COMPLIANCE AUDIT

City of Altoona
Police 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 Police 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 the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our conclusions based on our audit objective.

The objective of the audit was 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 objective identified above. 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 4 plan members who elected to vest 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 in accordance with the plan's governing document, applicable laws and regulations by recalculating the amount of the pension benefit due to retired individuals and comparing these amounts to supporting documentation evidencing amounts determined.

- 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 all annual special ad hoc postretirement reimbursements received by the municipality were authorized and appropriately deposited in accordance with Act 147 by tracing information to supporting documentation maintained by plan officials.

- 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 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 objective, 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 objective.

The results of our procedures indicated that, in all significant respects, the City of Altoona Police 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 Police 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.

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.

The City of Altoona Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 5417, as amended, adopted pursuant to Act 67. The plan is also affected by the provisions of collective bargaining agreements between the city and its police officers. The plan was established September 7, 1945. Active members are required to contribute 5 percent of compensation, plus $5 per month to the plan. As of December 31, 2017, the plan had 64 active members, 5 terminated members eligible for vested benefits in the future, and 104 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	If hired prior to January 1, 2014, 20 years of service. If hired after January 1, 2014, age 50 and 20 years of service.
Early Retirement	None
Vesting	A member is 100% vested after 12 years of service.

Retirement Benefit:

If hired prior to January 1, 2014, benefit equals 50% of base salary plus service increment. Final base salary shall include overtime worked by the officer up to a maximum of $7,500 per year. Service increment is equal to 2.5% of the base pension for each year of service in excess of 20 years of service, maximum increment is $6,000 per year, which is adjusted with cost of living adjustment (COLA).

If hired on or after January 1, 2014, benefit equals 50% of final base salary. Final base salary shall not include overtime and shall not include a service increment.

Survivor Benefit:

Before Retirement Eligibility	25% of salary if death occurs before 10 years of service and 50% of salary if death occurs after 10 years of service.
After Retirement Eligibility	A monthly benefit equal to 100% of the pension the member was receiving or was entitled to receive on the day of the member's death. In the event of a spouse's death, each participant's dependent children will receive an equal share of benefit until their 18th birthday.

Service Related Disability Benefit:

Normal retirement benefit.

Non-Service Related Disability Benefit:

If hired prior to January 1, 2014: Less than 10 years of service a benefit equal to 25% of salary, if more than 10 years of service the benefit is equal to 50% of salary.
If hired on or after January 1, 2014: None

CITY OF ALTOONA POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

The supplementary information contained on Pages 3 and 4 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

	2015	2016	2017
Total Pension Liability			
Service cost	$ 736,931	$ 764,469	$ 724,987
Interest	3,269,134	3,380,925	3,328,581
Difference between expected and actual experience	-	-	(940,613)
Benefit payments	(2,824,117)	(2,886,700)	(2,885,118)
Net Change in Total Pension Liability	1,181,948	1,258,694	227,837
Total Pension Liability - Beginning	47,638,123	48,820,071	50,078,765
Total Pension Liability - Ending (a)	$48,820,071	$50,078,765	$50,306,602
Plan Fiduciary Net Position			
Contributions - employer	$ 2,194,478	$ 2,175,571	$ 2,651,796
Contributions - member	216,756	218,396	233,341
Net investment income	(876,269)	1,567,772	5,088,928
Benefit payments	(2,824,117)	(2,886,700)	(2,885,118)
Administrative expense	(18,478)	(10,962)	(8,702)
Other	3,453	-	-
Net Change in Plan Fiduciary Net Position	(1,304,177)	1,064,077	5,080,245
Plan Fiduciary Net Position - Beginning	34,520,743	33,216,566	34,280,643
Plan Fiduciary Net Position - Ending (b)	$33,216,566	$34,280,643	$39,360,888
Net Pension Liability - Ending (a-b)	$15,603,505	$15,798,122	$10,945,714
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	68.04%	68.45%	78.24%
Estimated Covered Employee Payroll	$ 4,127,756	$ 4,181,246	$ 3,925,817
Net Pension Liability as a Percentage of Covered Employee Payroll	378.01%	377.83%	278.81%

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	$ 21,828,559	$ 15,603,505	$ 10,478,466
Net Pension Liability - 12/31/16	$ 22,183,672	$ 15,798,122	$ 10,540,948
Net Pension Liability - 12/31/17	$ 17,280,453	$ 10,945,714	$ 5,722,598

CITY OF ALTOONA 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. 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	$ 30,696,969	$ 42,271,427	$ 11,574,458	72.6%
01-01-15	34,902,598	47,638,123	12,735,525	73.3%
01-01-17	37,127,140	49,138,152	12,011,012	75.6%

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 5-year averaging period, which will be limited to a maximum of 120 percent and a minimum of 80 percent of the fair 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

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 POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER
AND OTHER CONTRIBUTING ENTITIES

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2012	$ 1,760,073	119.9%
2013	1,810,934	100.0%
2014	1,804,136	100.0%
2015	2,194,478	100.0%
2016	2,175,571	100.0%
2017	2,651,796	100.0%

CITY OF ALTOONA POLICE 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
Remaining amortization period	9 years
Asset valuation method	5-year smoothing - the actuarial value of assets will be limited to a maximum of 120% and a minimum of 80% of the fair market value of assets.
Actuarial assumptions:	
Investment rate of return	7.25%
Projected salary increases	4.5%
Cost-of-living adjustments	2.25%

CITY OF ALTOONA POLICE 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
Vice-Mayor

Mr. David Butterbaugh
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Mr. Bruce Kelley
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Ms. Marla P. Marcinko
City Manager

Mr. Omar Strohm
Finance Director

Ms. Linda M. Rickens Schellhammer
City Clerk

Mr. John Carnicella
President, Police Pension Plan Board

This report is a matter of public record and is available online at www.PaAuditor.gov. Media questions about the report can be directed to the Pennsylvania Department of the Auditor General, Office of Communications, 229 Finance Building, Harrisburg, PA 17120; via email to: news@PaAuditor.gov.