

COMPLIANCE AUDIT

City of Harrisburg Firefighters' 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



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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 Firefighters' 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 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 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 7 of 12 of the 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 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 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.
- × We determined whether all annual special ad hoc postretirement reimbursements received by the municipality were authorized and appropriately deposited in accordance with Act 147 by tracing information to supporting documentation maintained by plan officials.

The City of Harrisburg Firefighters' 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 Firefighters' 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 Harrisburg Firefighters' 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 14, 2015



EUGENE A. DEPASQUALE
Auditor General

CONTENTS

	<u>Page</u>
Background.....	1
Status of Prior Finding.....	3
Finding and Recommendation:	
Finding – Failure To Deposit 2015 State Aid Allocation	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. 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 Firefighters' 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 Firefighters' Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 28 of 2002. The plan is also affected by the provisions of collective bargaining agreements between the city and its firefighters. The plan was established January 1, 1947. Active members are required to contribute 5 percent of compensation to the plan. As of December 31, 2014, the plan had 75 active members, 1 terminated member eligible for vested benefits in the future, and 134 retirees receiving pension benefits 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 50
Early Retirement	None
Vesting	A member is 100% vested after 10 years of service.

Retirement Benefit:

Benefit equals 2.5% times credited service times Final Average Salary (FAS) but in no event is the basic benefit greater than 50% of FAS. FAS based upon final year's salary or the average of the highest five consecutive years of the ten years prior to retirement, whichever is higher. Service increment of 1.25% of final salary for each complete year of credited service in excess of 20 years.

Survivor Benefit:

Before Retirement Eligibility	Upon death spouse receives 50% of FAS.
After Retirement Eligibility	Upon death spouse receives 100% of member's benefit.

Disability Benefit:

If unable to perform gainful employment, member receives 50% of the FAS provided credited service is at least 4 years.

CITY OF HARRISBURG FIREFIGHTERS' PENSION PLAN
STATUS OF PRIOR FINDING

Compliance With Prior Audit Recommendation

The City of Harrisburg has complied with the prior audit recommendation concerning the following:

- Failure To Pay The Minimum Municipal Obligation Of The Plan

The City deposited \$989 to fully pay the 2009 minimum municipal obligation due to the plan, plus interest.

CITY OF HARRISBURG FIREFIGHTERS' 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 FIREFIGHTERS' 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 FIREFIGHTERS' 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	\$ 65,332,550	\$ 53,322,794	\$(12,009,756)	122.5%
01-01-11	68,266,174	55,064,548	(13,201,626)	124.0%
01-01-13	73,407,165	63,399,066	(10,008,099)	115.8%

CITY OF HARRISBURG FIREFIGHTERS' 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 FIREFIGHTERS' PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER
AND OTHER CONTRIBUTING ENTITIES

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2009	\$ 834	100.0%
2010	None	N/A
2011	None	N/A
2012	None	N/A
2013	None	N/A
2014	None	N/A

CITY OF HARRISBURG FIREFIGHTERS' 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

CITY OF HARRISBURG FIREFIGHTERS' 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 Firefighters' Pension Plan
Dauphin County
10 North Second Street
Harrisburg, PA 17101

The Honorable Eric Papenfuse	Mayor
Ms. Wanda Williams	Council President
Ms. Sandra Reid	Council Vice President
Ms. Susan Brow-Wilson	Council Member
Mr. Brad Koplinski	Council Member
Mr. Jeffrey Baltimore	Council Member
Mr. Benjamin Allatt	Council Member
Ms. Shamaine Daniels	Council Member
Mr. Tyrell Spradley	City Treasurer
Mr. Charlie DeBrunner	City Controller
Mr. Bruce Weber	Finance Director

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.