

# COMPLIANCE AUDIT

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## City of Washington Comprehensive Municipal Pension Trust Fund Washington County, Pennsylvania For the Period January 1, 2017 to December 31, 2019

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March 2021



Commonwealth of Pennsylvania  
Department of the Auditor General

Timothy L. DeFoor • Auditor General



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

**TIMOTHY L. DEFOOR  
AUDITOR GENERAL**

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, 2017 to December 31, 2019. We also evaluated compliance with some requirements subsequent to that period when possible. The audit was conducted pursuant to authority derived from the Municipal Pension Plan Funding Standard and Recovery Act (Act 205 of 1984, as amended, 53 P.S. § 895.402(j)), which requires the Auditor General, as deemed necessary, to audit every municipality which receives general municipal pension system state aid and every municipal pension plan and fund in which general municipal pension system state aid is deposited. The audit was not conducted, nor was it required to be, in accordance with Government Auditing Standards issued by the Comptroller General of the United States. We planned and performed the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

The objective of the audit was 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 objective identified above. To determine whether the pension trust fund 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 plans' governing documents and applicable laws and regulations by examining the municipality's calculation of the plans' annual financial requirements and minimum municipal obligation (MMO) and comparing these calculated amounts to amounts actually budgeted and deposited into the pension plans as evidenced by supporting documentation.
- We determined whether annual employee contributions were calculated, deducted, and deposited into the pension plans in accordance with the plans' governing documents and applicable laws and regulations by testing total members' contributions on an annual basis using the rates obtained from the plans' governing documents in effect for all years within the period under audit and examining documents evidencing the deposit of these employee contributions into the pension plans.
- We determined whether retirement benefits calculated for 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 plans' governing documents, applicable laws, and regulations by recalculating the amount of the monthly pension benefits due to the retired individuals and comparing these amounts to supporting documentation evidencing amounts determined and actually paid to the recipients.
- We determined whether the January 1, 2019 actuarial valuation reports were prepared and submitted by March 31, 2020 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 the pension trust fund is in compliance with Act 205 for distressed municipalities through inquiry of plan officials and evaluation of the recovery remedies implemented during the audit period and through the completion of our fieldwork.
- We determined whether the terms and methodologies of the issuance of pension obligation bonds by the municipality, and any restrictions, were in compliance with plan provisions and Act 205 through inquiry of plan officials and examination of supporting documentation.

The City of Washington 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 Washington Comprehensive Municipal Pension Trust Fund is administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies. As previously described, we tested transactions, interviewed selected officials, and performed procedures to the extent necessary 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 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:

Police and Firefighter's Pension Plans:

Finding No. 1 – Incorrect Pension Benefit Calculations

Finding No. 2 – Failure To Maintain Minutes Of Pension Board Meetings

Police Pension Plan:

Finding No. 3 – Incorrect Data On Certification Form AG 490 Resulting In Excess Reimbursements For Special 1989 Ad Hoc Postretirement Adjustments

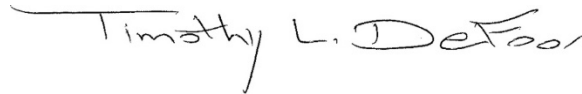
Finding No. 4 – Inconsistent And Unauthorized Pension Benefits

Firefighter's Pension Plan:

Finding No. 5 – Inconsistent And Unauthorized Pension Benefits

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 Washington 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.

Handwritten signature of Timothy L. DeFoor in black ink.

February 19, 2021

TIMOTHY L. DEFOOR  
Auditor General

## CONTENTS

	<u>Page</u>
Background.....	1
Findings and Recommendations:	
Finding No. 1 – Incorrect Pension Benefit Calculations.....	3
Finding No. 2 – Failure To Maintain Minutes Of Pension Board Meetings.....	5
Finding No. 3 – Incorrect Data On Certification Form AG 490 Resulting In Excess Reimbursements For Special 1989 Ad Hoc Postretirement Adjustments ...	8
Finding No. 4 – Inconsistent And Unauthorized Pension Benefits.....	9
Finding No. 5 – Inconsistent And Unauthorized Pension Benefits.....	11
Supplementary Information .....	15
Comments .....	25
Report Distribution List .....	29

## 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.

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 Washington Comprehensive Municipal Pension Trust Fund is also governed by implementing regulations 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 Firefighters Postretirement Adjustment Act, Act of December 14, 1988 (P.L. 1192, No. 147), as amended, 53 P.S. § 896.101 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 Employees, 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 firefighter's pension plans into a single pension trust fund pursuant to Section 607(b) of Act 205.

