



**CITY OF WILLIAMSPORT FIREMEN'S
PENSION PLAN**

LYCOMING 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 Williamsport Firemen's 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 399 - Optional Third Class City Charter Law, Act of July 15, 1957 (P.L. 901, No. 399), as amended, 53 P.S. § 41101 et seq.

The City of Williamsport Firemen's Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Article 155 of the city's codified ordinances and Regulations of the Board of Managers. The plan is also affected by the provisions of collective bargaining agreements between the city and its firefighters.



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EUGENE A. DePASQUALE
AUDITOR GENERAL

The Honorable Mayor and City Council
City of Williamsport
Lycoming County
Williamsport, PA 17701

We have conducted a compliance audit of the City of Williamsport Firemen's 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 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. 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.
- 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.
- Whether Deferred Retirement Option Plan (DROP) participants' benefit payments are properly determined in accordance with the provisions of the DROP and any other applicable laws and regulations.

The City of Williamsport 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 Williamsport Firemen's 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 Williamsport Firemen's 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 Pension Benefits

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

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



May 9, 2013

EUGENE A. DEPASQUALE
Auditor General

CITY OF WILLIAMSPORT FIREMEN'S PENSION PLAN
STATUS OF PRIOR FINDING

Noncompliance With Prior Audit Recommendation

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

- Inconsistent Pension Benefits

CITY OF WILLIAMSPORT FIREMEN’S PENSION PLAN
FINDINGS AND RECOMMENDATIONS

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

Condition: As disclosed in the prior audit report, the pension plan’s governing document, codified at Article 155 of the city’s codified ordinances, contains benefit provisions that conflict with the collective bargaining agreement between the firefighters and the city, as noted below:

<u>Benefit Provision</u>	<u>Governing Document</u>	<u>Collective Bargaining Agreement</u>
Pension benefit	Based on the highest average annual salary during any five years or the monthly salary at the date of retirement.	Based on the average compensation over the last twelve months or the highest average annual compensation which was received in any five years, whichever is the highest.
Cost-of-living allowance (COLA)	For any member retiring on or after December 31, 1998, COLA based on increases in the CPI-W for the year prior to the request. Adjustments based on prior year, October to October, if available, or nearest available month, subject to an annual cap of 3.5% and a lifetime cap of 35%. The pension shall not exceed 50% of the highest paid member of the Department.	Beginning January 1 of the calendar year immediately following the determination that the plan is fully funded or five (5) years after January 1, 1999, whichever first occurs, all retirees who retired on or after December 31, 1998, shall receive a COLA, which shall be subject to an annual cap of 3.5% and a lifetime cap of 35%. Until the above occurs, retirees’ benefit will increase by 5% on the sixth anniversary of their retirement and 1% on each anniversary.

The plan’s actuarial valuation reports, with valuation dates of January 1, 2001, through January 1, 2011, submitted to the Public Employee Retirement Commission, reported the benefit provisions included in the collective bargaining agreement.

CITY OF WILLIAMSPORT FIREMEN'S PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Criteria: The plan's governing document and the collective bargaining agreement should contain consistent benefit provisions to ensure retirees and beneficiaries receive the correct benefit payments and to ensure the sound administration of the pension plan.

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

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

Recommendation: We again recommend that municipal officials ensure that the plan's governing document and the collective bargaining agreement contain consistent benefit provisions at their earliest opportunity to do so.

Management's Response: Management agrees that the plan's governing document contains benefit provisions that conflict with the collective bargaining agreement between the union and the City. Plan Management will work with the City's Human Resource department and the Pension Plan's Actuary to initiate revisions to the plan's governing document to ensure conflicts between the governing document and collective bargaining agreement are resolved.

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

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

Condition: The city certified an ineligible police officer (2 units) and an ineligible firefighter (2 units) on the Certification Form AG 385 filed in 2011. The data contained on this certification form is based on prior calendar year information.

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.

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

CITY OF WILLIAMSPORT FIREMEN’S PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Effect: The data submitted on this certification form is used, in part, to calculate the state aid due to the municipality for distribution to its pension plans. Because the city’s state aid allocation was based on unit value, the incorrect certification of pension data affected the city’s state aid allocation, as identified below:

Type Of Plan	Units Overstated	Unit Value	State Aid Overpayment
Police	2	\$ 5,596	\$ 11,192
Firemen’s	2	5,596	11,192
Total Overpayment of State Aid			\$ 22,384

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

Recommendation: We recommend that the overpayment of state aid in the amount of \$22,384 be returned to the Commonwealth from the city’s general fund. 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 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.

In addition, if the reimbursement to the Commonwealth is made from 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.

CITY OF WILLIAMSPORT FIREMEN'S PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Management's Response: Management agrees that 1 ineligible police officer and 1 ineligible firefighter were certified on Form AG 385 filed in 2011 along with overstating firefighter payroll by \$71,142. Management is currently working on calculating the interest earned on the overpayment and will reimburse the Commonwealth of Pennsylvania for the overpayment with accrued interest. This reimbursement will come from the 2013 general operating budget. Reimbursement from the pension funds is not possible because it would result in a MMO deficiency. In the future, additional review of the certification will occur to ensure the Form AG 385 certification agrees with Personnel Rosters submitted to the Commonwealth.

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

CITY OF WILLIAMSPORT FIREMEN'S PENSION PLAN
POTENTIAL WITHHOLD OF STATE AID

Finding No. 2 contained in this audit report cites an overpayment of state aid to the city in the amount of \$22,384. 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.

CITY OF WILLIAMSPORT FIREMEN'S 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	\$ 18,329,072	\$ 22,937,741	\$ 4,608,669	79.9%	\$ 1,630,363	282.7%
01-01-09	18,825,290	24,621,595	5,796,305	76.5%	1,731,343	334.8%
01-01-11	19,061,137	26,980,301	7,919,164	70.6%	1,908,780	414.9%

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 subject to a corridor between 70-130 percent of the fair market value of assets. 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 WILLIAMSPORT FIREMEN'S 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 WILLIAMSPORT FIREMEN'S PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER
AND OTHER CONTRIBUTING ENTITIES

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2006	\$ 1,187,181	104.2%
2007	1,164,880	100.0%
2008	1,006,779	100.0%
2009	1,021,811	100.0%
2010	1,142,426	100.0%
2011	1,072,537	100.0%

CITY OF WILLIAMSPORT FIREMEN'S 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	9 years
Asset valuation method	4-year smoothing – subject to a corridor between 70-130% of the fair market value of assets.
Actuarial assumptions:	
Investment rate of return	7.5%
Projected salary increases	5.0%
Includes inflation at	Not disclosed
Cost-of-living adjustments	3.0% per year

CITY OF WILLIAMSPORT FIREMEN’S PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania

City of Williamsport Firemen’s Pension Plan
Lycoming County
245 West Fourth Street
Williamsport, PA 17701

The Honorable Gabriel J. Campana	Mayor
Mr. J. Marlyne Whaley	Council President
Mr. William E. Nichols, Jr.	Chief Administrative Officer
Mr. Joseph Pawlak	Budget and Fiscal Officer
Ms. Margaret J. Woodring	City Controller
Ms. Janice M. Frank	City Clerk

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