



**CITY OF ALTOONA PAID FIREMEN'S
PENSION PLAN**

BLAIR COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2010, TO DECEMBER 31, 2011

COMMONWEALTH OF PENNSYLVANIA

EUGENE A. DEPASQUALE - AUDITOR GENERAL

DEPARTMENT OF THE 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.

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 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.



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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, 2010, to December 31, 2011. 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 findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings 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. Our methodology addressed determinations about the following:

- Whether state aid was properly determined and deposited in accordance with Act 205 requirements.
- Whether employer contributions are determined and deposited in accordance with the plan's governing document and applicable laws and regulations.
- Whether employee contributions are required and, if so, are determined, deducted and deposited into the pension plan and are in accordance with the plan provisions and applicable laws and regulations.

- Whether benefit payments, if any, represent payments to all (and only) those entitled to receive them and are properly determined in accordance with applicable laws and regulations.
- Whether obligations for plan benefits are accurately determined in accordance with plan provisions and based on complete and accurate participant data; and whether actuarial valuation reports are prepared and submitted to the Public Employee Retirement Commission (PERC) in accordance with state law and 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.
- Whether the special ad hoc postretirement adjustment granted to eligible pensioners is in accordance with applicable laws and regulations and whether the ad hoc reimbursement received by the municipality was treated in accordance with applicable laws and regulations.
- Whether the pension plan is in compliance with state regulations for distressed municipalities.
- Whether Deferred Retirement Option Plan (DROP) participants' benefit payments are properly determined in accordance with the provisions of the DROP and any other applicable laws and regulations.

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.

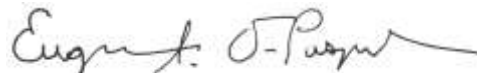
City officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the City of Altoona Paid Firemen's Pension Plan is administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances 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, 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 findings further discussed later in this report:

- Finding No. 1 – Noncompliance With Prior Audit Recommendation – Pension Benefit In Excess Of The Third Class City Code
- Finding No. 2 – Noncompliance With Prior Audit Recommendation – Inconsistent Pension Benefits
- Finding No. 3 – Incorrect Data On Certification Form AG 385 Resulting In An Overpayment Of State Aid

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. However, we are concerned about the funded status of the plan contained in the schedule of funding progress included in this report which indicates the plan's funded ratio is 66.2% as of January 1, 2011, which is the most recent date available. We encourage city officials to monitor the funding of the paid firemen's pension plan to ensure its long-term financial stability.

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.



EUGENE A. DEPASQUALE
Auditor General

May 28, 2013

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

Noncompliance With Prior Audit Recommendations

The City of Altoona has not complied with the prior audit recommendations concerning the following as further discussed in the Findings and Recommendations section of this report:

- Pension Benefit In Excess Of The Third Class City Code
- Inconsistent Pension Benefits

CITY OF ALTOONA PAID FIREMEN'S PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Noncompliance With Prior Audit Recommendation – Pension Benefit In Excess
Of The Third Class City Code

Condition: As disclosed in the prior audit report, the collective bargaining agreement between the firefighters and the city grants a service increment benefit that exceeds the \$500 maximum amount authorized by the Third Class City Code. Item No. 22 of the collective bargaining agreement for the period January 1, 2005, to December 31, 2007, Section 4 of Article XVI of the collective bargaining agreement for the period January 1, 2008, to December 31, 2010, and Section 5 of Article XVI of the collective bargaining agreement for the period January 1, 2011, to December 31, 2013, states, in part:

Each Firefighter who retires shall receive a service increment for the years of service beyond the minimum requirement for retirement by increasing the figure currently utilized in accordance with the current act recently passed by the General Assembly. Said amount is five hundred dollars (\$500)...The City by and through the Altoona Paid Firemen's Pension Fund agrees to pay an additional one hundred dollars (\$100) per month to any collective bargaining unit member who retires. Any and all portions of the service increment earned plus the one hundred dollars (\$100) shall be paid by the Altoona Paid Firemen's Pension Fund.

Criteria: Section 4322 (a) of the Third Class City Code states, in part

Payments of pensions shall not be a charge on any fund in the treasury of the city or under its control save the firemen's pension fund herein provided for. The basis of the pension of a member shall be determined by the monthly salary of the member at the date of vesting under section 4320.1 or retirement, or the highest average annual salary which he received during any five years of service preceding retirement, whichever is the higher,... and except as to service increments provided for in subsection (b) of this section, shall be one-half the annual salary of such member at the time of vesting under section 4320.1 or retirement computed at such monthly or average annual rate, whichever is the higher.

Furthermore, Section 4322(b) of Third Class City Code states, in part:

After the effective date of this clause, a city may agree to make service increment payments in excess of one hundred dollars (\$100) per month as long as such payments do not exceed five hundred dollars (\$500) per month...

CITY OF ALTOONA PAID FIREMEN'S PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Cause: City officials failed to effect compliance with the prior audit recommendation through the collective bargaining process.

Effect: The plan is paying pension benefits to 22 retirees who retired after January 1, 2005, in excess of those authorized by the Third Class City Code. The retirees are receiving aggregate excess benefits of \$2,200 per month, which totaled approximately \$149,100 from their respective retirement dates through December 31, 2012.

Providing unauthorized pension benefits increases the plan's pension costs and reduces the amount of funds available for investment purposes or for the payment of authorized benefits or administrative expenses. Since the city has received state aid based on unit value during the current audit period, it did not receive allocations attributable to the excess pension benefits provided. However, the increased costs to the pension plan as a result of the excess pension benefits could result in the receipt of excess state aid in the future and increase the municipal contributions necessary to fund the plan in accordance with Act 205 funding standards.