## **BACKGROUND – (Continued)**

The City of Washington Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 1878, adopted pursuant to Act 67. The plan is also affected by the provisions of collective bargaining agreements between the city and its police officers. The plan was established February 19, 1936. Active members are required to contribute 7.5 percent of compensation to the plan plus \$4 per month until age 65. As of December 31, 2019, the plan had 31 active members, no terminated members eligible for vested benefits in the future, and 38 retirees receiving pension benefits from the plan.

The City of Washington Officers and Employees Pension Plan is locally controlled by the provisions of Ordinance No. 1897, adopted pursuant to Act 362. The plan is also affected by the provisions of collective bargaining agreements between the city and its non-uniformed employees. The plan was established January 1, 1950. Active members are required to contribute 3.5 percent of the pay taxed by Social Security and 5.0 percent of pay in excess of the taxable wage base. Participants may contribute 5.0 percent to eliminate the Social Security offset and an extra 1.0 percent for the survivor benefit coverage. Participants hired after December 31, 1992 contribute 5.0 percent monthly plus an extra 1.0 percent for the survivor benefit coverage. As of December 31, 2019, the plan had 31 active members, no terminated members eligible for vested benefits in the future, and 23 retirees receiving pension benefits from the plan.

The City of Washington Firefighter's Pension Plan is locally controlled by the provisions of Ordinance No. 1907, adopted pursuant to Act 67. The plan is also affected by the provisions of collective bargaining agreements between the city and its firefighters. The plan was established March 1, 1930. Plan members hired prior to January 1, 2003 are required to contribute 5.0 percent of compensation plus an additional \$4 per month to the plan. Plan members hired after January 1, 2003 are required to contribute 6.5 percent of compensation plus an additional \$4 per month to the plan. As of December 31, 2019, the plan had 22 active members, no terminated members eligible for vested benefits in the future, and 31 retirees receiving pension benefits from the plan.



CITY OF WASHINGTON COMPREHENSIVE MUNICIPAL PENSION TRUST FUND  
FINDINGS AND RECOMMENDATIONS

**Police and Firefighter's Pension Plans**

**Finding No. 1 – Incorrect Pension Benefit Calculations**

Condition: The city incorrectly calculated service increments in the pension calculations of three police officers and three firefighters who retired during and subsequent to the audit period, resulting in incorrect monthly benefit amounts.

Criteria: Section 4.03 of Ordinance No. 1878, governing the police pension plan, states, in part:

Service Increment - Notwithstanding anything contained herein to the contrary, each Participant who shall retire upon completion of twenty (20) or more years of Aggregate Service, may be entitled to receive a monthly Service Increment benefit. Such service increment shall be an amount equal to the number of completed years of Aggregate Service in excess of twenty (20) years multiplied by one-fortieth (1/40) of the Participant's pension benefit which he is entitled to receive, not to exceed five hundred dollars (\$500.00)....

Section 4.03 of Ordinance No. 1907, governing the firefighter pension plan, states, in part:

Service Increment - Notwithstanding anything contained herein to the contrary, each Participant who shall retire upon completion of twenty (20) or more years of Aggregate Service, may be entitled to receive a monthly Service Increment benefit. Such service increment shall be an amount equal to the number of completed years of Aggregate Service in excess of twenty (20) years multiplied by one-fortieth (1/40) of the Participant's pension benefit which he is entitled to receive, not to exceed four hundred dollars (\$400.00)....

Cause: The Director of Accounts and Finance concurred that the service increments were not calculated in accordance with governing plan documents but could not provide the reason why they were not. However, as noted in Finding No. 2, plan officials failed to hold pension board meetings and maintain detailed minutes therefrom.

CITY OF WASHINGTON COMPREHENSIVE MUNICIPAL PENSION TRUST FUND  
FINDINGS AND RECOMMENDATIONS

**Police and Firefighter’s Pension Plans – (Continued)**

**Finding No. 1 – (Continued)**

Effect: Five retirees are receiving pension benefits in excess of those authorized by the respective plan’s governing document, and one retiree is receiving a pension benefit less than that authorized by the plan’s governing document. As of the date of this report, the impact on the pension benefits paid to the six retirees is as follows:

Police Pension Plan:

<u>Date of Retirement</u>	<u>Service Increment Paid</u>	<u>Service Increment Eligible</u>	<u>Monthly Overpayment (Underpayment)</u>	<u>Number of Months</u>	<u>Total Overpayment (Underpayment)</u>
01/06/20	\$ 500	\$ 434	\$ 66	14	\$ 924
09/11/18	393	197	196	30	5,880
06/25/19	123	67	56	20	1,120

Firefighter’s Pension Plan:

<u>Date of Retirement</u>	<u>Service Increment Paid</u>	<u>Service Increment Eligible</u>	<u>Monthly Overpayment (Underpayment)</u>	<u>Number of Months</u>	<u>Total Overpayment (Underpayment)</u>
06/15/20	\$ 472	\$ 206	\$ 266	8	\$ 2,128
04/28/18	0	400	(400)	34	(13,600)
07/05/20	292	130	162	7	1,134

Recommendation: We recommend that municipal officials recalculate the service increments in accordance with the provisions of the applicable governing plan documents and begin paying the correct amounts to the retirees. In addition, we recommend that the pension plans be reimbursed for the improper service increment overpayments. Finally, we recommend that plan officials implement adequate and consistent internal control procedures to ensure that future pension benefits are properly determined in accordance with the plans’ governing documents.

