
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania

City of Washington Comprehensive Municipal Pension Trust Fund
Washington County
55 West Maiden Street
Washington, PA 15301

The Honorable L. Anthony Spossey	Mayor
Mr. Nicholas Dubina, Sr.	City Controller
Ms. Susan Koehler	Director of Finance/Pension Coordinator
Mr. David Bradley	Secretary, Police Pension Plan
Mr. Michael Scott	Co-Secretary, Firemen's Pension Plan
Mr. Greg Florian	Co-Secretary, Firemen's Pension Plan

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