

COMPLIANCE AUDIT

City of Harrisburg Police Pension Plan Dauphin County, Pennsylvania For the Period January 1, 2012 to December 31, 2014

January 2016



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



Commonwealth of Pennsylvania
Department of the Auditor General
Harrisburg, PA 17120-0018
Facebook: Pennsylvania Auditor General
Twitter: @PAAuditorGen
www.PaAuditor.gov

EUGENE A. DePASQUALE
AUDITOR GENERAL

The Honorable Mayor and City Council
City of Harrisburg
Dauphin County
Harrisburg, PA 17101

We have conducted a compliance audit of the City of Harrisburg Police Pension Plan for the period January 1, 2012 to December 31, 2014. 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 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. To determine if municipal officials took appropriate corrective action to address the findings 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 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 12 of 38 of the 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 the retired individuals and comparing these amounts to supporting documentation evidencing amounts determined and actually paid to the recipients. We also determined whether retirement benefits calculated for the 1 plan member 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 and comparing these amounts to supporting documentation evidencing amounts determined.
- × We determined whether the January 1, 2011 and January 1, 2013 actuarial valuation reports were prepared and submitted to the Public Employee Retirement Commission (PERC) by March 31, 2012 and 2014, 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.

The City of Harrisburg contracted with an independent certified public accounting firm for annual audits of the City of Harrisburg Police Pension Plan'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 effective internal controls to provide reasonable assurance that the City of Harrisburg 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 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 Harrisburg Police 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 –
Untimely Deposit Of State Aid

Finding No. 2 – Failure To Deposit 2015 State Aid Allocation

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 Harrisburg 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.

December 16, 2015



EUGENE A. DEPASQUALE
Auditor General

CONTENTS

	<u>Page</u>
Background.....	1
Status of Prior Findings	3
Findings and Recommendations:	
Finding No. 1 - Noncompliance With Prior Audit Recommendation – Untimely Deposit Of State Aid.....	4
Finding No. 2 - Failure To Deposit 2015 State Aid Allocation	5
Supplementary Information	7
Report Distribution List	12

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 Harrisburg Police 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 317 - The Third Class City Code, Act of June 23, 1931 (P.L. 932, No. 317), as amended, 53 P.S. § 35101 et seq.
- Act 399 - Optional Third Class City Charter Law, Act of July 15, 1957 (P.L. 901, No. 399), as amended, 53 P.S. § 41101 et seq.

The City of Harrisburg Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance 5 of 2001, as amended. The plan is also affected by the provisions of collective bargaining agreements between the city and its police officers. The plan was established August 8, 1939. Active members are required to contribute 5 percent of their compensation to the plan. As of December 31, 2014, the plan had 137 active members, 1 terminated member eligible for vested benefits in the future, and 199 retirees receiving pension benefits from the plan.

BACKGROUND – (Continued)

As of December 31, 2014, selected plan benefit provisions are as follows:

Eligibility Requirements:

Normal Retirement	Age 50
Early Retirement	None
Vesting	A member is 100% vested after 20 years of service.

Retirement Benefit:

Benefit equals 50% of average monthly compensation, plus 2.5% of average monthly compensation for each year of service in over of 20 years, up to 65% of average monthly compensation after 26 years, plus 5% of average monthly compensation after 27 years of service (Maximum of 70% of average monthly compensation). Average monthly compensation: Final rate of compensation or last 5 years of employment, if higher.

Survivor Benefit:

Before Retirement Eligibility	Refund of member contributions plus interest.
After Retirement Eligibility	50% of benefit to surviving spouse or children under 18.

Service Related Disability Benefit:

Benefit equals 50% of average monthly compensation, reduced by Workers' Compensation benefits received by the member.

Non-Service Related Disability Benefit:

After 4 years of service, 50% average monthly compensation.

CITY OF HARRISBURG POLICE PENSION PLAN
STATUS OF PRIOR FINDINGS

Compliance With Prior Audit Recommendations

The City of Harrisburg has complied with the prior audit recommendations concerning the following:

Failure To Deposit The Full Amount Of State Aid Into The Pension Plan

City officials deposited the remaining 2012 State Aid of \$1,006,983 in March 2013, plus interest of \$18,797 in April 2013 into the police pension plan.

Incorrect Data On Certification Form AG 490 Resulting In Excess Reimbursement For Special 1989 Ad Hoc Postretirement Adjustments

City officials returned the excess reimbursement for Special 1989 Ad Hoc Postretirement Adjustments to the Commonwealth.

