

# COMPLIANCE AUDIT

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## City of Hazleton Non-Uniformed Pension Plan Luzerne County, Pennsylvania For the Period January 1, 2013 to December 31, 2014

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September 2015



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 Hazleton  
Luzerne County  
Hazleton, PA 18201

We have conducted a compliance audit of the City of Hazleton Non-Uniformed Pension Plan for the period January 1, 2013 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 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 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 4 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 the retired individuals and comparing these amounts to supporting documentation evidencing amounts determined and actually paid to the recipients.
- × We determined whether the January 1, 2013 actuarial valuation report was prepared and submitted to the Public Employee Retirement Commission (PERC) by March 31, 2014 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.

The City of Hazleton contracted with an independent certified public accounting firm for an audit of its basic financial statements for the year ended December 31, 2013, which is 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 Hazleton Non-Uniformed 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 Hazleton Non-Uniformed 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 Hazleton 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 21, 2015

A handwritten signature in black ink, appearing to read "Eugene A. DePasquale". The signature is fluid and cursive, with a long horizontal stroke at the end.

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 Hazleton Non-Uniformed 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 362 - The Third Class City Code, Act of May 23, 1945 (P.L. 903, No. 362), Article XLIII-A, Optional Retirement System for Officers and Employees, as amended, 53 P.S. § 39371 et seq.

The City of Hazleton Non-Uniformed Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 2001-26, as amended, adopted pursuant to Act 362. The plan is also affected by the provisions of collective bargaining agreements between the city and its non-uniformed employees. The plan was established April 1, 1975. Active members hired before January 1, 2004 are required to contribute 4 percent of compensation to the plan. Active members hired on or after January 1, 2004 are required to contribute 3.5 percent of compensation below the Social Security taxable wage base and 5 percent of compensation above the wage base to the plan. As of December 31, 2014, the plan had 42 active members, no terminated members eligible for vested benefits in the future, and 32 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	Pre 1-1-04 – Age 60; Post 1-1-04 – age 60 and 20 years of service.
Early Retirement	Pre 1-1-04 – 8 years of service if involuntary termination or 20 years of service; Post 1-1-04 – 20 years of service with contributions until age 55.
Vesting	Pre 1-1-04 – 100% after 12 years of service; Post 1-1-04 – 12 years of service with monthly contributions until 20 <sup>th</sup> anniversary of employment for members with less than 20 years of service or monthly contributions until age 55 for members with greater than 20 years of service.

### Retirement Benefit:

Pre 1-1-04 – Benefit equals 1.5% of average monthly compensation over the 5 highest consecutive years multiplied by years of service. Post 1-1-04 – Benefit equals 50% of average monthly compensation over 5 highest consecutive years or rate of compensation at retirement, if higher.

### Survivor Benefit:

Before Retirement Eligibility	Refund of member contributions.
After Retirement Eligibility	Pre 1-1-04 – if eligible for retirement, the present value of the accrued pension is payable to the named beneficiary. Post 1-1-04 – if eligible for retirement or killed-in-service, 50% of the benefit the member would have been receiving had he had retired at the time of death.

### Service Related Disability Benefit:

Pre 1-1-04	– Benefit equals 50% of average monthly compensation less workers' compensation benefits.
Post 1-1-04	– After 15 or more years of service, benefit equals 50% of average monthly compensation.

CITY OF HAZLETON NON-UNIFORMED PENSION PLAN  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

The supplementary information contained on Pages 3 and 4 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  
DECEMBER 31, 2014

Total Pension Liability		
Service cost	\$	186,660
Interest		505,322
Benefit payments, including refunds of member contributions		(400,908)
Net Changes in Total Pension Liability		<u>291,074</u>
Total Pension Liability - 12/31/13		6,751,418
Total Pension Liability - 12/31/14 (a)	\$	<u><u>7,042,492</u></u>
Plan Fiduciary Net Position		
Contributions – employer	\$	197,724
Contributions – member		82,186
Net investment income		104,287
Benefit payments, including refunds of member contributions		(400,908)
Administrative expense		(8,073)
Net Changes in Plan Fiduciary Net Position		<u>(24,784)</u>
Plan Fiduciary Net Position - 12/31/13		5,135,318
Plan Fiduciary Net Position - 12/31/14 (b)	\$	<u><u>5,110,534</u></u>
Net Pension Liability – Ending (a-b)	\$	<u><u>1,931,958</u></u>

CITY OF HAZLETON NON-UNIFORMED PENSION PLAN  
 SUPPLEMENTARY INFORMATION  
 (UNAUDITED)

SCHEDULE OF CONTRIBUTIONS  
 BASED ON ACT 205 MINIMUM MUNICIPAL OBLIGATION (MMO)

Year Ended December 31	Actuarially Determined Contribution	Actual Contributions	Contribution Deficiency (Excess)	Covered-Employee Payroll*	Contributions as a Percentage of Covered- employee Payroll
2005	\$ -	\$ -	\$ -		
2006	-	-	-		
2007	159,469	159,469	-		
2008	162,890	162,890	-		
2009	185,729	185,729	-		
2010	182,458	182,458	-		
2011	162,191	162,191	-		
2012	164,638	164,639	(1)		
2013	193,307	193,307	-		
2014	197,724	197,724	-	\$ 1,743,703	11.34%

The City met its Act 205 funding requirements (MMO) for the years covered by the current audit period.

\* Due to GASB Statement No. 67, *Financial Reporting for Pension Plans*, being implemented only recently, the amount of Covered-Employee Payroll was not provided for years prior to 2014.

Sensitivity of the Net Pension Liability to changes in the discount rate

The following is a sensitivity analysis of the net pension liability to changes in the discount rate. The table below presents the net pension liability of the pension plan calculated using the discount rate of 7.5% as well as what the plan's net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.5%) or 1 percentage-point higher (8.5%) than the current rate:

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
Plan's Net Pension Liability	\$ 2,617,813	\$ 1,931,958	\$ 1,340,560

CITY OF HAZLETON NON-UNIFORMED 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, 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	\$ 4,894,625	\$ 5,646,606	\$ 751,981	86.7%
01-01-11	4,990,664	5,978,357	987,693	83.5%
01-01-13	4,749,792	6,409,989	1,660,197	74.1%

Note: The market values of the plan's assets at 01-01-09, 01-01-11 and 01-01-13 have been adjusted to reflect the smoothing of gains and/or losses over a 5-year averaging period subject to a corridor between 70 to 130 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 HAZLETON NON-UNIFORMED 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 HAZLETON NON-UNIFORMED 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	13 years
Asset valuation method	5 year smoothing, subject to a corridor between 70-130% of the market value of assets.
Actuarial assumptions:	
Investment rate of return	7.5%
Projected salary increases	5.0%

CITY OF HAZLETON NON-UNIFORMED PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf  
Governor  
Commonwealth of Pennsylvania

City of Hazleton Non-Uniformed Pension Plan  
Luzerne County  
40 North Church Street  
Hazleton, PA 18201

The Honorable Joseph Yannuzzi	Mayor
Mr. John Mundie	Council President
Mr. Thomas Pribula	Acting Director of Administration
Ms. Nancy Doyle	Human Resources Coordinator

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