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

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

CITY OF WASHINGTON COMPREHENSIVE MUNICIPAL PENSION TRUST FUND  
FINDINGS AND RECOMMENDATIONS

**Police and Firefighter's Pension Plans – (Continued)**

**Finding No. 2 – Failure To Maintain Minutes Of Pension Board Meetings**

Condition: The municipality failed to maintain minutes of pension board meetings of the police and firefighter's pension plan.

Criteria: Maintaining documentation of pension board meetings is a prerequisite for the sound administration of pension plans.

Sections 8.01, 8.02 and 8.04 of Ordinance No. 1878 governing the police pension plan state, in part:

Plan Administrator - The Plan Administrator shall be the Board or the individual appointed by the Council who shall have the power and authority to do all acts and to execute, acknowledge and deliver all instruments necessary to implement and effectuate the purpose of this Plan. The Plan Administrator may delegate authority to act on its behalf to any persons it deems appropriate. If a Plan Administrator is not appointed, the Board shall be the Plan Administrator.

Board of Directors - Construction, Election and Term of Office - The Board of Directors of the Police Pension Fund shall be composed of twelve (12) members, and this membership shall include the Mayor, Superintendent of Accounts and Finance, the City Controller, a member of Council as selected by a majority of Council, Chief of Police, five (5) active police officers and two (2) pensioned officers.

Board of Directors - Purpose - The purpose of the Board of Directors of the Police Pension Fund shall be to provide a forum for meetings and discussions between representatives of the City and the police Employees relative to pensions. In addition, the Board shall receive and review actuarial reports and other relevant reports on the status and/or the condition of the Police Pension Fund and other matters relevant to the actuarial reports and reports on the status and condition of the Police Pension Fund. The Board shall meet as needed.

CITY OF WASHINGTON COMPREHENSIVE MUNICIPAL PENSION TRUST FUND  
FINDINGS AND RECOMMENDATIONS

**Police and Firefighter's Pension Plans – (Continued)**

**Finding No. 2 – (Continued)**

Sections 8.01, 8.02 and 8.04 of Ordinance No. 1907 governing the firefighter's pension plan state, in part:

Plan Administrator - The Plan Administrator shall be the Board or the individual appointed by the Council who shall have the power and authority to do all acts and to execute, acknowledge and deliver all instruments necessary to implement and effectuate the purpose of this Plan. The Plan Administrator may delegate authority to act on its behalf to any persons it deems appropriate. If a Plan Administrator is not appointed, the Board shall be the Plan Administrator.

Board of Directors - Construction, Election and Term of Office - The Board of Managers of the Firefighter's Pension Fund shall be composed of seven (7) members, and this membership shall include the Mayor, Director of Accounts and Finance, Director of Public Safety, the City Controller, the Fire Chief as an ex-offic member, and two (2) Employees chosen by the Employees.

Board of Directors - Purpose - The purpose of the Board of Managers of the Firefighter's Pension Fund shall be to provide a forum for meetings and discussions between representatives of the City and the Fire Department Employees relative to pensions. In addition, the Board shall receive and review actuarial reports and other relevant reports on the status and/or the condition of the Firefighter's Pension Fund and other matters relevant to the actuarial reports and reports on the status and condition of the Firefighter's Pension Fund. The Board shall meet as needed.

Furthermore, Section 8.03 in both the police plan Ordinance No. 1878 and the firefighter plan Ordinance No. 1907 specifies the duties and responsibilities of the Board to include the authorization to:

- Determine all questions affecting the eligibility of any Employee to participate;
- Compute the amount and source of any benefit payable hereunder to any Participant or Beneficiary;
- Authorize any and all disbursements;

CITY OF WASHINGTON COMPREHENSIVE MUNICIPAL PENSION TRUST FUND  
FINDINGS AND RECOMMENDATIONS

**Police and Firefighter's Pension Plans – (Continued)**

**Finding No. 2 – (Continued)**

- Prescribe any procedure to be followed by any Participant or other person in filing any application or Election;
- Prepare and distribute information explaining the Plan;
- Require from the Employer or any Participant such information as shall be necessary for the proper administration of the Plan, and
- Appoint and retain any individual to assist in the administration of the Plan, including such legal, clerical, accounting and actuarial services as may be required by any applicable law or laws.