Noncompliance With Prior Audit Recommendation

The City of Harrisburg has not complied with the prior audit recommendation concerning the following as further discussed in the Finding and Recommendation section of this report:

Untimely Deposit Of State Aid

CITY OF HARRISBURG POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 - Noncompliance With Prior Audit Recommendation - Untimely Deposit Of State Aid

Condition: As disclosed in the prior audit report, the city did not deposit its 2011 state aid allocation into the pension plan within the 30 day grace period allowed by Act 205. The city received its 2011 state aid allocation in two installments in the amounts of \$2,629,927 and \$1,880,796 on September 14, 2011 and September 30, 2011, respectively, but did not deposit the second installment of the allocation into its police pension plan until March 29, 2012. During the current audit period, the city failed to deposit the interest earned during the period beyond the 30 day grace period allowed by Act 205, compounded annually.

Criteria: Section 402(g) of Act 205 states, in part:

. . . the total amount of the general municipal pension system State aid received by the municipality shall, within 30 days of receipt by the treasurer of the municipality, be deposited in the pension fund or the alternate funding mechanism applicable to the pension plan.

Cause: Plan officials failed to establish adequate internal control procedures to ensure compliance with the prior audit recommendation.

Effect: Although the state aid was deposited into the plan, the interest earned beyond the 30 day grace period was not deposited into the plan. When state aid is not deposited into a pension plan account in a timely manner, the funds are not available to pay operating expenses or for investment and the risk of misapplication is increased.

Recommendation: We again recommend that the municipality pay the police pension plan the interest earned during the period beyond the 30 day grace period allowed by Act 205, compounded annually. A copy of the interest calculation must be maintained by the city for examination during our next audit of the plan.

We also recommend that plan officials develop and implement adequate internal control procedures to ensure that future state aid allocations are deposited timely in accordance with Act 205 requirements.

CITY OF HARRISBURG POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 - (Continued)

Management's Response: It is important to note that no one in the current administration's Bureau of Financial Management was employed by the City at the time the City's State mandated Receiver made the decision not to timely deposit the 2011 pension aid. Furthermore, no instructions were codified either in the Harrisburg Strong Plan or via official correspondence as a follow up recommendation to pay interest on the late deposit. Therefore, the City finds it troubling that the current administration is held responsible for the actions over which they had no knowledge or ability to go back and adjust. However, as the City must comply with the State statutes regarding such a late aid (sic), the City agrees with the recommendation made by the AG's auditors and will comply with the best of its resources and abilities.

Subsequent to the audit exit conference, the city provided documentation that \$23,875 representing the interest due on the late deposit of the 2011 state aid allocation had been deposited to the police pension plan.

Auditor's Conclusion: The Department will monitor the city's deposits of its future state aid allocations during our next audit of the plan.

Finding No. 2 - Failure To Deposit 2015 State Aid Allocation

Condition: The city did not deposit its 2015 state aid allocation within 30 days of receipt as required by Act 205. The city received its 2015 state aid allocation in the amount of \$2,144,697 on September 30, 2015; however, through the date of this audit report, none of the state aid allocation has been deposited into its pension plans.

Criteria: Section 402(g) of Act 205 states, in part:

. . . the total amount of the general municipal pension system State aid received by the municipality shall, within 30 days of receipt by the treasurer of the municipality, be deposited in the pension funds or the alternate funding mechanisms applicable to the respective pension plans.

Cause: The 2015 state aid was not deposited due to cash flow issues the city is facing due to the lack of an approved state budget.

Effect: When state aid is not deposited into a pension plan account, the funds are not available to pay operating expenses or for investment and the risk of misapplication is increased.

CITY OF HARRISBURG POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 - (Continued)

Recommendation: We recommend that the city determine how the 2015 state aid will be allocated among its pension plans and deposit the 2015 state aid allocation of \$2,144,697, plus interest earned during the period beyond the 30 day grace period allowed by Act 205, compounded annually. A copy of the interest calculation must be maintained by the city for examination during our next audit of the plan.

We also recommend that plan officials develop and implement procedures to ensure that future state aid is deposited into an eligible pension plan within 30 days of receipt by the municipal treasurer.

Management's Response: 2015 State Aid will be deposited into the appropriate pension plans when the Commonwealth remits to the City of Harrisburg its \$5m annual allocation for Fire and Police Protection services as specified in the Harrisburg Strong Plan approved and currently on file with the Commonwealth Court of PA as of August 21, 2013 or by year end 2015, whichever comes first. Due to constrained cash flow issues many other entities are facing as a result of a lack of an approved FY 15-16 state budget, the City informed, and received the consent of, its Act 47 coordinator to withhold payments to the plans, in order to protect scarce cash resources and allow critical public safety services to proceed uninterrupted so as not to damage the health, safety and welfare of the citizens of Harrisburg, PA.

Subsequent to the audit exit conference, the city provided documentation that the 2015 state aid allocation had been deposited, plus \$6,949 of interest, to the police pension plan.

Auditor's Conclusion: The Department will monitor the city's deposits of its future state aid allocations during our next audit of the plan.

