

COMPLIANCE AUDIT

City of Williamsport Police Pension Plan Lycoming County, Pennsylvania For the Period January 1, 2016 to December 31, 2017

December 2018



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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EUGENE A. DePASQUALE
AUDITOR GENERAL

The Honorable Mayor and City Council
City of Williamsport
Lycoming County
Williamsport, PA 17701

We have conducted a compliance audit of the City of Williamsport 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 finding and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our finding and conclusions based on our audit objectives.

The objectives of the audit were:

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

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

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

- We determined whether annual employer contributions were calculated and deposited in accordance with the plan's governing document and applicable laws and regulations by examining the municipality's calculation of the plan's annual financial requirements and minimum municipal obligation (MMO) and comparing these calculated amounts to amounts actually budgeted and deposited into the pension plan as evidenced by supporting documentation.
- We determined whether annual employee contributions were calculated, deducted, and deposited into the pension plan in accordance with the plan's governing document and applicable laws and regulations by testing total members' contributions on an annual basis using the rates obtained from the plan's governing document in effect for all years within the period under audit and examining documents evidencing the deposit of these employee contributions into the pension plan.
- We determined whether retirement benefits calculated for all 6 of the plan members who retired during the current audit period represent payments to all (and only) those entitled to receive them and were properly determined and disbursed in accordance with the plan's governing document, applicable laws and regulations by recalculating the amount of the monthly pension benefit due to retired individuals and comparing these amounts to supporting documentation evidencing amounts determined and actually paid to recipients. We also determined whether retirement benefits calculated for the 2 plan members who elected to vest during the current audit period represent payments to all (and only) those entitled to receive them and were properly determined in accordance with the plan's governing document, applicable laws and regulations by recalculating the amount of the pension benefit due to retired individuals and comparing these amounts to supporting documentation evidencing amounts determined.
- We determined whether the January 1, 2015 and January 1, 2017 actuarial valuation reports were prepared and submitted by March 31, 2016 and 2018, respectively, in accordance with Act 205 and whether selected information provided on these reports is accurate, complete, and in accordance with plan provisions to ensure compliance for participation in the state aid program by comparing selected information to supporting source documentation.
- We determined whether all annual special ad hoc postretirement reimbursements received by the municipality were authorized and appropriately deposited in accordance with Act 147 by tracing information to supporting documentation maintained by plan officials.
- We determined whether provisions of the Deferred Retirement Option Plan (DROP) were in accordance with the provisions of Act 205 by examining provisions stated in the plan's governing documents.

The City of Williamsport contracted with an independent certified public accounting firm for annual audits of its basic financial statements which are available at the city's offices. Those financial statements were not audited by us and, accordingly, we express no opinion or other form of assurance on them.

City officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the City of Williamsport 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 objectives, and assessed whether those significant controls were properly designed and implemented. Additionally and as previously described, we tested transactions, assessed official actions, performed analytical procedures, and interviewed selected officials to provide reasonable assurance of detecting instances of noncompliance with legal and regulatory requirements or noncompliance with provisions of contracts, administrative procedures, and local ordinances and policies that are significant within the context of the audit objectives.

The results of our procedures indicated that, in all significant respects, the City of Williamsport 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 finding further discussed later in this report:

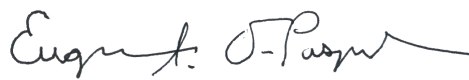
Finding – Noncompliance With Prior Audit Recommendation – Inconsistent Pension Benefits

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

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

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

December 15, 2018


EUGENE A. DEPASQUALE
Auditor General

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BACKGROUND

On December 18, 1984, the Pennsylvania Legislature adopted the Municipal Pension Plan Funding Standard and Recovery Act (P.L. 1005, No. 205, as amended, 53 P.S. § 895.101 et seq.). The Act established mandatory actuarial reporting and funding requirements and a uniform basis for the distribution of state aid to Pennsylvania's public pension plans. Section 402(j) of Act 205 specifically requires the Auditor General, as deemed necessary, to make an audit of every municipality which receives general municipal pension system state aid and of every municipal pension plan and fund in which general municipal pension system state aid is deposited.

