

CITY OF WILKES-BARRE FIREMEN'S PENSION PLAN

LUZERNE COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2009, TO DECEMBER 31, 2010



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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.

Pension plan aid is provided from a 2 percent foreign casualty insurance premium tax, a portion of the foreign 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 Wilkes-Barre 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 177 - General Local Government Code, Act of December 19, 1996 (P.L. 1178, No. 177), as amended, 53 Pa.C.S. § 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 Wilkes-Barre Firemen's Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of File of Council No. 43 of 1968, as amended. The plan covers firefighters who were hired prior to July 8, 1976. The plan is also affected by the provisions of collective bargaining agreements between the city and its firefighters.



The Honorable Mayor and City Council
City of Wilkes-Barre
Luzerne County
Wilkes-Barre, PA 18711

We have conducted a compliance audit of the City of Wilkes-Barre Firemen's Pension Plan for the period January 1, 2009, to December 31, 2010. The audit was conducted pursuant to authority derived from Section 402(j) of Act 205 and in accordance with *Government Auditing Standards* applicable to performance audits 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. The City of Wilkes-Barre contracted with an independent certified public accounting firm for annual audits of the City of Wilkes-Barre Firemen's Pension Plan's 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 Wilkes-Barre 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, we tested transactions, assessed official actions, performed analytical procedures and interviewed selected officials to the extent necessary to satisfy the audit objectives.

The results of our tests indicated that, in all significant respects, the City of Wilkes-Barre 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 – Partial Compliance With Prior Audit Recommendation – Incorrect Data On Certification Form AG 64 Resulting In An Underpayment Of Reimbursement For The Special 2002 Ad Hoc Postretirement Adjustment

The accompanying supplementary information is presented for purposes of additional analysis. We did not audit the information and, accordingly, express no form of assurance on it. However, we are concerned about the funded status of the plan contained in the schedule of funding progress included in this report which indicates a decline of assets available to satisfy the long-term liabilities of the plan. For example, the plan's funded ratio went from 91.6% as of January 1, 2005, to a ratio of 69.4% as of January 1, 2009, which is the most recent date available. We encourage city officials to monitor the funding of the firemen's pension plan to ensure its long-term financial stability.

The contents of this report were discussed with officials of the City of Wilkes-Barre and, where appropriate, their responses have been included in the report.

December 13, 2011

JACK WAGNER
Auditor General

CITY OF WILKES-BARRE FIREMEN'S PENSION PLAN
STATUS OF PRIOR FINDING

Partial Compliance With Prior Audit Recommendation

The City of Wilkes-Barre has partially complied with the prior audit recommendation concerning the following:

- Incorrect Data On Certification Form AG 64 Resulting In An Overpayment Of Reimbursement For The 2002 Ad Hoc Postretirement Adjustment

During the current audit period, the city reimbursed \$13,189 to the Commonwealth for the overpayment of Ad Hoc Postretirement Adjustments in 2008 and 2009; however, plan officials failed to comply with the instructions that accompany Certification Form AG 64 to assist them in accurately reporting the required pension data in the years 2010 and 2011 as further discussed in the Finding and Recommendation section of this report.

CITY OF WILKES-BARRE FIREMEN'S PENSION PLAN
FINDING AND RECOMMENDATION

Finding – Partial Compliance With Prior Audit Recommendation – Incorrect Data On Certification Form AG 64 Resulting In An Underpayment Of Reimbursement For The Special 2002 Ad Hoc Postretirement Adjustment

Condition: As disclosed in the prior audit report, the city reimbursed \$13,189 to the Commonwealth for the overpayment of Ad Hoc Postretirement Adjustments in 2008 and 2009; however, plan officials failed to comply with the instructions that accompany Certification Form AG 64 to assist them in accurately reporting the required pension data in the years 2010 and 2011.

In 2010 and 2011, the city understated the municipal pension state aid allocation amount and the total non-employee contributions made to the pension plans which resulted in an underpayment of the reimbursement for the special ad hoc postretirement adjustment.

Criteria: Section 502.1(a)(2) of Act 147 states, in part:

The determination of the reimbursable amount of the amortization contribution requirement attributable to the special ad hoc postretirement adjustment under Chapter 4 in any year shall be calculated as the amortization contribution requirement attributable to the special ad hoc postretirement adjustments under Chapter 4 and reflected in the determination of the financial requirements of the pension plan under Chapter 3 of the Municipal Pension Plan Funding Standard and Recovery Act for the immediate prior year less the product of that amortization contribution requirement multiplied by the ratio of the amount of general municipal pension system State aid allocated to the retirement system in the immediate prior year to the total amount of municipal contributions made to the retirement system from all sources other than employee contributions in the immediate prior year.

