

# COMPLIANCE AUDIT

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## City of Williamsport Firemen's Pension Plan Lycoming County, Pennsylvania For the Period January 1, 2016 to December 31, 2017

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December 2018



Commonwealth of Pennsylvania  
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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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, 2016 to December 31, 2017. We also evaluated compliance with some requirements subsequent to that period when possible. 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 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. To determine if municipal officials took appropriate corrective action to address the finding contained in our prior audit report, we inquired of plan officials and evaluated supporting documentation provided by officials evidencing that the suggested corrective action has been appropriately taken. To determine whether the pension plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies, our methodology included the following:

- We determined whether state aid was properly determined and deposited in accordance with Act 205 requirements by verifying the annual deposit date of state aid and determining whether deposits were made within 30 days of receipt for all years within the period under audit.

- We determined whether annual employer contributions were calculated and deposited in accordance with the plan's governing document and applicable laws and regulations by examining the municipality's calculation of the plan's annual financial requirements and minimum municipal obligation (MMO) and comparing these calculated amounts to amounts actually budgeted and deposited into the pension plan as evidenced by supporting documentation.
- We determined whether annual employee contributions were calculated, deducted, and deposited into the pension plan in accordance with the plan's governing document and applicable laws and regulations by testing total members' contributions on an annual basis using the rates obtained from the plan's governing document in effect for all years within the period under audit and examining documents evidencing the deposit of these employee contributions into the pension plan.
- We determined whether retirement benefits calculated for all 4 of the plan members who retired during the current audit period, and through the completion of our fieldwork procedures, represent payments to all (and only) those entitled to receive them and were properly determined and disbursed in accordance with the plan's governing document, applicable laws and regulations by recalculating the amount of the monthly pension benefit due to retired individuals and comparing these amounts to supporting documentation evidencing amounts determined and actually paid to recipients.
- We determined whether the January 1, 2015 and January 1, 2017 actuarial valuation reports were prepared and submitted by March 31, 2016 and 2018, respectively, in accordance with Act 205 and whether 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 by comparing selected information to supporting source documentation.
- We determined whether all annual special ad hoc postretirement reimbursements received by the municipality were authorized and appropriately deposited in accordance with Act 147 by tracing information to supporting documentation maintained by plan officials.
- We determined whether provisions of the Deferred Retirement Option Plan (DROP) were in accordance with the provisions of Act 205 by examining provisions stated in the plan's governing documents.

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 and as previously described, 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 procedures 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 finding further discussed later in this report:

Finding – Noncompliance With Prior Audit Recommendation – Inconsistent  
Pension Benefits

The finding contained in this audit report repeats a condition that was cited in our previous audit report that has not been corrected by city officials. We are concerned by the city's failure to correct this previously reported audit finding and strongly encourage timely implementation of the recommendation noted in this audit report.

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. We would like to thank city officials for the cooperation extended to us during the conduct of the audit.

December 13, 2018



EUGENE A. DEPASQUALE  
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.

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 Williamsport Firemen's Pension Plan is also governed by implementing regulations adopted by the former 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. The plan was established May 3, 1945. Active members are required to contribute 5 percent of compensation to the plan. As of December 31, 2017, the plan had 25 active members, no terminated members eligible for vested benefits in the future, and 72 retirees receiving pension benefits from the plan.

## **BACKGROUND – (Continued)**

As of December 31, 2017, selected plan benefit provisions are as follows:

### Eligibility Requirements:

Normal Retirement	Age 50 and 20 years of service.
Early Retirement	None
Vesting	A member is 100% vested after 12 years of service.

### Retirement Benefit:

Benefits equals 50% of compensation averaged over the last 12 months prior to termination, or 5-year average if greater, plus a monthly service increment equal to 1/40<sup>th</sup> of the pension amount for each completed year of service over 20, up to maximum increment of \$100 per month.

### Survivor Benefit:

Before completion of 20 years of service – a monthly benefit equal to 50% of the Accrued Benefit.

After completion of 20 years of service – 100% of the Accrued Benefit is payable, to commence on the date the member would have attained age 50.

After retirement, disability, or for members killed in service – 100% of the pension the participant was receiving or entitled to receive on the day of death is payable.

### Service Related Disability Benefit:

For total and permanent disablement, the accrued benefit at date of disablement will be payable.