Cause: Plan officials were unaware of their fiduciary responsibilities, including but not limited to holding pension board meetings and maintaining detailed minutes therefrom.

Effect: The failure to maintain minutes of pension board meetings may have led to errors in pension benefit calculations as disclosed in Finding No. 1 and can lead to undetected errors or improprieties in plan transactions as well as deficiencies in authorizing and implementing pension plan policies. In addition, the failure to maintain minutes of pension board meetings prevented the auditor from being able to verify that pension plan transactions were properly approved by appropriate officials.

Recommendation: We recommend that plan officials maintain a permanent record of all pension board meetings. These minutes should include an adequate record of all financial-related business conducted by the pension plan board as well as approvals of all transactions by appropriate authorizing officials.

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

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

CITY OF WASHINGTON COMPREHENSIVE MUNICIPAL PENSION TRUST FUND  
FINDINGS AND RECOMMENDATIONS

**Police Pension Plan**

**Finding No. 3 – Incorrect Data On Certification Form AG 490 Resulting In Excess Reimbursements For Special 1989 Ad Hoc Postretirement Adjustments**

Condition: The city improperly certified \$900 of special ad hoc postretirement adjustments for the surviving spouse of a police officer on the Certification Forms AG 490 filed for the years 2019 and 2020. The surviving spouse died on December 22, 2017.

Criteria: Pursuant to Act 147, Certification Form AG 490 should report only the amount of special ad hoc postretirement adjustments paid in the previous year to eligible retirees and/or their surviving spouses.

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

Effect: Because the city’s reimbursement is determined based on amounts reported on the Form AG 490, the city received excess reimbursements in 2019 and 2020, totaling \$900, as illustrated:

<u>Year</u>	<u>Reimbursement Certified</u>	<u>Reimbursement Due</u>	<u>Excess Reimbursement</u>
2019	\$ 5,575	\$ 5,125	\$ 450
2020	\$ 5,400	\$ 4,950	<u>450</u>
		Total	<u><u>\$ 900</u></u>

Recommendation: We recommend that the total excess reimbursement, in the amount of \$900, be returned to the Commonwealth. 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 & Liquor Control Audits, 321 Finance Building, Harrisburg, PA 17120. 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, such as having at least two people review the data certified, to ensure compliance with the instructions that accompany Certification Form AG 490 to assist them in accurately reporting the required pension data.

CITY OF WASHINGTON COMPREHENSIVE MUNICIPAL PENSION TRUST FUND  
FINDINGS AND RECOMMENDATIONS

**Police Pension Plan – (Continued)**

**Finding No. 3 – (Continued)**

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

Auditor’s Conclusion: The city’s compliance with the finding recommendation will be monitored subsequent to the release of the audit report and through our next audit of the pension plan.

**Finding No. 4 – Inconsistent And Unauthorized Pension Benefits**

Condition: The pension plan’s governing document, Ordinance No. 1878, contains benefit provisions that conflict with the collective bargaining agreement between the police officers and are not authorized by the Third Class City Code, as follows:

<u>Benefit Provision</u>	<u>Governing Document</u>	<u>Collective Bargaining Agreement January 1, 2019 to December 31, 2023</u>	<u>Third Class City Code</u>
Retirement Eligibility	Hired before 1/1/1994: Age 50 with 20 years of service. Hired on or after 1/1/1994: Age 53 with 20 years of service. <i>(Section 1.22)</i>	Hired after 1/1/1975: Age 50 with 20 years of service. <i>(Section 16.7)</i>	A minimum service requirement of at least 20 years of service and age of 50 years, if a minimum age is prescribed.
Retirement Benefit	A monthly benefit in an amount equal to 50% of the Participant’s Final Monthly Average Salary. <i>(Section 4.02)</i>	Hired after 1/1/2019: Pension capped at 65% of base pay plus any additional earnings. <i>(Section 16.8)</i>	A monthly pension benefit of up to 50% of the higher of the rate of monthly pay at the date of termination or the highest average annual salary during any 5 years of service.

CITY OF WASHINGTON COMPREHENSIVE MUNICIPAL PENSION TRUST FUND  
FINDINGS AND RECOMMENDATIONS

**Police Pension Plan – (Continued)**

**Finding No. 4 – (Continued)**

<u>Benefit Provision</u>	<u>Governing Document</u>	<u>Collective Bargaining Agreement January 1, 2019 to December 31, 2023</u>	<u>Third Class City Code</u>
Vesting	Not addressed.	Any employee, before completing the minimum age and minimum period for continuous service requirement but after having completed 12 years of continuous service, then employee, shall be entitled to vest his/her retirement benefits. <i>(Section 16.9)</i>	A minimum of 12 years of full-time service.

In addition, the actuarial valuation report form type C for the police pension plan with a valuation date of January 1, 2019, submitted to the Municipal Pension Reporting Program (MPRP), reported the benefit provisions included in the collective bargaining agreement.