In addition, Section 502.1(b) of Act 147 states:

Limitation of eligibility –

(1) The Commonwealth shall not reimburse any municipality for a special ad hoc adjustment paid under Chapter 4 if the information required under section 901(a)(2) either was not certified to the Auditor General or was certified after April 1 of the year the certification was due.

(2) The Commonwealth shall not reimburse a municipality for the reimbursable amount of the amortization contribution requirement attributable to the special ad hoc postretirement adjustment under Chapter 4 if the municipality fails to submit a complete certification of the reimbursable amount of the amortization contribution requirement determined under subsection (a) to the Auditor General before April 1 of the year in which the reimbursement is payable.

CITY OF WILKES-BARRE FIREMEN’S PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

Consequently, the city is not eligible to receive an additional reimbursement due to their certification errors since all data must be certified accurately prior to April 1 of the year in which the reimbursement is payable.

Cause: Plan officials failed to comply with the instructions that accompany Certification Form AG 64. In addition, plan officials failed to establish adequate internal control procedures to ensure the accuracy of the data certified.

Effect: The data submitted on this certification form is used to calculate the reimbursement due the city for ad hoc postretirement adjustments granted pursuant to Chapter 4 of Act 147. The effect of the incorrect certification of pension data on the city’s reimbursements is identified below:

<u>Year</u>	<u>Reimbursement Claimed</u>	<u>Reimbursement Due</u>	<u>Reimbursement Underpayment</u>
2010	\$ 181,913	\$ 186,536	\$ 4,623
2011	\$ 179,079	\$ 190,845	<u>11,766</u>
		Total	<u><u>\$ 16,389</u></u>

Therefore, the total amount of the eligible reimbursements were not available to pay operating expenses or for investment.

Recommendation: We again recommend that plan officials establish adequate internal control procedures to ensure compliance with the instructions that accompany Certification Form AG 64 to assist them in accurately reporting the required pension data.

Management’s Response: City officials agreed with the finding without exception.

CITY OF WILKES-BARRE 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, 2005, 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)]
01-01-05	\$ 19,665,386	\$ 21,477,691	\$ 1,812,305	91.6%	\$ 288,935	627.2%
01-01-07	18,557,778	20,733,485	2,175,707	89.5%	309,774	702.4%
01-01-09	13,616,262	19,619,067	6,002,805	69.4%	146,191	4,106.1%

Note: The market value of the plan's assets at 01-01-09 has been adjusted to reflect the smoothing of gains and/or losses subject to 130% of the 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 WILKES-BARRE 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. However, when assets are in excess of the actuarial accrued liability, the higher the bracketed percentage, the stronger the plan.

CITY OF WILKES-BARRE FIREMEN'S PENSION PLAN
 SUPPLEMENTARY INFORMATION
 (UNAUDITED)

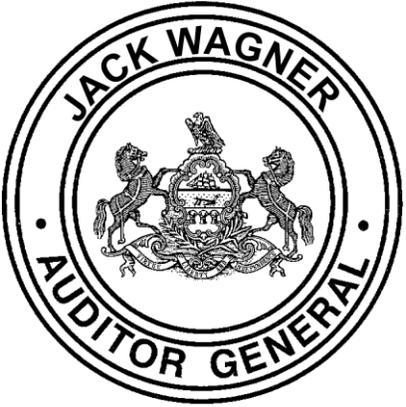
SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER
 AND OTHER CONTRIBUTING ENTITIES

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2005	None	N/A
2006	None	N/A
2007	\$ 367,699	100.0%
2008	357,372	100.0%
2009	265,227	100.0%
2010	252,910	100.0%

CITY OF WILKES-BARRE 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, 2009
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	8 years
Asset valuation method	Plan assets are valued using the method described in Section 210 of Act 205, as amended, subject to a ceiling of 130% of the market value of assets.
Actuarial assumptions:	
Investment rate of return	8.5% compounded annually
Projected salary increases	5.5% compounded annually
Cost-of-living adjustments	None assumed



CITY OF WILKES-BARRE FIREMEN'S PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania

City of Wilkes-Barre Firemen's Pension Plan
Luzerne County
40 East Market Street
Wilkes-Barre, PA 18711

The Honorable Thomas M. Leighton	Mayor
Ms. Kathy Kane	Council Chairperson
Mr. James Ryan	City Clerk
Mr. Bernard Mengerlinghausen	City Controller
Ms. Laura Brace	City Pension Coordinator

This report is a matter of public record. Copies of this report may be obtained from the Pennsylvania Department of the Auditor General, Office of Communications, Room 318 Finance Building, Harrisburg, PA 17120. If you have any questions regarding this report or any other matter, you may contact the Department of the Auditor General by accessing our website at www.auditorgen.state.pa.us.