

COMPLIANCE AUDIT

City of Harrisburg Police Pension Plan Dauphin County, Pennsylvania For the Period January 1, 2017 to December 31, 2018

March 2020



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 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, 2017 to December 31, 2018. 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 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 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 all 11 of the plan members 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 retired individuals and comparing these amounts to supporting documentation evidencing amounts determined and actually paid to recipients. We also determined whether retirement benefits calculated for both of the plan members who elected to vest during the current audit period 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, 2017 actuarial valuation report was prepared and submitted by March 31, 2018 in accordance with Act 205 and whether selected information provided on this report 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 finding further discussed later in this report:


Finding - Partial Compliance With Prior Audit Recommendation -
Incorrect Data On Certification Form AG 385 Resulting In A
Net Overpayment Of State Aid

The finding contained in this audit report repeats a condition that was cited in our previous audit report that has not been corrected by city officials. We are concerned by the city's failure to correct this previously reported audit finding and strongly encourage timely implementation of the recommendation noted in this audit report.

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.

February 21, 2020


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 Harrisburg 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 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 No. 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 compensation to the plan. As of December 31, 2018, the plan had 135 active members, 2 terminated members eligible for vested benefits in the future, and 213 retirees receiving pension benefits from the plan.

BACKGROUND – (Continued)

As of December 31, 2018, selected plan benefit provisions are as follows:

Eligibility Requirements:

Normal Retirement	Age 50. If hired on or after 9/19/2013 - Age 50 & 20 years of service.
Early Retirement	None
Vesting	A member is 100% vested after 20 years of service. If hired on or after 9/19/2013 – None.

Retirement Benefit:

Benefit equals 50% of average monthly compensation, plus 2.5% of average monthly compensation for each year of service over 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.

If hired on or after 9/19/2013, 50% of average monthly pay plus 1/40th of the pension for each year of service in excess of 20 years and before age 65, up to a maximum of \$100 per month.

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 the average monthly compensation reduced by Workers' Compensation benefits received by the member.

Non-Service Related Disability Benefit:

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

If hired on or after 9/19/2013 – If less than 10 years of service, 25% of average monthly compensation; if 10 or more years of service, 50% of average monthly compensation.

CITY OF HARRISBURG POLICE PENSION PLAN
STATUS OF PRIOR FINDING

Partial Compliance With Prior Audit Recommendation

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

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

During the current audit period, the city returned \$18,396 to the Commonwealth for the overpayment of state aid in 2016 and 2017; however, plan officials failed to comply with the instructions that accompany Certification Form AG 385 to assist them in accurately reporting the required pension data in the year 2018 as further discussed in the Finding and Recommendation section of this report.

CITY OF HARRISBURG POLICE PENSION PLAN
FINDING AND RECOMMENDATION

Finding - Partial Compliance With Prior Audit Recommendation - Incorrect Data On Certification Form AG 385 Resulting In A Net Overpayment Of State Aid

Condition: As disclosed in the Status of Prior Finding section of this report, the city partially complied with the prior audit recommendation by reimbursing \$18,396 to the Commonwealth for the overpayment of state aid received in 2016 and 2017. However, plan officials again failed to comply with the instructions that accompany Certification Form AG 385 to assist them in accurately reporting the required pension data in the year 2018. During the current audit period, the city failed to certify 1 eligible non-uniformed employee (1 unit) and understated payroll by \$70,005, and certified 1 ineligible police officer (2 units) and overstated payroll by \$13,658 on the Certification Form AG 385 filed in 2018. The data contained on this certification form is based on prior calendar year information.

Criteria: Pursuant to Act 205, at Section 402(e)(2), in order to be eligible for certification, an employee must have been employed on a full-time basis for at least six consecutive months and must have been participating in a pension plan during the certification year.

