

CITY OF WILKES-BARRE POLICE PENSION PLAN

LUZERNE COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2007, TO DECEMBER 31, 2008



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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 Police 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 Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of File of Council No. 320, as amended, adopted pursuant to Act 317. The plan covers police officers 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 police officers.



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 Police Pension Plan for the period January 1, 2007, to December 31, 2008. 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 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. The City of Wilkes-Barre contracted with an independent certified public accounting firm for annual audits of the City of Wilkes-Barre Police 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 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, 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 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 – Incorrect Data On Certification Form AG 64 Resulting In An Overpayment Of Reimbursement For The 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.

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.

September 8, 2009

JACK WAGNER
Auditor General

CITY OF WILKES-BARRE POLICE PENSION PLAN
STATUS OF PRIOR FINDINGS

Compliance With Prior Audit Recommendations

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

- Survivor's Benefit Not In Compliance With The Third Class City Code

The city enacted File of Council No. 9 of 2008, which provides for a survivor's benefit in accordance with the Third Class City Code;

- Failure To Properly Determine And Fully Pay The Minimum Municipal Obligation Of The Plan

The city recalculated the 2006 minimum municipal obligation (MMO) due to the pension plan using data extracted from the January 1, 2005, actuarial valuation report that was certified by the Public Employee Retirement Commission. The city then reallocated funds between its pension plans to ensure that all of its plans' MMOs were properly funded in accordance with the revised calculations; and

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

The city reported the appropriate amortization contribution amounts on the Certification Forms AG 64 submitted for the years 2007, 2008 and 2009; however, the city certified incorrect state aid amounts on the 2008 and 2009 Certification Forms AG 64, which resulted in an overpayment of reimbursements for the 2002 ad hoc postretirement adjustment, as disclosed in the finding and recommendation contained in this report.

CITY OF WILKES-BARRE POLICE PENSION PLAN
FINDING AND RECOMMENDATION

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

Condition: The city did not correctly report the total amount of state aid received by the city on the Certification Forms AG 64 submitted for 2008 and 2009 causing the city to receive excess ad hoc reimbursements of \$2,964 and \$10,159, respectively.

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. Where a municipality has issued bonds or notes to fund an unfunded actuarial accrued liability under 53 Pa.C.S. Pt V Subpt. b (relating to indebtedness and borrowing) or under other laws applicable to the municipality, the general municipal pension system state aid and municipal contributions used by the municipality to make debt service payments on the bonds or notes, or both, issued to fund an unfunded actuarial accrued liability shall be included in the calculation of the ratio applied to the amortization contribution requirement. (Emphasis added)

Cause: 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 to the city for ad hoc postretirement adjustments granted pursuant to Chapter 4 of Act 147.

CITY OF WILKES-BARRE POLICE PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

The effect of the incorrect certification of pension data on the city’s reimbursement is identified below:

<u>Year</u>	<u>Reimbursement Claimed</u>	<u>Reimbursement Due</u>	<u>Excess Reimbursement</u>
2008	\$ 180,675	\$ 177,711	\$ 2,964
2009	188,783	178,624	<u>10,159</u>
		Total	<u>\$ 13,123</u>

Recommendation: We recommend that the total excess reimbursement, in the amount of \$13,123, be returned to the Commonwealth. A check in this amount, with interest compounded annually from date of receipt to date of repayment, at a rate earned by the pension plan, should be made payable to: Commonwealth of Pennsylvania and mailed to: Department of the Auditor General, Municipal Pension & Fire Relief Programs Unit, 11 Stanwix Street, Suite 1450, Pittsburgh, PA 15222. A copy of the interest calculation must be submitted along with the check.

We also recommend that, in the future, plan officials comply with the instructions that accompany Certification Form AG 64, to assist them in accurately reporting the required pension data.

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

CITY OF WILKES-BARRE POLICE PENSION PLAN
POTENTIAL WITHHOLD OF STATE AID

The finding contained in this audit report cites an overpayment of reimbursement for the 2002 ad hoc postretirement adjustment to the city in the amount of \$13,123. A condition of this nature may lead to a total withholding of state aid in the future unless the finding is corrected. A check in this amount with interest, at a rate earned by the pension plan, should be made payable to: Commonwealth of Pennsylvania, and mailed to: Department of the Auditor General, Municipal Pension & Fire Relief Programs Unit, 11 Stanwix Street, Suite 1450, Pittsburgh, PA 15222.

CITY OF WILKES-BARRE 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, except for distressed pension plans, for which annual reporting was required through January 1, 2003. The historical information, beginning as of January 1, 2003, 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)]
01-01-03	\$ 20,730,094	\$ 20,949,630	\$ 219,536	99.0%	\$ 605,173	36.3%
01-01-05	20,089,814	19,986,048	(103,766)	100.5%	616,484	(16.8%)
01-01-07	19,446,999	19,752,295	305,296	98.5%	523,779	58.3%

CITY OF WILKES-BARRE 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.

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 POLICE PENSION PLAN
 SUPPLEMENTARY INFORMATION
 (UNAUDITED)

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER
 AND OTHER CONTRIBUTING ENTITIES

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2003	\$ 32,196	100.0%
2004	None	N/A
2005	None	N/A
2006	84,826	100.0%
2007	74,471	100.0%
2008	156,143	100.0%

CITY OF WILKES-BARRE POLICE 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, 2007
Actuarial cost method	Entry age normal
Amortization method	N/A
Remaining amortization period	N/A
Asset valuation method	(1) Actuarial value of assets as of the last valuation date plus non-investment increases less non-investment decreases since the last valuation date plus interest credited at the last valuation's assumed interest rate assuming non-investment increases and decreases occur at the mid-point between the last and current valuation date. (2) Limited to a maximum of 120% and a minimum of 80% of fair market value of assets as of the current valuation date.
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 POLICE PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell
Governor
Commonwealth of Pennsylvania

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

The Honorable Thomas M. Leighton	Mayor
Mr. Anthony Thomas, Jr.	Council Chairperson
Mr. John Koval, III	Finance Director
Mr. James Ryan	City Clerk
Mr. Bernard Mengerhause	City Controller
Ms. Laura Brace	City Pension Coordinator
Ms. Christine M. Jensen	Human Resource Director
Mr. Benedict Victor	Police Pension Plan Board

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.