Criteria: A governing document which contains clearly defined and updated benefit provisions, including those negotiated through collective bargaining, is a prerequisite for the consistent, sound administration of retirement benefits. Also, the pension plan’s benefit structure should be in compliance with the provisions of the Third Class City Code.

Cause: Plan officials failed to update the plan’s governing document to incorporate the pension benefits collectively bargained for and agreed to in the collective bargaining agreement effective January 1, 2019 to December 31, 2023. Plan officials also believed that the Third Class City Code authorized the benefits granted regarding the retirement benefits. Furthermore, plan officials failed to establish adequate internal control procedures to ensure the plan’s governing document and the collective bargaining agreement contained consistent benefit provisions.



CITY OF WASHINGTON COMPREHENSIVE MUNICIPAL PENSION TRUST FUND  
FINDINGS AND RECOMMENDATIONS

**Police Pension Plan – (Continued)**

**Finding No. 4 – (Continued)**

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

Recommendation: We recommend that plan officials amend the plan’s governing document as necessary to reflect all benefit obligations of the pension plan and eliminate inconsistencies among the various plan documents. We also recommend that the city comply with the Third Class City Code upon the renewal, extension, or renegotiation of the collective bargaining agreement.

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

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

**Firefighter’s Pension Plan**

**Finding No. 5 – Inconsistent And Unauthorized Pension Benefits**

Condition: The pension plan’s governing document, Ordinance No. 1907, contains benefit provisions that conflict with the collective bargaining agreement between the firefighters and the city and a benefit provision that is not authorized by the Third Class City Code, as follows:

<u>Benefit Provision</u>	<u>Governing Document</u>	<u>Collective Bargaining Agreement January 1, 2020 to December 31, 2023</u>	<u>Third Class City Code</u>
Retirement Eligibility	Hired before 1/1/1994: Age 50 with 20 years of service. Hired on or after 1/1/1994: Age 53 with 20 years of service. (Section 1.22)	Hired after 1/1/1994: Age 50 with 20 years of service. (Section 11.1)	A minimum service requirement of at least 20 years of service and 50 years, if a minimum age is prescribed.

CITY OF WASHINGTON COMPREHENSIVE MUNICIPAL PENSION TRUST FUND  
FINDINGS AND RECOMMENDATIONS

**Firefighter’s Pension Plan – (Continued)**

**Finding No. 5 – (Continued)**

<u>Benefit Provision</u>	<u>Governing Document</u>	<u>Collective Bargaining Agreement January 1, 2020 to December 31, 2023</u>	<u>Third Class City Code</u>
Service Increment	Each Participant who shall retire upon completion of 20 or more years of Aggregate Service, may be entitled to receive a monthly Service Increment benefit. Such service increment shall be an amount equal to the number of completed years of Aggregate Service in excess of 20 years multiplied by one-fortieth (1/40) of the Participant’s pension benefit which he is entitled to receive, not to exceed \$400, nor reflect any Employment after the Participant has attained age 65, and shall be paid monthly in addition to the amount of Normal Retirement Benefit. <i>(Section 4.03)</i>	Each member who becomes entitled to a pension benefit shall also become entitled to payment of a service increment benefit, which shall be equal to the number of whole years in excess of 20 years of continuous service, multiplied by one-fortieth (1/40) of the member’s pension benefit, which he/she is entitle to receive. No service increment benefit shall be paid to a member more than \$500 per month, nor shall such increment reflect any employment after the age of 65. <i>(Section 11.7)</i>	A service increment provision, indicating that additional benefits accrue to age 65 for service exceeding the minimum required for retirement in an amount equal to 1/40 <sup>th</sup> (2.5%) times the monthly pension benefit for each whole year over the minimum not to exceed \$500 per month.

CITY OF WASHINGTON COMPREHENSIVE MUNICIPAL PENSION TRUST FUND  
FINDINGS AND RECOMMENDATIONS

**Firefighter’s Pension Plan – (Continued)**

**Finding No. 5 – (Continued)**

<u>Benefit Provision</u>	<u>Governing Document</u>	<u>Collective Bargaining Agreement January 1, 2020 to December 31, 2023</u>	<u>Third Class City Code</u>
Retirement Benefit	A monthly benefit in an amount equal to 50% of the Participant’s Final Monthly Average Salary. <i>(Section 4.02)</i>	Hired after January 1, 2020: Pension capped at 65% of base pay plus any additional earnings. <i>(Section 11.1)</i>	A monthly pension benefit of 50% of the higher of the monthly salary at the date of termination or the highest average annual salary during any 5 years of service.
Vesting	Not addressed.	Any employee, who separates their employment before completing the minimum age and minimum period for continuous service requirement but having completed 12 years of continuous service, will be entitled to the benefits provided for within Section 4302.1 of the Third Class City Code (Limited Vesting Benefits). <i>(Section 11.12)</i>	A minimum of 12 years of full-time service.