Cause: There was an input error by the city’s Human Resources office which incorrectly populated the reports used to verify the information certified. In addition, plan officials failed to establish adequate internal control procedures such as having appropriate supervisory overview of the data certified to ensure compliance with the instructions that accompany Certification Form AG 385 and to assist in accurately reporting the pension data.

Effect: The data submitted on this certification form is used, in part, to calculate the state aid due to the municipality for distribution to its pension plans. Because the city’s state aid allocation was based on unit value, the incorrect certification of pension data affected the city’s state aid allocation, as identified below:

<u>Year</u>	<u>Type Of Plan</u>	<u>Units Overstated (Understated)</u>	<u>Unit Value</u>	<u>State Aid Overpayment (Underpayment)</u>
2018	Police	2	\$4,684	\$ 9,368
	Non-Uniformed	(1)	\$4,684	<u>(4,684)</u>
		Net Overpayment of State Aid		<u>\$ 4,684</u>

In addition, the city used the overpayment of state aid to pay the minimum municipal obligation (MMO) due to the police pension plan; therefore, if the reimbursement to the Commonwealth is made from the pension plan, the plan’s MMO will not be fully paid.

CITY OF HARRISBURG POLICE PENSION PLAN
FINDING AND RECOMMENDATION

Finding - (Continued)

Recommendation: We recommend that the net overpayment of state aid, in the amount of \$4,684, plus interest, be returned 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: Department of the Auditor General, Municipal Pension & Fire Relief Programs Unit, 321 Finance Building, Harrisburg, PA 17120. A copy of the interest calculation must be submitted along with the check.

We also recommend that in the future, plan officials establish adequate internal control procedures, such as having at least two people review the data certified, to ensure compliance with the instructions that accompany Certification Form AG 385 to assist them in accurately reporting the required pension data.

In addition, if the reimbursement to the Commonwealth is made from police pension plan funds, we recommend that any resulting MMO deficiency be paid to the pension plan with interest, at a rate earned by the pension plan.

Management's Response: Municipal officials agreed with the finding without exception.

Auditor's Conclusion: Compliance will be monitored subsequent to the release of the audit report and through our next audit of the pension plan.

CITY OF HARRISBURG POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

The supplementary information contained on Pages 6 through 9 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, 2014, 2015 AND 2016

	<u>2014</u>	<u>2015</u>	<u>2016</u>
Total Pension Liability			
Service cost	\$ 1,542,107	\$ 1,490,190	\$ 1,564,700
Interest	6,403,162	6,895,688	7,106,970
Difference between expected and actual experience	-	(753,653)	-
Changes of assumptions	-	4,507,561	-
Benefit payments, including refunds of member contributions	(5,351,314)	(5,630,072)	(6,008,655)
Net Change in Total Pension Liability	<u>2,593,955</u>	<u>6,509,714</u>	<u>2,663,015</u>
Total Pension Liability - Beginning	<u>81,173,081</u>	<u>83,767,036</u>	<u>90,276,750</u>
Total Pension Liability - Ending (a)	<u><u>\$ 83,767,036</u></u>	<u><u>\$ 90,276,750</u></u>	<u><u>\$ 92,939,765</u></u>
Plan Fiduciary Net Position			
Contributions - employer	\$ 2,424,298	\$ 2,972,450	\$ 2,906,315
Contributions - member	478,549	462,539	479,598
Net investment income	4,082,703	586,944	4,175,445
Benefit payments, including refunds of member contributions	(5,351,314)	(5,630,072)	(6,008,655)
Administrative expense	(58,924)	(48,790)	(53,331)
Net Change in Plan Fiduciary Net Position	<u>1,575,312</u>	<u>(1,656,929)</u>	<u>1,499,372</u>
Plan Fiduciary Net Position - Beginning	<u>73,661,935</u>	<u>75,237,247</u>	<u>73,580,318</u>
Plan Fiduciary Net Position - Ending (b)	<u><u>\$ 75,237,247</u></u>	<u><u>\$ 73,580,318</u></u>	<u><u>\$ 75,079,690</u></u>
Net Pension Liability - Ending (a-b)	<u><u>\$ 8,529,789</u></u>	<u><u>\$ 16,696,432</u></u>	<u><u>\$ 17,860,075</u></u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	89.82%	81.51%	80.78%
Estimated Covered Employee Payroll	\$ 9,363,263	\$ 8,887,141	\$ 8,628,184
Net Pension Liability as a Percentage of Covered Employee Payroll	91.10%	187.87%	207.00%