Annual state aid allocations are provided from a 2 percent foreign (out-of-state) casualty insurance premium tax, a portion of the foreign (out-of-state) fire insurance tax designated for paid firefighters and any investment income earned on the collection of these taxes. Generally, municipal pension plans established prior to December 18, 1984, are eligible for state aid. For municipal pension plans established after that date, the sponsoring municipality must fund the plan for three plan years before it becomes eligible for state aid. In accordance with Act 205, a municipality's annual state aid allocation cannot exceed its actual pension costs.

In addition to Act 205, the City of Williamsport 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 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, 2017, the plan had 45 active members, 5 terminated members eligible for vested benefits in the future, and 77 retirees receiving pension benefits from the plan.

BACKGROUND – (Continued)

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

Eligibility Requirements:

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

Retirement Benefit:

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

Survivor Benefit:

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.

Service Related Disability Benefit:

For total and permanent disablement, the Normal Retirement Benefit at date of disablement.

CITY OF WILLIAMSPORT POLICE PENSION PLAN
STATUS OF PRIOR FINDING

Noncompliance With Prior Audit Recommendation

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

- Inconsistent Pension Benefits

CITY OF WILLIAMSPORT POLICE PENSION PLAN
FINDING AND RECOMMENDATION

Finding – Noncompliance With Prior Audit Recommendation – Inconsistent Pension Benefits

Condition: As disclosed in the prior audit reports of the plan since the January 1, 1998 to December 31, 1999 audit period, the pension plan’s governing document, codified at Article 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, 2015 and January 1, 2017, 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 again failed to establish adequate internal control procedures to ensure compliance with the prior audit recommendations.

CITY OF WILLIAMSPORT POLICE PENSION PLAN
FINDING AND RECOMMENDATION

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

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

CITY OF WILLIAMSPORT POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

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

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

	<u>2014</u>	<u>2015</u>
Total Pension Liability		
Service cost	\$ 593,427	\$ 564,588
Interest	3,064,995	3,100,356
Changes of benefit terms	-	(597,591)
Difference between expected and actual experience	-	255,766
Changes in assumptions	-	839,444
Benefit payments, including refunds of member contributions*	(2,397,934)	(2,699,878)
Net Change in Total Pension Liability	<u>1,260,488</u>	<u>1,462,685</u>
Total Pension Liability - Beginning	<u>38,894,917</u>	<u>40,155,405</u>
Total Pension Liability - Ending (a)	<u>\$ 40,155,405</u>	<u>\$ 41,618,090</u>
 Plan Fiduciary Net Position		
Contributions - employer	\$ 1,053,253	\$ 1,188,472
Contributions - state aid	347,855	388,659
Contributions - member	153,489	176,099
Net investment income	2,309,916	(219,355)
Benefit payments, including refunds of member contributions*	(2,395,427)	(2,699,878)
Administrative expense	(162,091)	(164,499)
Net Change in Plan Fiduciary Net Position	<u>1,306,995</u>	<u>(1,330,502)</u>
Plan Fiduciary Net Position - Beginning	<u>34,269,880</u>	<u>35,576,875</u>
Plan Fiduciary Net Position - Ending (b)	<u>\$ 35,576,875</u>	<u>\$ 34,246,373</u>
 Net Pension Liability - Ending (a-b)	<u>\$ 4,578,530</u>	<u>\$ 7,371,717</u>
 Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	88.6%	82.3%
Estimated Covered Employee Payroll	\$ 2,662,267	\$ 2,777,526
Net Pension Liability as a Percentage of Covered Employee Payroll	172.0%	265.4%

* The difference between the benefit payments above in 2014 is due to the actuary incorporating accrued benefits payable in the benefit payments number. As of December 31, 2013, there was a participant who had terminated with \$5,835 of employee contributions that were due to be refunded. As of December 31, 2014, there was a participant who had terminated with \$8,342 of employee contributions that were due to be refunded. The difference between the beginning of year accrual and end of year accrual is \$2,507.

