

COMPLIANCE AUDIT

City of Harrisburg Non-Uniformed Pension Plan Dauphin County, Pennsylvania For the Period January 1, 2012 to December 31, 2014

January 2016



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 Harrisburg
Dauphin County
Harrisburg, PA 17101

We have conducted a compliance audit of the City of Harrisburg Non-Uniformed Pension Plan for the period January 1, 2012 to December 31, 2014. We also evaluated compliance with some requirements subsequent to that period when possible. The audit was conducted pursuant to authority derived from Section 402(j) of Act 205 and in accordance with the standards applicable to performance audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our finding and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our finding and conclusions based on our audit objective.

The objective of the audit was to determine if the pension plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies.

Our audit was limited to the areas related to the objective identified above. To determine whether the pension plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies, our methodology included the following:

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

- × We determined whether annual employer contributions were calculated and deposited in accordance with the plan's governing document and applicable laws and regulations by examining the municipality's calculation of the plan's annual financial requirements and minimum municipal obligation (MMO) and comparing these calculated amounts to amounts actually budgeted and deposited into the pension plan as evidenced by supporting documentation.
- × We determined whether annual employee contributions were calculated, deducted, and deposited into the pension plan in accordance with the plan's governing document and applicable laws and regulations by testing 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 15 of 60 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 the retired individuals and comparing these amounts to supporting documentation evidencing amounts determined and actually paid to the recipients. We also determined whether retirement benefits calculated for 4 of the 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 the retired individuals and comparing these amounts to supporting documentation evidencing amounts determined.
- × We determined whether the January 1, 2011 and January 1, 2013 actuarial valuation reports were prepared and submitted to the Public Employee Retirement Commission (PERC) by March 31, 2012 and 2014, 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 the terms of the contractual agreement with the Pennsylvania Municipal Retirement System were in accordance with the plan's governing document, if separately stated, and applicable laws and regulations by comparing the terms of the contractual agreement with the plan's governing document, if separately stated, and applicable laws and regulations.

The City of Harrisburg Non-Uniformed Pension Plan participates in the Pennsylvania Municipal Retirement System (PMRS), which is an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for participating municipal pension plans. PMRS issues a separate Comprehensive Annual Financial Report, copies of which are available from the PMRS accounting office. PMRS's 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 Harrisburg Non-Uniformed Pension Plan is administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies. In conducting our audit, we obtained an understanding of the city's internal controls as they relate to the city's compliance with those requirements and that we considered to be significant within the context of our audit objective, and assessed whether those significant controls were properly designed and implemented. Additionally and as previously described, we tested transactions, assessed official actions, performed analytical procedures, and interviewed selected officials to provide reasonable assurance of detecting instances of noncompliance with legal and regulatory requirements or noncompliance with provisions of contracts, administrative procedures, and local ordinances and policies that are significant within the context of the audit objective.

The results of our procedures indicated that, in all significant respects, the City of Harrisburg Non-Uniformed 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 – Failure To Deposit 2015 State Aid Allocation

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 Harrisburg 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 11, 2015



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 Harrisburg Non-Uniformed Pension Plan is also governed by implementing regulations adopted by the 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 15 - Pennsylvania Municipal Retirement Law, Act of February 1, 1974
(P.L. 34, No. 15), as amended, 53 P.S. § 881.101 et seq.

The City of Harrisburg Non-Uniformed Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 35 of 2003, as amended, adopted pursuant to Act 15. 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, 1947. Active members were required to contribute 5 percent of compensation to the plan for the year 2012 through September 30, 2013, and 3 percent of compensation to the plan from October 1, 2013 through the year 2014. As of December 31, 2014, the plan had 145 active members, 30 terminated members eligible for vested benefits in the future, and 216 retirees receiving benefits from the plan retirees funded through annuities purchased with plan assets.

BACKGROUND – (Continued)

As of December 31, 2014, selected plan benefit provisions are as follows:

Eligibility Requirements:

Normal Retirement	Age 60 with 20 years of service if hired pre December 30, 1974 or age 65 if hired on or after December 30, 1974.
Early Retirement	Hire pre December 30, 1974, involuntary only age 60 with 12 years of service or age 55 with 20 year of service. On or after 12/30/74, age 55 with 10 years of service.
Vesting	Hired pre December 30, 1974, 100% vested with 20 years of service or if involuntary termination with 12 of service. Hired on or after December 30, 1974, 100% vested with 10 years of service.

Retirement Benefit:

Hired pre December 30, 1974, 2.5% times credited service times final 1 or high 5 years average salary (FAS). Maximum basic benefit 50% of FAS, 40% Social Security offset unless member contributes extra to eliminate. Hired on or after December 30, 1974, 2% times credit service times high 3 years average salary, maximum basic benefit 75% of FAS. For members hired pre December 30, 1974 who elected to contribute at a higher rate, a service increment for service in excess of 20 years is provided, no Social Security offset.

