

COMPLIANCE AUDIT

City of Williamsport Police Pension Plan Lycoming County, Pennsylvania For the Period January 1, 2018 to December 31, 2019

November 2020



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 Police Pension Plan for the period January 1, 2018 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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The objectives of the audit were:

1. To determine if municipal officials took appropriate corrective action to address the finding contained in our prior report; and
2. To determine if the pension plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies.

Our audit was limited to the areas related to the objectives identified above. To determine if municipal officials took appropriate corrective action to address the finding contained in our prior report, we inquired of plan officials and evaluated supporting documentation provided by officials evidencing that the suggested corrective action has been appropriately taken. To determine whether the pension plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies, our methodology included the following:

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

- We determined whether annual employer contributions were calculated and deposited in accordance with the plan's governing document and applicable laws and regulations by examining the municipality's calculation of the plan's annual financial requirements and minimum municipal obligation (MMO) and comparing these calculated amounts to amounts actually budgeted and deposited into the pension plan as evidenced by supporting documentation.
- We determined whether annual employee contributions were calculated, deducted, and deposited into the pension plan in accordance with the plan's governing document and applicable laws and regulations by testing total members' contributions on an annual basis using the rates obtained from the plan's governing document in effect for all years within the period under audit and examining documents evidencing the deposit of these employee contributions into the pension plan.
- We determined whether retirement benefits calculated for plan members who retired and plan members who elected to vest during the current audit period, and through the completion of our fieldwork procedures, represent payments to all (and only) those entitled to receive them and were properly determined and disbursed in accordance with the plan's governing document, applicable laws, and regulations by recalculating the amount of the pension benefits due to the retired individuals and comparing these amounts to supporting documentation evidencing amounts determined and actually paid or payable to the recipients.
- We determined whether the January 1, 2017 and January 1, 2019 actuarial valuation reports were prepared and submitted by March 31, 2018 and 2020, respectively, in accordance with Act 205 and whether selected information provided on these reports is accurate, complete, and in accordance with plan provisions to ensure compliance for participation in the state aid program by comparing selected information to supporting source documentation.
- We determined whether all annual special ad hoc postretirement reimbursements received by the municipality were authorized and appropriately deposited in accordance with Act 147 by tracing information to supporting documentation maintained by plan officials.
- We determined whether provisions of the Deferred Retirement Option Plan (DROP) were in accordance with the provisions of Act 205 by examining provisions stated in the plan's governing documents.

The City of Williamsport contracted with an independent certified public accounting firm for an audit of its basic financial statements for the year ended December 31, 2018, 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 Police Pension Plan 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 objectives.

The results of our procedures indicated that, in all significant respects, the City of Williamsport Police Pension Plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies, except as noted in the following findings further discussed later in this report:

- Finding No. 1 – Noncompliance With Prior Audit Recommendation – Inconsistent Pension Benefits
- Finding No. 2 – Incorrect Data On Certification Form AG 385 Resulting In An Underpayment Of State Aid

Finding No. 1 contained in this audit report repeats a condition that was cited in our previous report that has not been corrected by city officials. We are concerned by the city's failure to correct this previously reported finding and strongly encourage timely implementation of the recommendations noted in this audit report.

The accompanying supplementary information is presented for purposes of additional analysis. We did not audit the information or conclude on it and, accordingly, express no form of assurance on it.

The contents of this report were discussed with officials of the City of Williamsport and, where appropriate, their responses have been included in the report. We would like to thank city officials for the cooperation extended to us during the conduct of the audit.

November 6, 2020



EUGENE A. DEPASQUALE
Auditor General

CONTENTS

	<u>Page</u>
Background.....	1
Status of Prior Finding.....	2
Findings and Recommendations:	
Finding No. 1 – Noncompliance With Prior Recommendation – Inconsistent Pension Benefits	3
Finding No. 2 – Incorrect Data On Certification Form AG 385 Resulting In An Underpayment Of State Aid.....	4
Supplementary Information	6
Report Distribution List	10

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 Williamsport Police Pension Plan 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 147 - Special Ad Hoc Municipal Police and Firefighter Postretirement Adjustment Act, Act of December 14, 1988 (P.L. 1192, No. 147), as amended, 53 P.S. § 896.101 et seq.
- Act 399 - Optional Third Class City Charter Law, Act of July 15, 1957 (P.L. 901, No. 399), as amended, 53 P.S. § 41101 et seq.

The City of Williamsport Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Article 153 of the city's codified ordinances. The plan is also affected by the provisions of collective bargaining agreements between the city and its police officers. The plan was established May 27, 1942. Active members are required to contribute 5 percent of compensation to the plan. As of December 31, 2019, the plan had 42 active members, 4 terminated members eligible for vested benefits in the future, and 79 retirees receiving pension benefits from the plan.