CITY OF WASHINGTON COMPREHENSIVE MUNICIPAL PENSION TRUST FUND  
FINDINGS AND RECOMMENDATIONS

**Firefighter's Pension Plan – (Continued)**

**Finding No. 5 – (Continued)**

Criteria: A governing document which contains clearly defined and updated benefit provisions, including those negotiated through collective bargaining, is a prerequisite for the consistent, sound administration of retirement benefits. Also, the pension plan's benefit structure should be in compliance with the provisions of the Third Class City Code.

Cause: Plan officials failed to update the plan's governing document to incorporate the pension benefits collectively bargained for and agreed to in the most recent agreement effective January 1, 2020 to December 31, 2023. Plan officials also believed that the Third Class City Code authorized the benefits granted regarding the retirement benefits. Furthermore, plan officials failed to establish adequate internal control procedures to ensure the plan's governing document and the collective bargaining agreement contained consistent benefit provisions.

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

Recommendation: We recommend that plan officials amend the plan's governing document as necessary to reflect all benefit obligations of the pension plan and eliminate inconsistencies among the various plan documents. We also recommend that the city comply with the Third Class City Code upon the renewal, extension, or renegotiation of the collective bargaining agreement.

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

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

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. The historical information, beginning as of January 1, 2015, is as follows:

POLICE PENSION PLAN

	(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)
01-01-15	\$ 16,423,434	\$ 19,632,769	\$ 3,209,335	83.7%
01-01-17	20,837,084	24,568,481	3,731,397	84.8%
01-01-19	25,254,866	29,434,838	4,179,972	85.8%

Note: The market values of the plan’s assets at 01-01-15, 01-01-17, and 01-01-19 have been adjusted to reflect the smoothing of gains and/or losses over a 4-year averaging period, final value is limited to no less than 80% and no greater than 120% of market value. 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)
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)
01-01-15	\$ 5,361,771	\$ 5,097,707	\$ (264,064)	105.2%
01-01-17	5,779,454	5,875,563	96,109	98.4%
01-01-19	5,976,444	6,251,669	275,225	95.6%

Note: The market values of the plan’s assets at 01-01-15, 01-01-17, and 01-01-19 have been adjusted to reflect the smoothing of gains and/or losses over a 4-year averaging period, final value is limited to no less than 80% and no greater than 120% of market value. 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)

FIREFIGHTER’S PENSION PLAN

	(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)
01-01-15	\$ 14,957,228	\$ 17,041,321	\$ 2,084,093	87.8%
01-01-17	19,720,717	20,120,239	399,522	98.0%
01-01-19	23,961,903	22,803,421	(1,158,482)	105.1%

Note: The market values of the plan’s assets at 01-01-15, 01-01-17, and 01-01-19 have been adjusted to reflect the smoothing of gains and/or losses over a 4-year averaging period, final value is limited to no less than 80% and no greater than 120% of market value. 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.



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

POLICE PENSION PLAN

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>
2010	\$ 585,717	\$ 880,971	\$ (295,254)	\$1,678,323	52.5%
2011	586,603	974,451	(387,848)		
2012	762,644	1,787,014	(1,024,370)	1,967,453	90.8%
2013	781,437	1,715,621	(934,184)		
2014	956,859	1,901,201	(944,342)	2,004,917	94.8%
2015	949,015	1,826,222	(877,207)	1,935,541	94.4%
2016	866,916	1,958,948	(1,092,032)	2,118,794	92.5%
2017	920,631	2,052,419	(1,131,788)	2,163,159	94.9%
2018	1,150,715	1,922,382	(771,667)	2,262,366	85.0%
2019	1,155,204	2,659,904	(1,504,700)	2,237,555	118.9%

\* This schedule is presented pursuant to the implementation of GASB Statement No. 67, *Financial Reporting for Pension Plans* by reporting entities responsible for administering the pension plan to improve financial reporting by state and local governmental pension plans. Due to the statement being implemented only recently, the amount of Covered-Employee Payroll was not provided for odd years prior to 2014.

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

OFFICERS & EMPLOYEES PENSION PLAN

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>
2010	\$ 87,184	\$ 87,184	\$ -	\$ 965,709	9.0%
2011	91,909	91,909	-		
2012	87,074	87,074	-	948,580	9.2%
2013	84,112	84,112	-		
2014	107,424	107,424	-	926,945	11.6%
2015	102,991	102,991	-	959,031	10.7%
2016	60,410	60,410	-	991,160	6.1%
2017	62,073	62,073	-	971,232	6.4%
2018	113,937	113,937	-	1,069,100	10.7%
2019	121,304	121,304	-	1,034,626	11.7%

\* This schedule is presented pursuant to the implementation of GASB Statement No. 67, *Financial Reporting for Pension Plans* by reporting entities responsible for administering the pension plan to improve financial reporting by state and local governmental pension plans. Due to the statement being implemented only recently, the amount of Covered-Employee Payroll was not provided for odd years prior to 2014.

