

**CITY OF HAZLETON AGGREGATE PENSION FUND**

**LUZERNE COUNTY**

**COMPLIANCE AUDIT REPORT**

**FOR THE PERIOD**

**JANUARY 1, 2005, TO DECEMBER 31, 2008**





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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.

Pension plan aid is provided from a 2 percent foreign casualty insurance premium tax, a portion of the foreign 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 Aggregate Pension Fund 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:

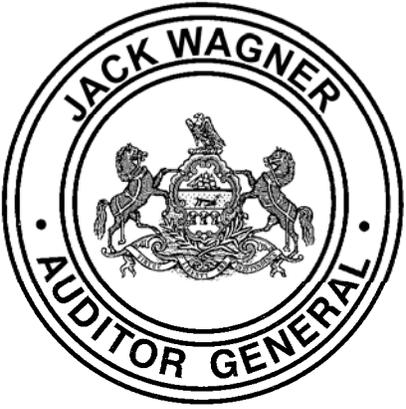
Act 147 - Special Ad Hoc Municipal Police and Firefighter Postretirement Adjustment Act, Act of December 14, 1988 (P.L. 1192, No. 147), as amended, 53 P.S. § 896.101 et seq.

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.

The City of Hazleton Aggregate Pension Fund serves as a common investment and administrative agent for the city's police and paid firemen's pension plans.

The City of Hazleton Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 1949, as amended, adopted pursuant to Act 317. The plan is also affected by the provisions of collective bargaining agreements between the city and its police officers.

The City of Hazleton Firemen's Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 1913, as amended, adopted pursuant to Act 317. The plan is also affected by the provisions of collective bargaining agreements between the city and its firefighters.



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 Aggregate Pension Fund for the period January 1, 2005, to December 31, 2008. The audit was conducted pursuant to authority derived from Section 402(j) of Act 205 and in accordance with *Government Auditing Standards* applicable to performance audits 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 findings contained in our prior audit report; and
2. To determine if the aggregate pension fund 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. The City of Hazleton contracted with an independent certified public accounting firm for annual audits of its basic 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 Hazleton Aggregate Pension Fund 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, we tested transactions, assessed official actions, performed analytical procedures and interviewed selected officials to the extent necessary to satisfy the audit objectives.

The results of our tests indicated that, in all significant respects, the City of Hazleton Aggregate Pension Fund 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 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.

February 24, 2010

JACK WAGNER  
Auditor General

CITY OF HAZLETON AGGREGATE PENSION FUND  
STATUS OF PRIOR FINDINGS

Status Of Prior Audit Findings

Police And Firemen's Pension Plans

· Noncompliance With The Third Class City Code

The audit report for the period January 1, 1997, to December 31, 1998, contained findings that the police and firemen's pension plans contained benefits in excess of the Third Class City Code. As disclosed in the prior audit report, although the city has restricted benefits to those authorized by the Third Class City Code for police officers hired after January 1, 2002, and firefighters hired after January 1, 2004, benefits not authorized by the Third Class City Code are still being provided to certain retired and active police officers and firefighters. Since the city received state aid based on unit value during the current audit period, it did not receive any state aid attributable to the excess pension benefits provided. The department will continue to monitor the effect of the excess pension benefits on the city's state aid allocations during future audits of the plans.

Aggregate Pension Fund

· Improper Expenditure Of Special Municipal Taxing Authority Funds

As disclosed in the prior audit report, pursuant to the authority granted by Section 607(f) of Act 205, the City of Hazleton levies a special municipal tax of 0.4% on earned income and net profits to be used exclusively for funding of the city's pension plans. During the years 2003, 2004 and 2005, the city used proceeds from the special municipal pension tax, in the total amount of \$1,426,656, to fund post-retirement health care benefits for police officers and firefighters who retired after January 1, 1999. Prior to 2003, these expenses were appropriated and paid through the city's general fund. Furthermore, the city expended an additional \$500,000 and \$523,000 in 2006 and 2007, respectively, to fund post-retirement health care benefits for police officers and firefighters who retired after January 1, 1999.