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 Finding and Recommendation section of this report:

- Inconsistent Pension Benefits



CITY OF WILLIAMSPORT FIREMEN'S PENSION PLAN  
FINDING AND RECOMMENDATION

**Finding – Noncompliance With Prior Audit Recommendation – Inconsistent Pension Benefits**

Condition: As disclosed in the prior audit reports of the plan since the January 1, 1998 to December 31, 1999 audit period, 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 illustrated 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.

In addition, the plan's actuarial valuation reports, including the most recent reports with valuation dates of January 1, 2015 and January 1, 2017, reported the benefit provisions included in the collective bargaining agreement.

CITY OF WILLIAMSPORT FIREMEN'S PENSION PLAN  
FINDING AND RECOMMENDATION

**Finding – (Continued)**

Criteria: The plan's governing document and 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 again 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 is currently working with the City's Human Resource department and the Pension Plan's Actuary to enact revisions to the plan's governing document to ensure conflicts between the governing document and collective bargaining agreement are resolved. Due to staffing constraints, Management plans to complete updates to the three plans' governing documents one plan at a time.

Auditor's Conclusion: We are concerned by the city's failure to address the prior audit finding and strongly encourage compliance with the recommendation at the earliest opportunity to do so.

CITY OF WILLIAMSPORT FIREMEN'S PENSION PLAN  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

The supplementary information contained on Pages 6 through 9 reflects the implementation of GASB Statement No. 67, *Financial Reporting for Pension Plans*. The objective of this statement is to improve financial reporting by state and local governmental pension plans.

SCHEDULE OF CHANGES IN THE NET PENSION  
LIABILITY AND RELATED RATIOS  
FOR THE YEAR ENDED DECEMBER 31, 2014 AND 2015

	<u>2014</u>	<u>2015</u>
Total Pension Liability		
Service cost	\$ 400,499	\$ 377,676
Interest	2,210,612	2,300,947
Difference between expected and actual experience	-	273,200
Benefit payments, including refunds of member contributions	<u>(1,783,183)</u>	<u>(1,526,194)</u>
Net Change in Total Pension Liability	827,928	1,425,629
Total Pension Liability - Beginning	<u>29,949,797</u>	<u>30,777,725</u>
Total Pension Liability - Ending (a)	<u><u>\$ 30,777,725</u></u>	<u><u>\$ 32,203,354</u></u>
Plan Fiduciary Net Position		
Contributions – employer	\$ 1,176,739	\$ 1,056,238
Contributions – state aid	388,639	345,415
Contributions – member	124,413	122,709
Net investment income	1,708,364	(26,020)
Benefit payments, including refunds of member contributions	(1,783,183)	(1,526,194)
Administrative expense	(130,478)	(131,343)
Other	<u>2,889</u>	<u>3,894</u>
Net Change in Plan Fiduciary Net Position	1,487,383	(155,301)
Plan Fiduciary Net Position – Beginning	<u>25,109,565</u>	<u>26,596,948</u>
Plan Fiduciary Net Position – Ending (b)	<u><u>\$ 26,596,948</u></u>	<u><u>\$ 26,441,647</u></u>
Net Pension Liability – Ending (a-b)	<u><u>\$ 4,180,777</u></u>	<u><u>\$ 5,761,707</u></u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	86.4%	82.1%
Estimated Covered Employee Payroll	\$ 1,751,038	\$ 1,749,416
Net Pension Liability as a Percentage of Covered Employee Payroll	238.8%	329.4%

CITY OF WILLIAMSPORT FIREMEN'S PENSION PLAN  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

SCHEDULE OF CHANGES IN THE NET PENSION  
LIABILITY AND RELATED RATIOS  
FOR THE YEAR ENDED DECEMBER 31, 2016 AND 2017

	<u>2016</u>	<u>2017</u>
Total Pension Liability		
Service cost	\$ 360,937	\$ 392,887
Interest	2,361,048	2,416,102
Difference between expected and actual experience	-	(716,228)
Changes in assumptions	-	1,721,279
Benefit payments, including refunds of member contributions	(2,207,201)	(1,609,217)
Net Change in Total Pension Liability	514,784	2,204,823
Total Pension Liability – Beginning	32,203,354	32,718,138
Total Pension Liability – Ending (a)	<u>\$ 32,718,138</u>	<u>\$ 34,922,961</u>
Plan Fiduciary Net Position		
Contributions – employer	\$ 993,649	\$ 979,423
Contributions – state aid	372,884	425,365
Contributions – member	118,551	123,978
Net investment income	2,218,553	4,087,679
Benefit payments, including refunds of member contributions	(2,207,201)	(1,609,217)
Administrative expense	(136,157)	(121,032)
Other	254	-
Net Change in Plan Fiduciary Net Position	1,360,533	3,886,196
Plan Fiduciary Net Position – Beginning	26,441,647	27,802,180
Plan Fiduciary Net Position – Ending (b)	<u>\$ 27,802,180</u>	<u>\$ 31,688,376</u>
Net Pension Liability – Ending (a-b)	<u>\$ 4,915,958</u>	<u>\$ 3,234,585</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	85.0%	90.7%
Estimated Covered Employee Payroll	\$ 1,577,483	\$ 1,595,743
Net Pension Liability as a Percentage of Covered Employee Payroll	311.6%	202.7%

