

# COMPLIANCE AUDIT

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## City of Coatesville Police Pension Plan Chester County, Pennsylvania For the Period January 1, 2016 to December 31, 2017

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November 2018



Commonwealth of Pennsylvania  
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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**EUGENE A. DePASQUALE  
AUDITOR GENERAL**

City Council  
City of Coatesville  
Chester County  
Coatesville, PA 19320

We have conducted a compliance audit of the City of Coatesville Police 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 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 that there were no benefit calculations prepared for the years covered by our audit period.
- 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.

The City of Coatesville contracted with an independent certified public accounting firm for an annual audit of its basic financial statements for the year ended December 31, 2016 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 Coatesville 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 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 Coatesville Police 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 City of Coatesville 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.

September 26, 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 Coatesville Police 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 67 - The Third Class City Code, Act of November 24, 2015 (P.L. 242, No. 67), as amended, 11 Pa. C.S. § 10101 et seq.
- 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 177 - General Local Government Code, Act of December 19, 1996 (P.L. 1158, No. 177), as amended, 53 Pa.C.S. § 101 et seq.

The City of Coatesville Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 1382-2012, adopted pursuant to Act 317 (prior Third Class City Code). The plan is also affected by the provisions of collective bargaining agreements between the city and its police officers. The plan was established January 1, 1961. Active members are required to contribute 5 percent of salary plus \$3 per month to the plan. As of December 31, 2017, the plan had 28 active members, no terminated members eligible for vested benefits in the future, and 28 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	Eligible with 20 years of service.
Early Retirement	None
Vesting	A member is 100% vested after 12 years of service.

### Retirement Benefit:

Benefit equals 50% of average monthly compensation plus a monthly service increment of 1/40<sup>th</sup> of such pension (maximum \$300) for each year of service in excess of 20 years but not including service after age 65. Compensation based on final monthly rate of pay or highest 5 years if greater.

### Survivor Benefit:

Before Retirement Eligibility	Refund of member contributions plus interest.
After Retirement Eligibility	A monthly benefit equal to 50% of the pension the member was receiving or was entitled to receive on the day of the member's death.

### Service Related Disability Benefit:

Benefit equals 50% of average monthly compensation.

### Non-Service Related Disability Benefit:

Benefit equals 25% of average monthly pension if less than 10 years of service and 50% of average monthly compensation if 10 or more years of service.

CITY OF COATESVILLE POLICE PENSION PLAN  
STATUS OF PRIOR FINDING

Status Of Prior Audit Recommendation

· Pension Benefit In Excess Of Third Class City Code

Our prior audit report for the period January 1, 2012 to December 31, 2013 disclosed that the city granted pension benefits that are not authorized by the Third Class City Code. Specifically, Section 38-8.3 of Ordinance No. 1383-2012 provided for an “early retirement window for the period May 1, 2012 to May 31, 2012”. As a result, the plan is paying pension benefits to 8 retirees in excess of those authorized by the Third Class City Code. And, although the city did not receive state aid attributable to excess benefits provided to retirees during the prior audit period because the city received its state aid allocations based on unit value, the Department would continue to monitor the impact of the excess benefits paid to retirees on the city’s future state aid allocations.

During the current audit period, as part of the department’s on-going efforts to monitor the impact of the excess benefits on subsequent allocations of state aid to the city, it was determined that since the city again, received its state aid allocations based on unit value during the current audit period, it did not receive any state aid attributable to the excess benefits being provided to retirees. The Department will continue to monitor the effect of the excess benefits being provided to existing retirees during our next audit of the plan.



