

**CITY OF PHILADELPHIA MUNICIPAL PENSION FUND**

**PHILADELPHIA COUNTY**

**COMPLIANCE AUDIT REPORT**

**FOR THE PERIOD**

**JULY 1, 2004, TO JUNE 30, 2007**





**CITY OF PHILADELPHIA MUNICIPAL PENSION FUND**

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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 Philadelphia Municipal Pension Fund 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.

The City of Philadelphia Municipal Pension Fund is a single-employer defined benefit pension fund locally controlled by the provisions of the City of Philadelphia Public Employees Retirement Code. The fund is also affected by the provisions of collective bargaining agreements between the city and its police officers, firefighters and nonuniformed employees.





The Honorable Mayor and City Council  
City of Philadelphia  
Philadelphia County  
Philadelphia, PA 19102

We have conducted a compliance audit of the City of Philadelphia Municipal Pension Fund for the period July 1, 2004, to June 30, 2007. 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 city officials took appropriate corrective action to address the finding contained in our prior audit report; and
2. To determine if the pension fund 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 Philadelphia contracted with an independent certified public accounting firm for annual audits of the City of Philadelphia Municipal Pension Fund'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 an internal control structure to provide reasonable assurance that the City of Philadelphia Municipal Pension Fund is administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies. To assist us in planning and performing our audit, we obtained an understanding of the city's internal control structure as it relates to the city's compliance with those requirements. 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 Philadelphia Municipal Pension Fund 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 490 Resulting In  
Excess Reimbursements By The Commonwealth For Special  
1989 Ad Hoc Postretirement Adjustments

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 extremely concerned about the historical trend information contained in the schedule of funding progress included in this report which indicates a continued decline of assets available to satisfy the long-term liabilities of the fund. For example, over the past six years, the funding ratio went from a high of 77.5% as of July 1, 2001, to a ratio of 53.9% as of July 1, 2007, which is the most recent date available. This condition may require increased municipal contributions to ensure Act 205 funding standards are met. We encourage city officials to monitor the fund's long-term financial stability.

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

March 4, 2009

JACK WAGNER  
Auditor General

CITY OF PHILADELPHIA MUNICIPAL PENSION FUND  
STATUS OF PRIOR FINDING

Compliance With Prior Audit Recommendation

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

- Incorrect Data On Certification Form AG 490 Resulting In Excess Reimbursements By The Commonwealth For Special 1989 Ad Hoc Adjustments

The city reimbursed \$70,494 to the Commonwealth for the excess ad hoc postretirement adjustments received.

CITY OF PHILADELPHIA MUNICIPAL PENSION FUND  
FINDING AND RECOMMENDATION

Finding – Incorrect Data On Certification Form AG 490 Resulting In Excess Reimbursements  
By The Commonwealth For Special 1989 Ad Hoc Postretirement Adjustments

Condition: The city improperly certified \$637 of special ad hoc postretirement adjustments for 2 individuals in 2007, and improperly certified \$1,713 of special ad hoc postretirement adjustments for 3 individuals in 2008 on Certification Form AG 490. These individuals were reported as deceased in the Social Security Administration’s Death Index (SSDI).

Criteria: Pursuant to Act 147, Certification Form AG 490 should report only the amount of special ad hoc postretirement adjustments paid in the previous year to eligible retirees and/or their surviving spouses.

Cause: Although pension fund officials had stopped the pension benefit payments to the deceased individuals, fund officials failed to ensure the accuracy of the data included on Certification Form AG 490.

Effect: For the years 2007 and 2008, the city received excess reimbursements by the Commonwealth in the amounts of \$637 and \$1,713, respectively.

Recommendation: We recommend that the total excess reimbursements, in the amount of \$2,350, be reimbursed 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: Commonwealth of Pennsylvania and mailed to: Department of the Auditor General, Municipal Pension & Fire Relief Programs Unit, 1205 Pittsburgh State Office Building, 300 Liberty Avenue, Pittsburgh, PA 15222. A copy of the interest calculation must be submitted along with the check.

We also recommend that pension fund officials establish adequate internal control procedures to ensure the accuracy of the data certified on future Certification Forms AG 490.

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

CITY OF PHILADELPHIA MUNICIPAL PENSION FUND  
 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 July 1, 2003. The historical information, beginning as of July 1, 2001, is as follows (dollars in millions):

	(1)	(2)	(3)	(4)	(5)	(6)
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) - Entry Age (b)	Unfunded (Assets in Excess of) Actuarial Liability (b) - (a)	Funded Ratio (a)/(b)	Covered Payroll (c)	Unfunded (Assets in Excess of) Actuarial Liability as a % of Payroll [(b-a)/(c)]
07-01-01	\$ 4,943.4	\$ 6,379.8	\$ 1,436.4	77.5%	\$ 1,180.4	121.7%
07-01-02	4,891.3	6,727.2	1,835.9	72.7%	1,207.3	152.1%
07-01-03	4,548.2	7,188.3	2,640.1	63.3%	1,269.3	208.0%
07-01-05	4,159.6	7,851.5	3,691.9	53.0%	1,270.7	290.5%
07-01-07	4,421.7	8,197.2	3,775.5	53.9%	1,351.8	279.3%

Note: The market values of the plan's assets at 07-01-03, 07-01-05 and 07-01-07, have been adjusted to reflect the smoothing of gains and/or losses over a 5-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 PHILADELPHIA MUNICIPAL PENSION FUND  
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 PHILADELPHIA MUNICIPAL PENSION FUND  
 SUPPLEMENTARY INFORMATION  
 (UNAUDITED)

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER  
 AND OTHER CONTRIBUTING ENTITIES

Year Ended June 30	Annual Required Contribution	Percentage Contributed
2002	\$ 178,239,000	131.1%
2003	142,400,000	122.6%
2004	195,776,000	100.4%
2005	278,300,000	100.1%
2006	306,873,000	100.0%
2007	400,256,000	100.0%

CITY OF PHILADELPHIA MUNICIPAL PENSION FUND  
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	July 1, 2007
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	20 years
Asset valuation method	5-year smoothed market
Actuarial assumptions:	
Investment rate of return *	8.75%
Projected salary increases *	5.0%
* Includes inflation at	2.75%
Cost-of-living adjustments	None assumed



CITY OF PHILADELPHIA MUNICIPAL PENSION FUND  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell  
Governor  
Commonwealth of Pennsylvania

City of Philadelphia Municipal Pension Fund  
Philadelphia County  
Sixteenth Floor  
Two Penn Center Plaza  
Philadelphia, PA 19102

The Honorable Michael A. Nutter	Mayor
Ms. Anna C. Verna	Council President
Mr. Allan Butkowicz	Controller
Ms. Gwendolyn Bell	Executive Director
Mr. Rob Dubow	Director of Finance
Mr. James Kidwell	Deputy Director

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](http://www.auditorgen.state.pa.us).