Survivor Benefit:

Hired pre December 30, 1974: If eligible to retire or if retired at time of death, spouse receives 50% of member's benefit. Hired on or after December 30, 1974: If eligible to retire at time of death, beneficiary receives present value of accrued benefit.

Disability Benefit:

Service Related	If unable to perform gainful employment and hired pre December 30, 1974, 50% of FAS with at least 15 years of service. If unable to perform gainful employment and hired on or after December 30, 1974, 30% of FAS with at least 10 years of service.
Non-service Related	If unable to perform gainful employment and hired pre December 30, 1974, 50% of FAS with at least 15 years of service. If unable to perform gainful employment and hired on or after December 30, 1974, 30% of FAS with at least 10 years of service.

CITY OF HARRISBURG NON-UNIFORMED PENSION PLAN
FINDING AND RECOMMENDATION

Finding – Failure To Deposit 2015 State Aid Allocation

Condition: The city did not deposit its 2015 state aid allocation within 30 days of receipt as required by Act 205. The city received its 2015 state aid allocation in the amount of \$2,144,697 on September 30, 2015; however, through the date of this audit report, none of the state aid allocation has been deposited into its pension plans.

Criteria: Section 402(g) of Act 205 states, in part:

. . . the total amount of the general municipal pension system State aid received by the municipality shall, within 30 days of receipt by the treasurer of the municipality, be deposited in the pension funds or the alternate funding mechanisms applicable to the respective pension plans.

Cause: The 2015 state aid was not deposited due to cash flow issues the city is facing due to the lack of an approved state budget.

Effect: When state aid is not deposited into a pension plan account, the funds are not available to pay operating expenses or for investment and the risk of misapplication is increased.

Recommendation: We recommend that the city determine how the 2015 state aid will be allocated among its pension plans and deposit the 2015 state aid allocation of \$2,144,697, plus interest earned during the period beyond the 30 day grace period allowed by Act 205, compounded annually. A copy of the interest calculation must be maintained by the city for examination during our next audit of the plan.

We also recommend that plan officials develop and implement procedures to ensure that future state aid is deposited into an eligible pension plan within 30 days of receipt by the municipal treasurer.

CITY OF HARRISBURG NON-UNIFORMED PENSION PLAN
FINDING AND RECOMMENDATION

Finding - (Continued)

Management's Response: 2015 State Aid will be deposited into the appropriate pension plans when the Commonwealth remits to the City of Harrisburg its \$5m annual allocation for Fire and Police Protection services as specified in the Harrisburg Strong Plan approved and currently on file with the Commonwealth Court of PA as of August 21, 2013 or by year end 2015, whichever comes first. Due to constrained cash flow issues many other entities are facing as a result of a lack of an approved FY 15-16 state budget, the City informed, and received the consent of, its Act 47 coordinator to withhold payments to the plans, in order to protect scarce cash resources and allow critical public safety services to proceed uninterrupted so as not to damage the health, safety and welfare of the citizens of Harrisburg, PA.

Subsequent to the audit exit conference, the city provided documentation that the 2015 state aid allocation had been deposited, with interest, to the police pension plan.

Auditor's Conclusion: The Department will monitor the city's deposits of its future state aid allocations during our next audit of the plan.

CITY OF HARRISBURG NON-UNIFORMED 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, 2009, is as follows:

	(1)	(2)	(3)	(4)
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded (Assets in Excess of) Actuarial Accrued Liability (b) - (a)	Funded Ratio (a)/(b)
01-01-09	\$ 72,842,581	\$ 53,764,888	\$ (19,077,693)	135.5%
01-01-11	77,363,937	55,795,290	(21,568,647)	138.7%
01-01-13	82,670,233	60,881,837	(21,788,396)	135.8%

CITY OF HARRISBURG NON-UNIFORMED 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 HARRISBURG NON-UNIFORMED PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER
AND OTHER CONTRIBUTING ENTITIES

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2009	None	N/A
2010	None	N/A
2011	None	N/A
2012	None	N/A
2013	None	N/A
2014	None	N/A

CITY OF HARRISBURG NON-UNIFORMED 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, 2013
Actuarial cost method	Entry age normal
Amortization method	N/A
Remaining amortization period	N/A
Asset valuation method	Fair value
Actuarial assumptions:	
Investment rate of return	5.5%, net of expenses
Projected salary increases *	Age-related scale for merit/ seniority (e.g. age 30 - 6.4%; age 40 - 5.0%; age 50 - 4.1%; age 60 - 3.7%)
Cost-of-living adjustments	3.0%, where applicable

* Includes inflation at 3.0%

CITY OF HARRISBURG NON-UNIFORMED PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

City of Harrisburg Non-Uniformed Pension Plan
Dauphin County
City Government Center
10 North Second Street
Harrisburg, PA 17101

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Ms. Shermaine Daniels	Council Member
Mr. Benjamin Allatt	Council Member
Mr. Tyrell Spradley	City Treasurer
Mr. Charlie DeBrunner	City Controller
Mr. Bruce Weber	Finance Director

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