CITY OF WILLIAMSPORT POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

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

	<u>2016</u>	<u>2017</u>
Total Pension Liability		
Service cost	\$ 572,404	\$ 659,302
Interest	3,125,254	3,293,526
Changes of benefit terms	-	-
Difference between expected and actual experience	-	(409,995)
Changes in assumptions	-	954,367
Benefit payments, including refunds of member contributions	<u>(2,690,705)</u>	<u>(2,713,861)</u>
Net Change in Total Pension Liability	1,006,953	1,783,339
Total Pension Liability - Beginning	41,618,090	42,625,043
Total Pension Liability - Ending (a)	<u>\$ 42,625,043</u>	<u>\$ 44,408,382</u>
 Plan Fiduciary Net Position		
Contributions - employer	\$ 1,141,371	\$ 1,071,835
Contributions - state aid	428,319	465,501
Contributions - member	179,925	166,526
Net investment income	3,017,489	5,486,769
Benefit payments, including refunds of member contributions	(2,690,705)	(2,713,861)
Administrative expense	(172,574)	(153,599)
Other	13	12,717
Net Change in Plan Fiduciary Net Position	1,903,838	4,335,888
Plan Fiduciary Net Position - Beginning	34,246,373	36,150,211
Plan Fiduciary Net Position - Ending (b)	<u>\$ 36,150,211</u>	<u>\$ 40,486,099</u>
 Net Pension Liability - Ending (a-b)	<u>\$ 6,474,832</u>	<u>\$ 3,922,283</u>
 Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	84.8%	91.2%
 Estimated Covered Employee Payroll	\$ 2,740,864	\$ 3,046,880
 Net Pension Liability as a Percentage of Covered Employee Payroll	236.2%	128.7%

CITY OF WILLIAMSPORT 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 8.0%, as well as what the city's net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower or 1 percentage-point higher than the current rate:

	1% Decrease (7.0%)	Current Discount Rate (8.0%)	1% Increase (9.0%)
Net Pension Liability - 12/31/14	\$ 9,086,038	\$ 4,578,530	\$ 835,470

The following presents the net pension liability of the city as of December 31, 2015, 2016, and 2017, calculated using the discount rate of 7.75%, as well as what the city's net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower or 1 percentage-point higher than the current rate:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Net Pension Liability - 12/31/15	\$ 12,175,930	\$ 7,371,717	\$ 3,370,812
Net Pension Liability - 12/31/16	\$ 11,358,885	\$ 6,474,832	\$ 2,404,653
Net Pension Liability - 12/31/17	\$ 9,221,659	\$ 3,922,283	\$ (468,935)

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
2008	\$ 616,341	\$ 616,341	\$ -	\$2,918,077	21.1%
2009	603,863	603,863	-	2,876,124	21.0%
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%

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

SCHEDULE OF INVESTMENT RETURNS

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

2017	15.73%
2016	9.25%
2015	(0.6%)
2014	6.9%

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, 2013, 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)
01-01-13	\$ 29,039,091	\$37,268,768	\$ 8,229,677	77.9%
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%

Note: The market values of the plan’s assets at 01-01-13, 01-01-15, and 01-01-17 have been adjusted to reflect the smoothing of gains and/or losses over a 4-year averaging period which will be limited to a maximum of 120 percent and a minimum of 80 percent of the fair market value of assets. This method will lower contributions in years of less than expected returns and increase contributions in years of greater than expected returns. The net effect over long periods of time is to have less variance in contribution levels from year to year.

CITY OF WILLIAMSPORT 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
 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	8 years
Asset valuation method	4-year smoothing, the actuarial value of assets will be limited to a maximum of 120% and a minimum of 80% of the fair market value of assets.
Actuarial assumptions:	
Investment rate of return	7.75%
Projected salary increases	4.75%
Cost-of-living adjustments	3.0% per year

CITY OF WILLIAMSPORT POLICE PENSION PLAN
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This report was initially distributed to the following:

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