

# COMPLIANCE AUDIT

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## City of Williamsport Officers' and Employees' 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



**Commonwealth of Pennsylvania  
Department of the Auditor General  
Harrisburg, PA 17120-0018  
Facebook: Pennsylvania Auditor General  
Twitter: @PAAuditorGen  
www.PaAuditor.gov**

**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 Officers' and Employees' 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 the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our conclusions based on our audit objective.

The objective of the audit was 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 objective identified above. 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 10 of the plan members who retired during the current audit period 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 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.

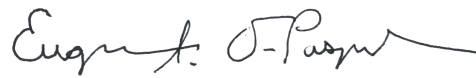
City officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the City of Williamsport Officers' and Employees' Pension Plan is administered in compliance with applicable state laws, regulations, contracts, administrative procedures, 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 objective, 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 objective.

The results of our procedures indicated that, in all significant respects, the City of Williamsport Officers' and Employees' Pension Plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies.

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 14, 2018

A handwritten signature in black ink, appearing to read "Eugene A. DePasquale". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

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 Officers' and Employees' 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 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 Officers' and Employees' Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 6176. The plan is also affected by the provisions of collective bargaining agreements between the city and its non-uniformed employees. The plan was established May 23, 1945. Active members are required to contribute 5.5 percent of compensation to the plan. As of December 31, 2017, the plan had 140 active members, no terminated members eligible for vested benefits in the future, and 70 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 60 and 12 years of service.
Early Retirement	Age 55 and 12 years of service.
Vesting	A member is 100% vested after 12 years of service.

### Retirement Benefit:

Benefit equals 2.5% of average monthly compensation multiplied by years of service up to a maximum benefit of 50% of average monthly compensation.

### Survivor Benefit:

Before Retirement Eligibility	Refund of member contributions without interest.
After Retirement Eligibility	None, except the form of benefit payment in force for the participant at the time death occurs.

### Service Related Disability Benefit:

For Total and Permanent disablement following the completion of 15 years of service, Normal Retirement Benefit calculated at date of disability.

CITY OF WILLIAMSPORT OFFICERS' AND EMPLOYEES' PENSION PLAN  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

The supplementary information contained on Pages 3 through 6 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 YEARS ENDED DECEMBER 31, 2014 AND 2015

	<u>2014</u>	<u>2015</u>
Total Pension Liability		
Service cost	\$ 448,775	\$ 492,177
Interest	1,660,111	1,775,032
Difference between expected and actual experience	-	91,899
Changes of assumptions	-	417,689
Benefit payments, including refunds of member contributions*	<u>(662,149)</u>	<u>(960,071)</u>
Net Change in Total Pension Liability	1,446,737	1,816,726
Total Pension Liability – Beginning	<u>20,627,317</u>	<u>22,074,054</u>
Total Pension Liability – Ending (a)	<u>\$ 22,074,054</u>	<u>\$ 23,890,780</u>
Plan Fiduciary Net Position		
Contributions – employer	\$ 549,043	\$ 656,735
Contributions – member	277,372	284,598
Contributions – state aid	181,331	214,768
Net investment income	1,218,349	(19,239)
Benefit payments, including refunds of member contributions*	(639,802)	(960,071)
Administrative expense	(100,489)	(100,052)
Other	<u>2,374</u>	<u>2,654</u>
Net Change in Plan Fiduciary Net Position	1,488,178	79,393
Plan Fiduciary Net Position – Beginning	<u>18,011,127</u>	<u>19,499,305</u>
Plan Fiduciary Net Position – Ending (b)	<u>\$ 19,499,305</u>	<u>\$ 19,578,698</u>
Net Pension Liability – Ending (a-b)	<u>\$ 2,574,749</u>	<u>\$ 4,312,082</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	88.3%	82.0%
Estimated Covered Employee Payroll	\$ 4,423,821	\$ 4,712,344
Net Pension Liability as a Percentage of Covered Employee Payroll	58.2%	91.5%

\* The \$22,347 difference between the benefit payments in 2014 is due to an accrual used to determine benefits payable.