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

FIREFIGHTER'S PENSION PLAN

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>
2010	\$ 944,391	\$ 1,406,198	\$ (461,807)	\$1,185,334	118.6%
2011	955,465	1,562,100	(606,635)		
2012	978,304	2,514,859	(1,536,555)	1,253,571	200.6%
2013	980,346	2,381,621	(1,401,275)		
2014	1,016,657	2,433,170	(1,416,513)	1,295,402	187.8%
2015	1,008,765	2,324,574	(1,315,809)	1,388,595	167.4%
2016	641,006	2,279,055	(1,638,049)	1,350,419	168.8%
2017	663,511	2,361,194	(1,697,683)	1,472,630	160.3%
2018	635,643	1,793,143	(1,157,500)	1,486,424	120.6%
2019	630,495	630,495	-	1,570,629	40.1%

\* This schedule is presented pursuant to the implementation of GASB Statement No. 67, *Financial Reporting for Pension Plans* by reporting entities responsible for administering the pension plan to improve financial reporting by state and local governmental pension plans. Due to the statement being implemented only recently, the amount of Covered-Employee Payroll was not provided for odd years prior to 2014.

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

POLICE PENSION PLAN

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, 2019
Actuarial cost method	Entry age normal
Amortization method	Level dollar, closed
Remaining amortization period	8 years (aggregated)
Asset valuation method	Fair value, 4-year smoothing
Actuarial assumptions:	
Investment rate of return *	6.25% net of investment expenses
Projected salary increases *	5.0%, the final year of salary is assumed to increase by an additional 50% of traditionally large increase in the year of retirement.

\* Includes inflation at 2.5%

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

OFFICERS AND EMPLOYEES PENSION PLAN

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, 2019
Actuarial cost method	Entry age normal
Amortization method	Level dollar, closed
Remaining amortization period	12 years
Asset valuation method	Fair value, 4-year smoothing
Actuarial assumptions:	
Investment rate of return*	6.25%, net of investment expenses
Projected salary increases *	4.5%

\* Includes inflation at 2.5%

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

FIREFIGHTER'S PENSION PLAN

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, 2019
Actuarial cost method	Entry age normal
Amortization method	Level dollar, closed
Remaining amortization period	None
Asset valuation method	Fair value, 4-year smoothing
Actuarial assumptions:	
Investment rate of return*	6.25%, net of investment expenses
Projected salary increases *	4.75%, the final year of salary is assumed to increase by an additional 50% of traditionally large increase in the year of retirement.

\* Includes inflation at 2.5%

CITY OF WASHINGTON COMPREHENSIVE MUNICIPAL PENSION TRUST FUND  
COMMENTS

As noted earlier in this audit report and disclosed in prior audit reports, the City of Washington Police and Firefighter’s Pension Plans are governed by local ordinances adopted pursuant to Act 67, the Third Class City Code. With regard to the determination of pension benefits for police officers, Section 14303 of the Third Class City Code states, in part:

Allowance and service increments.

(a) Allowance. A payment for an allowance shall only be a charge on the police pension fund and may not be a charge on another fund under the control of or in the city treasury.

(b) Apportionment of the pension. The basis of the apportionment of the pension:

(1) Shall be determined by the rate of the monthly pay of the member at the date of injury, death, honorable discharge, vesting under section 14302.1 (relating to limited vested benefit) or retirement, or the highest average annual salary that the member received during any five years of service preceding injury, death, honorable discharge, vesting under section 14302.1 or retirement, whichever is higher. [Emphasis added.]

(2) Except as to service increments provided for in subsection (d), may not exceed in a year one-half the annual pay of the member computed at the monthly or average annual rate, whichever is higher.

Although the Third Class City Code does not contain a definition for the term “pay”, Section 14300(b) does define the term salary as follows:

“Salary.” The fixed amount of compensation paid at regular, periodic intervals by the city to the member and from which pension contributions have been deducted.

Ordinance No. 1878 at Section 4.02 states, in part:

Normal Retirement Benefit – Each Participant who shall become entitled to a benefit pursuant to section 4.01 shall receive a benefit paid monthly in an amount equal to fifty percent (50%) of the Participant’s Final Monthly Average Salary as determined herein.

Ordinance No. 1878 at Section 1.20 states, in part:

“Final Monthly Average Salary” shall mean the rate of monthly Compensation of the Participant as of the date of retirement or the highest average annual Compensation which the participant received during any five (5) Years of Aggregate Service preceding his termination of active Employment, whichever is the greater amount.