CITY OF HARRISBURG POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF CHANGES IN THE NET PENSION
LIABILITY AND RELATED RATIOS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2018

	<u>2017</u>	<u>2018</u>
Total Pension Liability		
Service cost	\$ 1,504,157	\$ 1,579,365
Interest	7,309,215	7,513,232
Difference between expected and actual experience	(2,624,640)	-
Changes of assumptions	2,659,196	-
Benefit payments, including refunds of member contributions	(6,226,579)	(6,450,151)
Net Change in Total Pension Liability	<u>2,621,349</u>	<u>2,642,446</u>
Total Pension Liability - Beginning	<u>92,939,765</u>	<u>95,561,114</u>
Total Pension Liability - Ending (a)	<u>\$ 95,561,114</u>	<u>\$ 98,203,560</u>
Plan Fiduciary Net Position		
Contributions - employer	\$ 3,319,118	\$ 3,400,136
Contributions - member	542,472	458,735
Net investment income	11,643,216	(4,609,656)
Benefit payments, including refunds of member contributions	(6,226,579)	(6,450,151)
Administrative expense	(50,943)	(51,959)
Net Change in Plan Fiduciary Net Position	<u>9,227,284</u>	<u>(7,252,895)</u>
Plan Fiduciary Net Position - Beginning	<u>75,079,690</u>	<u>84,306,974</u>
Plan Fiduciary Net Position - Ending (b)	<u>\$ 84,306,974</u>	<u>\$ 77,054,079</u>
Net Pension Liability - Ending (a-b)	<u>\$ 11,254,140</u>	<u>\$ 21,149,481</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	88.22%	78.46%
Estimated Covered Employee Payroll	\$ 8,689,052	\$ 8,885,970
Net Pension Liability as a Percentage of Covered Employee Payroll	129.52%	238.01%

CITY OF HARRISBURG POLICE 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, 2014, 2015, 2016, 2017, and 2018, 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 - 12/31/14	\$ 17,441,935	\$ 8,529,789	\$ 943,454
Net Pension Liability - 12/31/15	\$ 26,411,709	\$ 16,696,432	\$ 8,455,501
Net Pension Liability - 12/31/16	\$ 27,797,541	\$ 17,860,075	\$ 9,426,096
Net Pension Liability - 12/31/17	\$ 21,399,076	\$ 11,254,140	\$ 2,663,114
Net Pension Liability - 12/31/18	\$ 31,493,081	\$ 21,149,481	\$ 12,386,135

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
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%
2015	2,972,450	2,972,450	-	8,887,141	33.45%
2016	2,906,315	2,906,315	-	8,628,184	33.68%
2017	3,319,118	3,319,118	-	8,689,052	38.20%
2018	3,400,136	3,400,136	-	8,885,970	38.26%

CITY OF HARRISBURG POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF INVESTMENT RETURNS

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

2018	(5.04%)
2017	16.01%
2016	6.08%
2015	1.01%
2014	6.05%
2013	15.30%

CITY OF HARRISBURG 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	\$ 64,795,960	\$ 78,322,540	\$ 13,526,580	82.7%
01-01-15	73,670,603	87,520,944	13,850,341	84.2%
01-01-17	78,963,110	92,974,321	14,011,211	84.9%

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 five-year averaging period subject to a corridor between 80 and 120 percent of the 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.

CITY OF HARRISBURG POLICE 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 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, 2017
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	8 years
Asset valuation method	5-year smoothing - 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:

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