CITY OF WILLIAMSPORT FIREMEN'S PENSION PLAN  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the city as of December 31, 2014, 2015, and 2016, calculated using the discount rate of 7.5%, as well as what the city's net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower or 1 percentage-point higher than the current rate:

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
Net Pension Liability - 12/31/14	\$ 7,542,110	\$ 4,180,777	\$ 1,374,124
Net Pension Liability - 12/31/15	\$ 9,246,228	\$ 5,761,707	\$ 2,846,420
Net Pension Liability - 12/31/16	\$ 8,414,727	\$ 4,915,958	\$ 1,987,828

The following presents the net pension liability of the city as of December 31, 2017, calculated using the discount rate of 7.25%, as well as what the city's net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower or 1 percentage-point higher than the current rate:

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Net Pension Liability - 12/31/17	\$ 7,099,351	\$ 3,234,585	\$ 20,156

CITY OF WILLIAMSPORT FIREMEN'S PENSION PLAN  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

SCHEDULE OF CONTRIBUTIONS

<u>Year Ended December 31</u>	<u>Actuarially Determined Contribution</u>	<u>Actual Contributions</u>	<u>Contribution Deficiency (Excess)</u>	<u>Covered- Employee Payroll</u>	<u>Contributions as a Percentage of Covered- Employee Payroll</u>
2008	\$ 1,006,779	\$ 1,006,779	\$ -	\$1,672,188	60.2%
2009	1,021,811	1,021,811	-	1,715,781	59.6%
2010	1,142,426	1,142,426	-	1,782,458	64.1%
2011	1,313,631	1,072,537	241,094	1,794,314	59.8%
2012	1,318,714	1,077,620	241,094	1,820,399	59.2%
2013	1,693,633	1,693,633	-	1,780,801	95.1%
2014	1,565,378	1,565,378	-	1,751,038	89.4%
2015	1,401,653	1,401,653	-	1,749,416	80.1%
2016	1,366,533	1,366,533	-	1,577,483	86.6%
2017	1,404,788	1,404,788	-	1,595,743	88.0%

For 2011 and 2012, the contribution deficiency reflects the 25 percent reduction to the plan's amortization contribution elected by the municipality under Act 44 for distressed municipalities which allows for such reduction.

SCHEDULE OF INVESTMENT RETURNS

Annual Money-Weighted Rate of Return, Net of Investment Expense:

2017	14.83%
2016	8.69%
2015	(0.08%)
2014	6.95%

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, 2013, is as follows:

	(1)	(2)	(3)	(4)
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)
01-01-13	\$ 20,852,852	\$ 28,913,441	\$ 8,060,589	72.1%
01-01-15	25,448,976	31,050,925	5,601,949	82.0%
01-01-17	28,611,449	33,723,189	5,111,740	84.8%

Note: The market values of the plan's assets at 01-01-13, 01-01-15, and 01-01-17 have been adjusted to reflect the smoothing of gains and/or losses over a 4-year averaging period which will be limited to a maximum of 120 percent and a minimum of 80 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.



CITY OF WILLIAMSPORT FIREMEN'S PENSION PLAN  
SUPPLEMENTARY INFORMATION  
NOTES TO SUPPLEMENTARY SCHEDULES  
(UNAUDITED)

The information presented in the 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, 2017
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	6 years
Asset valuation method	4-year smoothing, the actuarial value of assets will be limited to a maximum of 120% and a minimum of 80% of the fair market value of assets.
Actuarial assumptions:	
Investment rate of return	7.25%
Projected salary increases	5.0%
Cost-of-living adjustments	2.75% per year

CITY OF WILLIAMSPORT FIREMEN’S PENSION PLAN  
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This report was initially distributed to the following:

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