CITY OF WASHINGTON COMPREHENSIVE MUNICIPAL PENSION TRUST FUND  
COMMENTS

Ordinance No. 1878 at Section 1.12 states:

“Compensation” shall mean the total amount of a Participant’s earnings, received or receivable during the Participant’s Employment with the City as an Employee.

The City’s practice is to calculate the police officers’ pension benefits based on the amount of the retiree’s final month’s pay. This includes regular monthly pay plus overtime, holiday pay and additional pay for roadwork projects (calculated at \$50 per hour) that a police officer accumulates in their final month of employment.

Our prior audit reports disclosed that four police officers retired during previous audit periods and during the final month of their respective employments, in addition to their regular hours, the police officers accumulated additional overtime, holiday and roadwork hours that were included in their final monthly earnings. As a result, the effect of using the retiree’s final month’s accumulated earnings to determine the retiree’s pension benefits instead of using the retiree’s regular monthly base pay to determine the retiree’s monthly pension benefit resulted in three of the four retirees receiving pension benefits that exceeded the amount of the total base pay the former officers earned during their respective employment with the City. During the current audit period and through the date of this report, this practice allowed for four of the six retiring police officers to receive a higher pension benefit than their final, total base pay earned during their active employment with the city.

With regard to the determination of pension benefits for firefighters, Section 14322(a)(2) of the Third Class City Code states:

The basis of the pension of a member shall be determined by the monthly salary of the member at the date of vesting under section 14320.1 (relating to limited vested benefit for firefighters) or retirement or the highest average annual salary which the member received during any five years of service preceding retirement, whichever is higher, whether for disability or by reason of age or service, and, except as to service increments provided for in subsection (b), shall be one-half the annual salary of the member at the time of vesting under section 14320.1 or retirement computed at the monthly or average annual rate, whichever is higher. [Emphasis added.]

Furthermore, Section 14319 of the Third Class City Code states, in part:

“Salary.” The fixed amount of compensation paid at regular, periodic intervals by the city to the member and from which pension contributions have been deducted.



CITY OF WASHINGTON COMPREHENSIVE MUNICIPAL PENSION TRUST FUND  
COMMENTS

Ordinance No. 1907 at Section 4.02 states, in part:

Normal Retirement Benefit – Each Participant who shall become entitled to a benefit pursuant to section 4.01 shall receive a benefit paid monthly in an amount equal to fifty percent (50%) of the Participant’s Final Monthly Average Salary as determined herein.

Ordinance No. 1907 at Section 1.20 states, in part:

“Final Monthly Average Salary” shall mean the rate of monthly Compensation of the Participant as of the date of retirement or the highest average annual Compensation which the participant received during any five (5) Years of Aggregate Service preceding his termination of active Employment, whichever is the greater amount.

Ordinance No. 1907 at Section 1.12 states:

“Compensation” shall mean the total amount of a Participant’s earnings, received or receivable during the Participant’s Employment with the City as an Employee.

The City’s practice is to calculate pension benefits based on the firefighter’s final monthly compensation which includes any overtime and holiday pay that a firefighter accumulates in their final month of employment. As disclosed in prior audit reports, two retired firefighters’ pension benefit calculations were determined based on the firefighter’s final monthly compensation which resulted in monthly pension benefits which far exceeded 50 percent of the base pay earned by one firefighter during his employment with the City and exceeded base pay earned by the other firefighter during his employment with the City. During the current audit period and through the date of this report, this practice allowed for two of the three retiring firefighters to receive a higher pension benefit than their final, total base pay earned during their active employment with the city.

Although the funding statuses of the City’s pension plans continue to improve (*It was noted that the firefighter’s pension plan is currently overfunded as of the most recent January 1, 2019 actuarial valuation.*), primarily as a result of the City’s implementation of the Special Tax authorized by Act 205, we continue to encourage city officials to review the methodology used to calculate pension benefits for its police officers and firefighters. And, although it appears the City is actuarially funding for the increases in the salaries of employees in their final year of employment, the City’s practice of allowing police officers and firefighters the opportunity to accumulate large amounts of overtime and other forms of compensation during their last month of employment and including that compensation in the calculation of pension benefits has created apparent windfalls for some retirees and significantly increased the required municipal

CITY OF WASHINGTON COMPREHENSIVE MUNICIPAL PENSION TRUST FUND  
COMMENTS

contributions to the pension funds to maintain their financial stability. We also continue to urge city officials, as plan fiduciaries, to review their methodology for determining pension benefits for the City's police officers and firefighters in order to ensure future pension benefits are determined in accordance with the provisions and intent of the Third Class City Code, which will ultimately benefit the City of Washington and its taxpayers.

CITY OF WASHINGTON COMPREHENSIVE MUNICIPAL PENSION TRUST FUND  
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