CITY OF WILLIAMSPORT POLICE PENSION PLAN
STATUS OF PRIOR FINDING

Noncompliance With Prior Recommendation

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

- Inconsistent Pension Benefits

CITY OF WILLIAMSPORT POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

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

Condition: As disclosed in the prior audit reports of the plan since the January 1, 1998 to December 31, 1999 audit period, the pension plan’s governing document, codified at Article 153 of the city’s codified ordinances, contains benefit provisions that conflict with the collective bargaining agreement between the police officers and the city, as illustrated below:

<u>Benefit Provision</u>	<u>Governing Document</u>	<u>Collective Bargaining Agreement</u>
Pension benefit	Fifty percent of the monthly pay as of the date retired, or the highest average annual salary which the member received during any five years.	Fifty percent of the last 12 months of compensation.
Survivor benefits	Fifty percent of the benefit the pensioner was receiving or would have been receiving had he been retired at the time of death, with no increase in the members’ contributions.	The same monthly pension payment as the member, had the member not died.
Members’ contributions	Four percent of monthly compensation, plus one-half of one percent of salary for a service increment contribution. The service increment contribution shall not exceed one dollar per month.	The members agree to pay an additional one percent (1%) contribution rate from the member’s gross compensation in exchange for the widow/widower’s benefit.

In addition, the plan’s actuarial valuation reports, including the most recent reports with valuation dates of January 1, 2017 and January 1, 2019, reported the benefit provisions included in the collective bargaining agreement.

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

Cause: Municipal officials indicated that due to staffing constraints they were unable to update the plan’s governing documents and again failed to ensure compliance with the prior audit recommendation.

CITY OF WILLIAMSPORT POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

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

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

Management’s Response: Municipal officials provided the following response:

Management agrees that the plan’s governing document contains benefit provisions that conflict with the collective bargaining agreement between the union and the City. Plan Management will work with the City’s Human Resource department and the Pension Plan’s Actuary to prepare and enact revisions to the plan’s governing document to ensure conflicts between the governing document and collective bargaining agreement are resolved. Due to staffing constraints, Management plans to complete updates to the three plans’ governing documents one plan at a time.

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

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

Condition: The city failed to certify an eligible police officer (2 units) on the Certification Form AG 385 filed in 2020. The data contained on this certification form is based on prior calendar year information. The officer was on active military duty beginning in March 2019 through the remainder of the year.

Criteria: Pursuant to Act 205, at Section 402(e)(2), an employee who has been employed on a full-time basis for at least six consecutive months and has been participating in a pension plan during the certification year is eligible for certification. Furthermore, the city’s police officers are eligible for intervening military service credit for pension purposes, and it is the policy of the Department of the Auditor General to allow municipalities to certify police officers on intervening military service.

Cause: Plan officials were not aware that the police officer was eligible to be included on Certification Form AG 385.

CITY OF WILLIAMSPORT POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Effect: The data submitted on this certification form is used, in part, to calculate the state aid due to the municipality for distribution to its pension plans. Because the city’s state aid allocation was based on unit value, the city received an underpayment of state aid of \$9,848 as identified below:

<u>Year</u>	<u>Units Understated</u>	<u>Unit Value</u>	<u>State Aid Underpayment</u>
2020	2	\$ 4,924	\$ 9,848

Although the additional state aid will be allocated to the city, the full amount of the 2020 state aid allocation was not available to be deposited timely and therefore was not available to pay operating expenses or for investment.

Recommendation: We recommend that plan officials establish adequate internal control procedures to ensure that any police officers on active military duty are included on Certification Form AG 385.

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 WILLIAMSPORT 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, 2015, is as follows:

	(1)	(2)	(3)	(4)
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) - Entry Age (b)	Unfunded (Assets in Excess of) Actuarial Liability (b) - (a)	Funded Ratio (a)/(b)
01-01-15	\$ 34,057,054	\$ 40,653,024	\$ 6,595,970	83.8%
01-01-17	37,331,888	43,169,415	5,837,527	86.5%
01-01-19	40,045,177	46,633,380	6,588,203	85.9%

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 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 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 WILLIAMSPORT POLICE 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
2010	\$ 621,438	\$ 621,438	\$ -	\$2,798,423	22.2%
2011	895,363	789,528	105,835	2,706,116	29.2%
2012	849,605	743,770	105,835	2,443,715	30.4%
2013	1,402,048	1,402,048	-	2,667,338	52.6%
2014	1,401,108	1,401,108	-	2,662,267	52.6%
2015	1,577,131	1,577,131	-	2,777,526	56.8%
2016	1,569,690	1,569,690	-	2,740,864	57.3%
2017	1,537,336	1,537,336	-	3,046,880	50.5%
2018	1,669,090	1,669,090	-	3,059,791	54.6%
2019	1,772,407	1,772,407	-	*	

* Due to the timing of this audit, covered-employee payroll for 2019 was not provided in this schedule.

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.

CITY OF WILLIAMSPORT 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, 2019
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	6 years
Asset valuation method	4-year smoothing, the actuarial value of assets will be limited to a maximum of 120% and a minimum of 80% of the fair market value of assets.
Actuarial assumptions:	
Investment rate of return	7.5%
Projected salary increases	4.5%
Cost-of-living adjustments	3.0% per year

CITY OF WILLIAMSPORT POLICE PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

The Honorable Derek Slaughter
Mayor

Mr. Randall Allison
Council President

Mr. Joseph Pawlak
Interim Finance Director

Ms. Janice Frank
City Clerk

Ms. Margaret Woodring
City Controller

Mr. Nick Grimes
City Treasurer

This report is a matter of public record and is available online at www.PaAuditor.gov. Media questions about the report can be directed to the Pennsylvania Department of the Auditor General, Office of Communications, 229 Finance Building, Harrisburg, PA 17120; via email to: news@PaAuditor.gov.