# COMPLIANCE AUDIT

# City of Altoona Paid Firemen's 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 Paid Firemen's 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 plan member who retired during the current audit period 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 the retired individual and comparing this amount to supporting documentation evidencing the amount determined and actually paid to the recipient.

- 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.

- We determined whether provisions of the Deferred Retirement Option Plan (DROP) were in accordance with the provisions of Act 205 by examining provisions stated in the plan's governing documents.

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 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 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 Paid Firemen's 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.

Eugene A. DePasquale

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 Paid Firemen's 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 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 67. The plan is also affected by the provisions of collective bargaining agreements between the city and its firefighters. The plan was established January 1, 1970. Active members are required to contribute 5 percent of compensation to the plan. As of December 31, 2017, the plan had 57 active members, no terminated members eligible for vested benefits in the future, and 119 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.<br>If hired on or after January 1, 2014, age 50 and 20 years of service. |
| Early Retirement | None |
| Vesting | If hired prior to January 1, 2014, member is 100% vested after 12 years of service.<br>If hired on or after January 1, 2014, none. |

Retirement Benefit:

If hired prior to January 1, 2014: 50% of base salary, longevity, holiday pay and overtime worked. Service increment is equal to 1/8 of the retirement allowance for each year of service in excess of 20 years of service, maximum increment is $500 per month.

If hired on or after January 1, 2014: 50% of base salary. Base salary shall not include longevity, holiday pay and overtime pay and shall not include a service increment.

Survivor Benefit:

| | |
|---|---|
| Before Retirement Eligibility | Refund of member contributions. |
| After Retirement Eligibility | Survivor will receive 100% of benefit payments participant 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:

Calculated same as normal retirement

Non-Service Related Disability Benefit:

If less than 10 years of service, 25% of compensation; otherwise 50% of compensation.

CITY OF ALTOONA PAID FIREMEN'S 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:

· Inconsistent Pension Benefits

  On March 8, 2017, the city adopted Ordinance No. 5702 which amended pension benefit provisions to be consistent with the provisions of the collective bargaining agreement between the firefighters and the city.

CITY OF ALTOONA PAID FIREMEN'S 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

| | 2015 | 2016 | 2017 |
|---|---|---|---|
| Total Pension Liability | | | |
| Service cost | $ 671,459 | $ 815,918 | $ 823,620 |
| Interest | 3,451,962 | 3,494,605 | 3,489,469 |
| Difference between expected and actual experience | (457,359) | (1,214,381) | 356,968 |
| Changes of assumptions | 3,257,536 | - | - |
| Benefit payments, including refunds of member contributions | (3,154,252) | (3,197,018) | (3,148,214) |
| Net Change in Total Pension Liability | 3,769,346 | (100,876) | 1,521,843 |
| Total Pension Liability - Beginning | 46,947,867 | 50,717,213 | 50,616,337 |
| Total Pension Liability - Ending (a) | $50,717,213 | $50,616,337 | $52,138,180 |
| Plan Fiduciary Net Position | | | |
| Contributions - employer | $ 3,039,983 | $ 3,084,533 | $ 2,568,624 |
| Contributions - member | 174,139 | 179,301 | 198,443 |
| Net investment income | (842,653) | 1,546,238 | 5,243,966 |
| Benefit payments, including refunds of member contributions | (3,154,252) | (3,197,018) | (3,148,214) |
| Administrative expense | (30,163) | (27,547) | (25,246) |
| Net Change in Plan Fiduciary Net Position | (812,946) | 1,585,507 | 4,837,573 |
| Plan Fiduciary Net Position - Beginning | 34,399,635 | 33,586,689 | 35,172,196 |
| Plan Fiduciary Net Position - Ending (b) | $33,586,689 | $35,172,196 | $40,009,769 |
| Net Pension Liability - Ending (a-b) | $17,130,524 | $15,444,141 | $12,128,411 |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | 66.22% | 69.49% | 76.74% |
| Estimated Covered Employee Payroll | $ 3,487,941 | $ 3,539,165 | $ 3,666,874 |
| Net Pension Liability as a Percentage of Covered Employee Payroll | 491.14% | 436.38% | 330.76% |

CITY OF ALTOONA PAID FIREMEN'S 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 7.0%, 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 (6.0%) | Current Discount Rate (7.0%) | 1% Increase (8.0%) |
|---|---|---|---|
| Net Pension Liability - 12/31/15 | $ 23,483,617 | $ 17,130,524 | $ 11,875,831 |
| Net Pension Liability - 12/31/16 | $ 21,761,370 | $ 15,444,141 | $ 10,214,130 |
| Net Pension Liability - 12/31/17 | $ 18,661,790 | $ 12,128,411 | $ 6,716,310 |

The discount rate of 7.0% was used in the preparation of the city's December 31, 2015, 2016, and 2017 schedules. This rate differs from the 7.25% reported in the Notes to Supplementary Schedules on page 9 of this report.

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, 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 | 29,944,252 | 42,511,146 | 12,566,894 | 70.4% |
| 01-01-15 | 34,325,737 | 48,725,835 | 14,400,098 | 70.4% |
| 01-01-17 | 37,620,719 | 49,971,539 | 12,350,820 | 75.3% |

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 3-year averaging period, at 80%-120% of market value. 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 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 |
|---|---|---|
| 2012 | $ 2,463,431 | 119.9% |
| 2013 | 2,760,924 | 100.0% |
| 2014 | 2,802,807 | 100.0% |
| 2015 | 3,039,983 | 100.0% |
| 2016 | 3,084,533 | 100.0% |
| 2017 | 2,568,624 | 100.0% |

CITY OF ALTOONA PAID FIREMEN'S 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 | 7 years |
| Asset valuation method | 3-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 | 3.0% |

CITY OF ALTOONA PAID FIREMEN'S PENSION PLAN
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