CITY OF COATESVILLE POLICE PENSION PLAN  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

The supplementary information contained on Pages 4 and 5 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, 2015, 2016, AND 2017

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Total Pension Liability				
Service cost	\$ 461,027	\$ 479,134	\$ 500,695	\$ 505,877
Interest on total pension liability	1,042,765	1,134,457	1,190,327	1,254,387
Difference between expected and actual experience	-	(110,849)	-	48,625
Changes of assumptions	-	(282,563)	-	-
Benefit payments, including refunds of member contributions	(902,666)	(895,394)	(885,059)	(896,321)
Net Change in Total Pension Liability	<u>601,126</u>	<u>324,785</u>	<u>805,963</u>	<u>912,568</u>
Total Pension Liability – Beginning	14,886,946	15,488,072	15,812,857	16,618,820
Total Pension Liability - Ending (a)	<u><u>\$ 15,488,072</u></u>	<u><u>15,812,857</u></u>	<u><u>\$ 16,618,820</u></u>	<u><u>\$ 17,531,388</u></u>
Plan Fiduciary Net Position				
Contributions – employer	\$ 277,300	\$ 686,820	\$ 699,649	\$ 854,246
Contribution – member	85,668	117,659	107,485	105,971
Net investment income (loss)	735,841	(165,690)	915,471	2,095,084
Benefit payments, including refunds of member contributions	(902,666)	(895,394)	(885,059)	(896,321)
Administrative expense	(30,639)	(46,497)	(49,511)	(46,794)
Net Change in Plan Fiduciary Net Position	<u>165,504</u>	<u>(303,102)</u>	<u>788,035</u>	<u>2,112,186</u>
Plan Fiduciary Net Position – Beginning	12,094,938	12,260,442	11,957,340	12,745,375
Plan Fiduciary Net Position – Ending (b)	<u><u>\$ 12,260,442</u></u>	<u><u>\$ 11,957,340</u></u>	<u><u>\$ 12,745,375</u></u>	<u><u>\$ 14,857,561</u></u>
Net Pension Liability – Ending (a-b)	<u><u>\$ 3,227,630</u></u>	<u><u>\$ 3,855,517</u></u>	<u><u>\$ 3,873,445</u></u>	<u><u>\$ 2,673,827</u></u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	79.16%	75.62%	76.69%	84.75%
Estimated Covered Employee Payroll	\$ 2,104,183	\$ 2,150,888	\$ 2,258,432	\$ 2,322,175
Net Pension Liability as a Percentage of Covered Employee Payroll	153.39%	179.25%	171.51%	115.14%

CITY OF COATESVILLE POLICE 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 7.0%, 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:

	1% Decrease (6.0%)	Current Discount Rate (7.0%)	1% Increase (8.0%)
Net Pension Liability – 12/31/14	\$ 5,497,988	\$ 3,227,630	\$ 1,686,896

In addition, the following presents the net pension liability of the city as of December 31, 2015, 2016 and 2017 calculated using the discount rate of 7.5%, 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 – 12/31/15	\$ 5,942,766	\$ 3,855,517	\$ 2,136,999
Net Pension Liability – 12/31/16	\$ 6,076,371	\$ 3,873,445	\$ 2,058,672
Net Pension Liability – 12/31/17	\$ 5,013,077	\$ 2,673,827	\$ 746,483

SCHEDULE OF INVESTMENT RETURNS

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

2017	16.64%
2016	7.93%
2015	(1.40%)
2014	6.39%

CITY OF COATESVILLE 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, 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	\$ 11,316,129	\$ 14,309,943	\$ 2,993,814	79.1%
01-01-15	12,260,442	15,094,660	2,834,218	81.2%
01-01-17	12,745,375	16,667,445	3,922,070	76.5%

CITY OF COATESVILLE 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.

CITY OF COATESVILLE POLICE PENSION PLAN  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER  
AND OTHER CONTRIBUTING ENTITIES

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2012	\$ 270,257	100.0%
2013	234,323	100.0%
2014	271,871	102.0%
2015	686,820	100.0%
2016	699,649	100.0%
2017	854,246	100.0%

CITY OF COATESVILLE POLICE 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	9 years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return	7.5%
Projected salary increases	4.5%
Cost-of-living adjustments	For members retired after 1/1/1999 and hired before 1/1/2002, an annual cost-of-living increase of 6%, maximum 70% of compensation at retirement. For members hired on or after 1/1/2002, increase is equal to change in the Consumer Price Index (CPI-W), no maximum.

CITY OF COATESVILLE POLICE PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

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