Recommendation: We again recommend that the city comply with the Third Class City Code upon the renewal, extension, or renegotiation of the collective bargaining agreement. 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 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. In such case, the plan's actuary may be required to determine the impact, if any, of the excess benefits on the city's future state aid allocations and submit this information to the department.

Management's Response: The city is in the early stages of negotiating a successor collective bargaining agreement with the International Association of Firefighters (IAFF). As a distressed municipality under PA Act 47, the city is subject to a Recovery Plan written by a Coordinator working under the auspices of the Pennsylvania Department of Community and Economic Development. Plan initiatives address changes to the current Firemen's Pension Plan structure, including the elimination of the \$100 increment, which is the subject of this particular audit finding. The city intends to remove the \$100/month service increment as recommended by the Auditor General in the upcoming collective bargaining agreement.

Auditor's Conclusion: Considering the plan's funded status, we again urge city officials to comply with the finding recommendation at their earliest opportunity to do so. Compliance will be evaluated during our next audit of the plan.

CITY OF ALTOONA PAID FIREMEN'S PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Noncompliance With Prior Audit Recommendation – Inconsistent Pension Benefits

Condition: As disclosed in our prior audit, 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 follows:

<u>Benefit Provision</u>	<u>Governing Document</u>	<u>Collective Bargaining Agreement</u>
Retirement eligibility	Age 50 and 20 years of service.	A firefighter can retire after 20 years of service regardless of age.
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 50% of original benefit.
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.
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.

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.

CITY OF ALTOONA PAID FIREMEN'S PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

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 at their earliest opportunity to do so.

Management's Response: The city is in the early stages of negotiating a successor collective bargaining agreement with the International Association of Firefighters (IAFF). As a distressed municipality under PA Act 47, the city is subject to a Recovery Plan written by a Coordinator working under the auspices of 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: Compliance will be evaluated during our next audit of the plan.

Finding No. 3 – Incorrect Data On Certification Form AG 385 Resulting In An Overpayment Of State Aid

Condition: The city certified 1 ineligible nonuniformed employee (1 unit) in 2010, 1 ineligible firefighter (2 units) in 2011 and 1 ineligible nonuniformed employee (1 unit) in 2012, on the Certification Forms AG 385 filed in those respective years. The data contained on these certification forms is based on prior calendar year information.

Criteria: Pursuant to Act 205, at Section 402(e)(2), in order to be eligible for certification, an employee must have been employed on a full-time basis for at least six consecutive months and must have been participating in a pension plan during the certification year.

Cause: Plan officials failed to establish adequate internal control procedures to ensure the accuracy of the data certified.

CITY OF ALTOONA PAID FIREMEN’S PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

Effect: The data submitted on these certification forms is used, in part, to calculate the state aid due to the city for distribution to its pension plans. Because the city’s state aid allocations were based on unit value, the incorrect certification of pension data affected the city’s state aid allocations, as identified below:

<u>Year</u>	<u>Type Of Plan</u>	<u>Units Overstated</u>	<u>Unit Value</u>	<u>State Aid Overpayment</u>
2010	Nonuniformed	1	\$ 3,235	\$ 3,235
2011	Paid Firemen’s	2	\$ 5,596	\$ 11,192
2012	Nonuniformed	1	\$ 3,576	<u>\$ 3,576</u>
Total Overpayment of State Aid				<u>\$ 18,003</u>

In addition, the city used the overpayments of state aid to pay the minimum municipal obligations (MMOs) due to the nonuniformed and paid firemen’s pension plans; therefore, if the reimbursement to the Commonwealth is made from the pension plans, the plans’ MMOs will not be fully paid.

Recommendation: We recommend that the total excess state aid, in the amount of \$18,003, 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 establish adequate internal control procedures to ensure compliance with the instructions that accompany Certification Form AG 385 to assist them in accurately reporting the required pension data.

In addition, if the reimbursement to the Commonwealth is made from the nonuniformed or paid firemen’s pension plan funds, we recommend that any resulting MMO deficiencies be paid to the pension plans with interest, at a rate earned by the pension plans.

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

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, 2007, 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)]
01-01-07	\$ 25,057,773	\$ 34,033,274	\$ 8,975,501	73.6%	\$ 3,174,131	282.8%
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%

Note: The market values of the plan's assets at 01-01-09 and 01-01-11 have been adjusted to reflect the smoothing of gains and/or losses over a 3-year averaging period. 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. However, 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
2006	\$ 1,667,241	100.0%
2007	1,896,027	100.0%
2008	1,889,300	100.0%
2009	1,766,210	100.0%
2010	1,869,681	100.0%
2011	2,592,111	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, 2011
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	12 years
Asset valuation method	Fair value, 3-year smoothing
Actuarial assumptions:	
Investment rate of return	7.5%
Projected salary increases	4.5%

CITY OF ALTOONA PAID FIREMEN'S PENSION PLAN
COMMENTS

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, 2010, the Special Pension Tax Fund maintained a balance of \$8,240,809. During the years 2010 and 2011, the fund balance increased to \$8,722,785 at December 31, 2010, and decreased to \$7,430,421 at December 31, 2011. The decrease occurring during year 2011 was the first decrease in the fund's balance since its inception. 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 Corbett
Governor
Commonwealth of Pennsylvania

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

The Honorable William E. Schirf	Mayor
Mr. Joseph F. Weakland	City Manager
Mr. Omar Strohm	Finance Director
Mr. August C. Stickel, IV	City Controller
Mr. Lawrence C. Clapper, Esq.	City Solicitor
Mr. Philip J. Bracken	Chairman, Paid Firemen's Pension Plan Board

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