CITY OF WILLIAMSPORT OFFICERS' AND EMPLOYEES' PENSION PLAN  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

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

	<u>2016</u>	<u>2017</u>
Total Pension Liability		
Service cost	\$ 496,026	\$ 567,373
Interest	1,833,262	1,973,503
Difference between expected and actual experience	-	(30,072)
Changes of assumptions	-	1,019,579
Benefit payments, including refunds of member contributions	(1,490,599)	(1,674,845)
Net Change in Total Pension Liability	838,689	1,855,538
Total Pension Liability – Beginning	23,890,780	24,729,469
Total Pension Liability – Ending (a)	<u>\$ 24,729,469</u>	<u>\$ 26,585,007</u>
Plan Fiduciary Net Position		
Contributions – employer	\$ 639,444	\$ 653,292
Contributions – member	289,230	316,377
Contributions – state aid	239,963	283,727
Net investment income	1,634,446	3,001,004
Benefit payments, including refunds of member contributions	(1,490,599)	(1,674,845)
Administrative expense	(113,010)	(93,253)
Other	725	-
Net Change in Plan Fiduciary Net Position	1,200,199	2,486,302
Plan Fiduciary Net Position – Beginning	19,578,698	20,778,897
Plan Fiduciary Net Position – Ending (b)	<u>\$ 20,778,897</u>	<u>\$ 23,265,199</u>
Net Pension Liability – Ending (a-b)	<u>\$ 3,950,572</u>	<u>\$ 3,319,808</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	84.0%	87.5%
Estimated Covered Employee Payroll	\$ 4,866,962	\$ 5,041,444
Net Pension Liability as a Percentage of Covered Employee Payroll	81.2%	65.9%

CITY OF WILLIAMSPORT OFFICERS' AND EMPLOYEES' 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, calculated using the discount rate of 8.0%, 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:

	<u>1% Decrease (7.0%)</u>	<u>Current Discount Rate (8.0%)</u>	<u>1% Increase (9.0%)</u>
Net Pension Liability – 12/31/14	\$ 4,685,391	\$ 2,574,749	\$ 778,574

The following presents the net pension liability of the city as of December 31, 2015, 2016, and 2017, calculated using the discount rate of 7.75%, 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:

	<u>1% Decrease (6.75%)</u>	<u>Current Discount Rate (7.75%)</u>	<u>1% Increase (8.75%)</u>
Net Pension Liability – 12/31/15	\$ 6,574,256	\$ 4,312,082	\$ 2,368,199
Net Pension Liability – 12/31/16	\$ 6,247,805	\$ 3,950,572	\$ 1,978,172
Net Pension Liability – 12/31/17	\$ 5,967,449	\$ 3,319,808	\$ 1,061,978

CITY OF WILLIAMSPORT OFFICERS' AND EMPLOYEES' PENSION PLAN  
 SUPPLEMENTARY INFORMATION  
 (UNAUDITED)

SCHEDULE OF CONTRIBUTIONS

Year Ended December 31	Actuarially Determined Contribution	Actual Contributions	Contribution Deficiency (Excess)	Covered- Employee Payroll	Contributions as a Percentage of Covered- Employee Payroll
2008	\$ 211,965	\$ 211,965	\$ -	\$3,893,237	5.44%
2009	217,432	217,432	-	3,978,469	5.47%
2010	229,831	229,831	-	4,098,784	5.61%
2011	368,772	319,428	49,344	4,187,558	7.63%
2012	378,064	328,720	49,344	4,414,553	7.45%
2013	731,053	731,053	-	4,437,248	16.48%
2014	730,374	730,374	-	4,423,821	16.51%
2015	871,503	871,503	-	4,712,344	18.49%
2016	879,407	879,407	-	4,866,962	18.07%
2017	937,019	937,019	-	5,041,444	18.59%

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	14.78%
2016	8.60%
2015	(0.10%)
2014	6.83%

CITY OF WILLIAMSPORT OFFICERS' AND EMPLOYEES' 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	\$ 14,889,104	\$ 19,254,976	\$ 4,365,872	77.3%
01-01-15	18,812,539	22,583,642	3,771,103	83.3%
01-01-17	21,478,144	25,718,976	4,240,832	83.5%

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 OFFICERS' AND EMPLOYEES' 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 OFFICERS' AND EMPLOYEES' 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	7 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	7.75%
Projected salary increases	4.75%

CITY OF WILLIAMSPORT OFFICERS' AND EMPLOYEES' PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

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