

COMPLIANCE AUDIT

City of Altoona Non-Uniformed Employees' Pension Plan Blair County, Pennsylvania For the Period January 1, 2016 to December 31, 2017

August 2018



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 Non-Uniformed Employees' Pension Plan for the period January 1, 2016 to December 31, 2017. 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 conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our 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. To determine if municipal officials took appropriate corrective action to address the finding 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 to 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 total 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 the 2 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 determined whether the January 1, 2015 and January 1, 2017 actuarial valuation reports were prepared and submitted by March 31, 2016 and 2018, 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 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 and through the completion of our fieldwork procedures.

The City of Altoona contracted with an independent certified public accounting firm for an audit of its basic financial statements for the year ended December 31, 2016 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 Non-Uniformed Employees' 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 procedures indicated that, in all significant respects, the City of Altoona Non-Uniformed Employees' Pension Plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies.

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.

August 23, 2018



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 Non-Uniformed Employees' Pension Plan is also governed by implementing regulations adopted by the former 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 67 - The Third Class City Code, Act of November 24, 2015 (P.L. 242, No. 67), as amended, 11 Pa. C.S. § 10101 et seq.

The City of Altoona Non-Uniformed Employees' Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 5591, adopted pursuant to Act 67. The plan is also affected by the provisions of collective bargaining agreements between the city and its non-uniformed employees. The plan was established March 21, 1930. Active members are required to contribute 5 percent of compensation to the plan. As of December 31, 2017, the plan had 93 active members, 1 terminated member eligible for vested benefits in the future, and 73 retirees receiving pension benefits from the plan.

BACKGROUND – (Continued)

As of December 31, 2017, selected plan benefit provisions are as follows:

Eligibility Requirements:

Normal Retirement	Age 60 and 20 years of service.
Early Retirement	None
Vesting	A member is 100% vested after 12 years of service.

Retirement Benefit:

Benefit equals 50% of average monthly compensation based on the final 60 month's salary.

Survivor Benefit:

Before Retirement Eligibility	Refund of member contributions.
After Retirement Eligibility	None, unless the retiree chose a joint and survivor option at retirement.

Service Related Disability Benefit:

For total and permanent disablement which occurs after the completion of 10 years of service, the member will receive their Normal Retirement Benefit.

CITY OF ALTOONA NON-UNIFORMED EMPLOYEES' PENSION PLAN
STATUS OF PRIOR FINDING

Compliance With Prior Audit Recommendation

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

- Incorrect Data On Certification Form AG 385 Resulting In An Underpayment Of State Aid

During the current audit period, municipal officials complied with the instructions that accompany Certification Form AG 385 and accurately reported the required pension data.

CITY OF ALTOONA NON-UNIFORMED EMPLOYEES' PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

The supplementary information contained on Pages 4 and 5 reflects the implementation of GASB Statement No. 67, *Financial Reporting for Pension Plans*. The objective of this statement is to improve financial reporting by state and local governmental pension plans.

SCHEDULE OF CHANGES IN THE NET PENSION
LIABILITY AND RELATED RATIOS
FOR THE YEARS ENDED DECEMBER 31, 2015, 2016, AND 2017

	<u>2015</u>	<u>2016</u>	<u>2017</u>
Total Pension Liability			
Service cost	\$ 453,637	\$ 427,068	\$ 418,553
Interest	1,481,810	1,545,009	1,538,030
Difference between expected and actual experience	(576,125)	-	(1,030,226)
Changes of assumptions	364,470	-	-
Benefit payments, including refunds of member contributions	(1,048,272)	(1,025,657)	(1,033,681)
Net Change in Total Pension Liability	<u>675,520</u>	<u>946,420</u>	<u>(107,324)</u>
Total Pension Liability - Beginning	<u>20,711,739</u>	<u>21,387,259</u>	<u>22,333,679</u>
Total Pension Liability - Ending (a)	<u><u>\$21,387,259</u></u>	<u><u>\$22,333,679</u></u>	<u><u>\$22,226,355</u></u>
Plan Fiduciary Net Position			
Contributions - employer	\$ 500,327	\$ 492,824	\$ 582,815
Contributions - member	212,380	203,357	209,817
Net investment income	(339,724)	721,864	2,446,581
Benefit payments, including refunds of member contributions	(1,048,272)	(1,025,657)	(1,033,681)
Administrative expense	(58,609)	(66,957)	(59,574)
Net Change in Plan Fiduciary Net Position	<u>(733,898)</u>	<u>325,431</u>	<u>2,145,958</u>
Plan Fiduciary Net Position - Beginning	<u>18,201,065</u>	<u>17,467,167</u>	<u>17,792,598</u>
Plan Fiduciary Net Position - Ending (b)	<u><u>\$17,467,167</u></u>	<u><u>\$17,792,598</u></u>	<u><u>19,938,556</u></u>
Net Pension Liability - Ending (a-b)	<u><u>\$ 3,920,092</u></u>	<u><u>\$ 4,541,081</u></u>	<u><u>\$ 2,287,799</u></u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	81.7%	79.7%	89.7%
Estimated Covered Employee Payroll	\$ 4,226,241	\$ 4,111,031	\$ 4,172,831
Net Pension Liability as a Percentage of Covered Employee Payroll	92.8%	110.5%	54.8%

CITY OF ALTOONA NON-UNIFORMED EMPLOYEES' PENSION PLAN
 SUPPLEMENTARY INFORMATION
 (UNAUDITED)

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the city as of December 31, 2015, 2016 and 2017, calculated using the discount rate of 7.25%, as well as what the city's net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower or 1 percentage-point higher than the current rate:

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Net Pension Liability - 12/31/15	\$ 6,157,170	\$ 3,920,092	\$ 2,005,475
Net Pension Liability - 12/31/16	\$ 6,813,212	\$ 4,541,081	\$ 2,595,021
Net Pension Liability - 12/31/17	\$ 4,521,977	\$ 2,287,799	\$ 371,463

CITY OF ALTOONA NON-UNIFORMED EMPLOYEES' 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, 2013, is as follows:

	(1)	(2)	(3)	(4)
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)
01-01-13	\$ 16,918,008	\$ 18,923,513	\$ 2,005,505	89.4%
01-01-15	18,275,926	20,500,084	2,224,158	89.2%
01-01-17	19,090,669	21,303,453	2,212,784	89.6%

Note: The market values of the plan's assets at 01-01-13, 01-01-15 and 01-01-17 have been adjusted to reflect the smoothing of gains and/or losses over a 4-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 NON-UNIFORMED EMPLOYEES' 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.

CITY OF ALTOONA NON-UNIFORMED EMPLOYEES' PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER
AND OTHER CONTRIBUTING ENTITIES

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2012	\$ 322,492	119.9%
2013	337,499	100.0%
2014	327,721	100.0%
2015	500,327	100.0%
2016	492,824	100.0%
2017	582,815	100.0%

CITY OF ALTOONA NON-UNIFORMED EMPLOYEES' PENSION PLAN
SUPPLEMENTARY INFORMATION
NOTES TO SUPPLEMENTARY SCHEDULES
(UNAUDITED)

The information presented in the 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, 2017
Actuarial cost method	Entry age normal
Amortization method	Level dollar, closed
Remaining amortization period	10 years
Asset valuation method	Fair value, 4-year smoothing
Actuarial assumptions:	
Investment rate of return	7.25%
Projected salary increases	4.5%

CITY OF ALTOONA NON-UNIFORMED EMPLOYEES' PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

The Honorable Matt Pacifico
Mayor

The Honorable Matt Cacciotti
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Mr. David Butterbaugh
Councilman

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