

COMPLIANCE AUDIT

City of Altoona Paid Firemen's Pension Plan Blair County, Pennsylvania For the Period January 1, 2012 to December 31, 2013

June 2015



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 Altoona
Blair County
Altoona, PA 16601

We have conducted a compliance audit of the City of Altoona Paid Firemen's Pension Plan for the period January 1, 2012 to December 31, 2013. 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 findings 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 findings 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 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 all 18 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 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 plan member 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 individual and comparing this amount to supporting documentation evidencing the amount 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 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.
- × We determined whether the pension plan 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.

The City of Altoona 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 Altoona Paid Firemen's 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 tests indicated that, in all significant respects, the City of Altoona Paid Firemen's 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 two audit reports 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 Altoona 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.

May 4, 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 Altoona Paid Firemen's 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 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 317 - The Third Class City Code, Act of June 23, 1931 (P.L. 932, No. 317), as amended, 53 P.S. § 35101 et seq.

The City of Altoona Paid Firemen's Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 4085, as amended, adopted pursuant to Act 317. The plan is also affected by the provisions of collective bargaining agreements between the city and its firefighters. The plan was established August 18, 1970. Active members are required to contribute 5 percent of compensation to the plan. As of December 31, 2013, the plan had 48 active members, 1 terminated member eligible for vested benefits in the future, and 112 retirees receiving pension benefits from the plan.

BACKGROUND – (Continued)

As of December 31, 2013, selected plan benefit provisions are as follows:

Eligibility Requirements:

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

Retirement Benefit:

Sum of 50% of monthly compensation at retirement date or highest 5 year monthly average, plus service increment of 1/8th of each full year of service in excess of 20 years (the maximum increment is \$500 per month), plus an additional \$100 per month.

Survivor Benefit:

Before Retirement Eligibility	Refund of member contributions plus interest.
After Retirement Eligibility	Survivor will receive 100% of benefit payments participant was receiving or was entitled to receive on the day of the member's death. In the event of a spouse's death, each participant's dependent children will receive an equal share of benefit until their 18 th birthday.

Service Related Disability Benefit:

Calculated same as normal retirement.

Non-Service Related Disability Benefit:

If less than 10 years of service, 25% of compensation; otherwise 50% of compensation.

CITY OF ALTOONA PAID FIREMEN'S PENSION PLAN
STATUS OF PRIOR FINDINGS

Compliance With Prior Audit Recommendations

The City of Altoona has complied with the prior audit recommendations concerning the following:

· Pension Benefit In Excess of The Third Class City Code

As disclosed in the prior three audit reports, the collective bargaining agreements between the firefighters and the city since 2005 have granted a service increment benefit that exceeds the \$500 maximum amount authorized by the Third Class City Code. In the collective bargaining agreement for the period January 1, 2014 to December 31, 2016, the city has eliminated this excess benefit for firefighters hired on or after January 1, 2014. To the extent that the city is not in compliance with the Third Class City Code and/or is contractually obligated to pay benefits to existing or future retirees in excess of those authorized by the Third Class City Code, the excess benefits must be reflected in the Act 205 actuarial valuation reports for the plan and funded in accordance with Act 205 funding standards. Furthermore, such benefits will be deemed ineligible for funding with state pension aid. Since the city received state aid based on unit value during the current audit period, it did not receive state aid attributable to the excess benefits provided. The Department will continue to monitor the impact of the excess benefits being paid to current and future retirees on the city's state aid allocations during future audits of the plan, which may require the city to reimburse any excess state aid received attributable to the excess pension benefits to the Commonwealth.

· Incorrect Data On Certification Form AG 385 Resulting In An Overpayment Of State Aid

The City reimbursed \$18,027 to the Commonwealth for the overpayment of state aid.

Noncompliance With Prior Audit Recommendation

The City of Altoona 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 ALTOONA PAID FIREMEN'S PENSION PLAN
FINDING AND RECOMMENDATION

Finding – Noncompliance With Prior Audit Recommendation – Inconsistent Pension Benefits

Condition: As disclosed in the two prior audit reports, the pension plan's governing document, Ordinance No. 4085, as amended, contains benefit provisions that conflict with the collective bargaining agreement between the firefighters and the city, as noted below:

<u>Benefit Provision</u>	<u>Governing Document</u>	<u>Collective Bargaining Agreement</u>
Retirement eligibility	Age 50 and 20 years of service.	For those hired prior to January 1, 2014, a firefighter can retire after 20 years of service regardless of age. For those hired after January 1, 2014, the age and service requirement is 50 and 20.
Cost-of-living adjustment	The plan's governing document does not provide this benefit.	For retirements after December 31, 1995, annual increases in benefits based on the CPI; total increase is capped at 75% of original benefit. For those hired after January 1, 2014, there will be no cost of living adjustments.
Definition of full salary	The plan's governing document does not contain this provision.	Salary as set forth in the definitions, i.e., salary, longevity, holiday pay, and all additional overtime and straight time. For those hired after January 1, 2014, pensions will be 50% of base wages
Deferred Retirement Option Plan (DROP)	The plan's governing document does not contain this provision.	Effective April 1, 2009, a DROP option is available to members who qualify and voluntarily elect as provided in the Third Class City Code.