CITY OF HARRISBURG POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
NOTES TO SUPPLEMENTARY SCHEDULES
(UNAUDITED)

The supplementary information contained on Pages 7 and 8 reflect 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

Total Pension Liability	
Service cost	\$ 1,542,107
Interest	6,403,162
Benefit payments, including refunds of member contributions	(5,351,314)
Net Change in Total Pension Liability	<u>2,593,955</u>
Total Pension Liability - Beginning	81,173,081
Total Pension Liability - Ending (a)	<u><u>\$ 83,767,036</u></u>
Plan Fiduciary Net Position	
Contributions - employer	\$ 2,424,298
Contribution - member	478,549
Net investment income	4,082,703
Benefit payments, including refunds of member contributions	(5,351,314)
Administrative expense	(58,924)
Net Change in Plan Fiduciary Net Position	<u>1,575,312</u>
Plan Fiduciary Net Position - Beginning	73,661,935
Plan Fiduciary Net Position - Ending (b)	<u><u>\$ 75,237,247</u></u>
Net Pension Liability - Ending (a-b)	<u><u>\$ 8,529,789</u></u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	89.82%
Estimated Covered Employee Payroll	\$ 9,363,263
Net Pension Liability as a Percentage of Covered Employee Payroll	91.10%

CITY OF HARRISBURG POLICE PENSION PLAN
 SUPPLEMENTARY INFORMATION
 NOTES TO SUPPLEMENTARY SCHEDULES
 (UNAUDITED)

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

The following presents the net pension liability of the city, calculated using the discount rate of 8.0%, 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 (7.0%)	Current Discount Rate (8.0%)	1% Increase (9.0%)
Net Pension Liability	\$ 17,441,935	\$ 8,529,789	\$ 943,454

SCHEDULE OF CONTRIBUTIONS

Year Ended December 31	Actuarially Determined Contribution	Actual Contributions	Contribution Deficiency (Excess)	Covered- Employee Payroll	Contributions as a Percentage of Covered- Employee Payroll
2005	\$ 1,303,069	\$ 1,303,069	-	\$9,566,523	13.62%
2006	512,593	512,593	-	9,417,427	5.44%
2007	523,803	523,803	-	9,453,063	5.54%
2008	285,274	285,274	-	9,137,927	3.12%
2009	275,869	275,869	-	9,524,752	2.90%
2010	314,094	314,094	-	9,650,596	3.25%
2011	1,551,579	4,510,723	\$(2,959,144)	10,250,723	44.00%
2012	1,517,751	2,524,734	(1,006,983)	10,358,429	24.37%
2013	2,146,827	2,594,752	(447,925)	10,240,017	25.34%
2014	2,034,070	2,424,298	(390,228)	9,363,263	25.89%

SCHEDULE OF INVESTMENT RETURNS

Annual Money-Weighted Rate of Return, Net of Investment Expense:

2014	6.05%
2013	15.30%

CITY OF HARRISBURG POLICE PENSION PLAN
 SUPPLEMENTARY INFORMATION
 NOTES TO SUPPLEMENTARY SCHEDULES
 (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, 2009, 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)
01-01-09	\$ 63,959,386	\$ 65,951,752	\$ 1,992,366	97.0%
01-01-11	63,759,040	72,302,610	8,543,570	88.2%
01-01-13	64,795,960	78,322,540	13,526,580	82.7%

Note: The market value of the plan's assets at 01-01-09 has 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 130 percent and a minimum of 70 percent of the fair market value of assets. The market values of the plan's assets at 01-01-11 and 01-01-13 have been adjusted to reflect the smoothing of gains and/or losses subject to a corridor between 80 to 120 percent of the market value of assets. These methods 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 HARRISBURG POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
NOTES TO SUPPLEMENTARY SCHEDULES
(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 HARRISBURG 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, 2013
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	11 years
Asset valuation method	Plan assets are valued using the method described in Section 210 of Act 205, as amended, subject to a corridor between 80-120% of the market value of assets.
Actuarial assumptions:	
Investment rate of return	8.0%
Projected salary increases	5.0%
Cost-of-living adjustments	None assumed

CITY OF HARRISBURG POLICE PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

City of Harrisburg Police Pension Plan
Dauphin County
10 North 2nd Street
Harrisburg, PA 17101

The Honorable Eric Papenfuse	Mayor
Ms. Wanda Williams	Council President
Ms. Sandra Reid	Council Vice-President
Ms. Susan Brow-Wilson	Council Member
Mr. Brad Koplinski	Council Member
Mr. Jeffrey Baltimore	Council Member
Mr. Benjamin Allatt	Council Member
Ms. Shamaine Daniels	Council Member
Mr. Tyrell Spradley	City Treasurer
Mr. Charlie DeBrunner	City Controller
Mr. Bruce Weber	Finance Director

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.