CITY OF ALTOONA PAID FIREMEN'S PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

In addition, the plan's January 1, 2013, actuarial valuation report submitted to the Public Employee Retirement Commission 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 that are in compliance with the Third Class City Code to ensure the sound administration of retirement benefits.

Cause: City officials failed to establish adequate internal control procedures to ensure the benefit provisions contained in the plan's governing document and the collective bargaining agreement were consistent.

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 city officials ensure the plan's governing document and the collective bargaining agreement contain consistent benefit provisions that are in compliance with the Third Class City Code at their earliest opportunity to do so.

Management's Response: City officials agreed with the finding without exception and provided us with written documentation that states that the city is going to amend the plan's governing document to include retirement eligibility for members with 20 years of service, a cost of living adjustment for those firefighters hired after December 31, 1995, a definition of full salary, and the availability of a DROP option, to be in compliance with this finding. As a distressed municipality under PA Act 47, the city is subject to a Recovery Plan written by a Coordinator working under the Pennsylvania Department of Community and Economic Development. Plan initiatives address changes to the current Firemen's Pension Plan structure. The city, working with the Firemen's Pension Board, has initiated the process of amending the Firemen's Pension Plan to reflect changes that have occurred as a result of collective bargaining. At the conclusion of the bargaining process now in progress, the city intends to finalize the Plan Document to include any additional changes to the Plan and adopt said Plan Document via City Ordinance.

Auditor's Conclusion: This finding repeats a condition that was cited in our previous two audit reports 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.

CITY OF ALTOONA PAID FIREMEN'S 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)	(5)	(6)
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)	Covered Payroll (c)	Unfunded (Assets in Excess of) Actuarial Accrued Liability as a % of Payroll [(b-a)/(c)]
01-01-09	\$ 23,166,022	\$ 36,460,704	\$ 13,294,682	63.5%	\$ 3,464,848	383.7%
01-01-11	26,030,615	39,321,731	13,291,116	66.2%	3,684,077	360.8%
01-01-13	29,944,252	42,511,146	12,566,894	70.4%	3,593,111	349.7%

Note: The market values of the plan's assets at 01-01-09, 01-01-11 and 01-01-13 have been adjusted to reflect the smoothing of gains and/or losses over a 3-year averaging period, at 80%-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 ALTOONA PAID FIREMEN'S 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.

Trends in unfunded (assets in excess of) actuarial accrued liability and annual covered payroll are both affected by inflation. Expressing the unfunded (assets in excess of) actuarial accrued liability as a percentage of annual covered payroll (Column 6) approximately adjusts for the effects of inflation and aids analysis of the plan's progress made in accumulating sufficient assets to pay benefits when due. Generally, where there is an unfunded actuarial accrued liability, the smaller this percentage, the stronger the plan. When assets are in excess of the actuarial accrued liability, the higher the bracketed percentage, the stronger the plan.

CITY OF ALTOONA PAID FIREMEN'S PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER
AND OTHER CONTRIBUTING ENTITIES

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2008	\$ 1,889,300	100.0%
2009	1,766,210	100.0%
2010	1,869,681	100.0%
2011	2,592,111	100.0%
2012	2,463,431	119.9%
2013	2,760,924	100.0%

CITY OF ALTOONA PAID FIREMEN'S PENSION PLAN
SUPPLEMENTARY INFORMATION
NOTES TO SUPPLEMENTARY SCHEDULES
(UNAUDITED)

The information presented in the required 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	Level dollar
Remaining amortization period	10 years
Asset valuation method	3-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%

CITY OF ALTOONA PAID FIREMEN'S PENSION PLAN
COMMENT

Special Pension Tax Fund

The City of Altoona has elected to implement the special municipal taxing authority pursuant to Section 607(f) of Act 205. The city opted to impose a 0.2% income tax on its residents to fund the city's municipal pension plans. The city has historically collected more funds than needed to pay the minimum municipal obligations (MMOs) of its pension plans.

Annually, the city determines the MMOs for its pension plans and pays the MMOs quarterly. When the city receives its annual state aid allocation, the city reimburses the general fund for the portion of the MMOs that were paid and the remaining portion of the pension plans' MMOs are paid from the Special Pension Tax Fund.

The funds in the Special Pension Tax Fund are restricted to fund the city's municipal pension plans. At January 1, 2012, the Special Pension Tax Fund maintained a balance of \$7,430,421. During the years 2012 and 2013, the fund balance decreased to \$6,129,278 at December 31, 2012, and \$4,769,664 at December 31, 2013. While Act 205 does not mandate that all of the funds collected pursuant to the special pension tax be deposited into the city's pension plans, we recommend that city officials periodically review the balance in the special pension tax account and determine whether additional funds can be transferred to its pension plans to improve their funding status which will reduce future employer contributions necessary to fund the plans in accordance with Act 205 requirements.

CITY OF ALTOONA PAID FIREMEN'S PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

City of Altoona Paid Firemen's Pension Plan
Blair County
1301 12th Avenue, Suite 100
Altoona, PA 16601

The Honorable Matt Pacifico	Mayor
Mr. Peter S. Marshall	City Interim Manager
Mr. Omar Strohm	Finance Director
Mr. August C. Stickel, IV	City Controller
Mr. Lawrence C. Clapper, Esq.	City Solicitor
Mr. Nicholas Wuckovich, III	Chairman, Paid Firemen's Pension Plan Board

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