On September 18, 2009, Act 44 of 2009 was signed into law which clarified the limitations on the uses of the special municipal taxing authority pertaining to post-retirement employment benefits; therefore this portion of the finding has been rescinded.

CITY OF HAZLETON AGGREGATE PENSION FUND  
STATUS OF PRIOR FINDINGS

Improper Expenditure Of Special Municipal Taxing Authority Funds – (Continued)

However, it was also noted in the prior audit report that the city used \$166,466 of special municipal pension tax proceeds in 2003 to buy back unused vacation and sick leave from employees who accepted an early retirement incentive offered by the city. On December 17, 2009, a settlement agreement was signed between the City of Hazleton and the Department of the Auditor General. The agreement states, in part, that the city agrees to deposit monies to the pension plans representing the adjusted value of funds paid from the Act 205 Special Municipal Pension Tax Account in the form of leave buybacks in increments of \$3,750 per month, beginning in December of 2009 and ending on or before December 31, 2013. The Department will continue to monitor the City's compliance with this agreement during future audits of the fund.

Police Pension Plan

· Unauthorized Pension Benefits

The prior audit report disclosed that two police officers with less than 20 years of service were improperly granted pension benefits in violation of the Third Class City Code and a collective bargaining agreement dated March 28, 2000. During the current audit period, it was noted that the city is still providing pension benefits in excess of the Third Class City Code to the two police officers that are in violation of the Third Class City Code and a collective bargaining agreement dated March 28, 2000. Since the city received state aid based on unit value during the current audit period, it did not receive any state aid attributable to the excess pension benefits provided. The department will continue to monitor the effect of the excess pension benefits on the city's state aid allocations during future audits of the plan.

CITY OF HAZLETON AGGREGATE PENSION FUND  
 SUPPLEMENTARY INFORMATION  
 (UNAUDITED)

SCHEDULES 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, except for distressed pension plans, for which annual reporting was required through January 1, 2003. The historical information, beginning as of January 1, 2003, is as follows:

POLICE PENSION PLAN

	(1)	(2)	(3)	(4)	(5)	(6)
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)	Covered Payroll (c)	Unfunded (Assets in Excess of) Actuarial Accrued Liability as a % of Payroll [(b-a)/(c)]
01-01-03	\$ 9,690,305	\$ 14,554,717	\$ 4,864,412	66.6%	\$ 1,438,507	338.2%
01-01-05	10,556,004	15,949,926	5,393,922	66.2%	1,174,680	459.2%
01-01-07	12,199,911	17,482,036	5,282,125	69.8%	1,678,067	314.8%

Note: The market values of the plan's assets at 01-01-03, 01-01-05, and 01-01-07, have been adjusted to reflect the smoothing of gains and/or losses over a 4-year averaging period. 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 AGGREGATE PENSION FUND  
 SUPPLEMENTARY INFORMATION  
 (UNAUDITED)

SCHEDULES OF FUNDING PROGRESS – (Continued)

FIREMEN’S PENSION PLAN

	(1)	(2)	(3)	(4)	(5)	(6)
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)	Covered Payroll (c)	Unfunded (Assets in Excess of) Actuarial Accrued Liability as a % of Payroll [(b-a)/(c)]
01-01-03	\$ 8,939,444	\$ 10,529,904	\$ 1,590,460	84.9%	\$ 784,611	202.7%
01-01-05	8,547,961	10,780,199	2,232,238	79.3%	905,945	246.4%
01-01-07	9,005,811	11,928,222	2,922,411	75.5%	955,534	305.8%

Note: The market values of the plan’s assets at 01-01-03, 01-01-05, and 01-01-07, have been adjusted to reflect the smoothing of gains and/or losses over a 4-year averaging period. 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 AGGREGATE PENSION FUND  
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.

Trends in unfunded (assets in excess of) actuarial accrued liability and annual covered payroll are both affected by inflation. Expressing the unfunded (assets in excess of) actuarial accrued liability as a percentage of annual covered payroll (Column 6) approximately adjusts for the effects of inflation and aids analysis of the plan's progress made in accumulating sufficient assets to pay benefits when due. Generally, where there is an unfunded actuarial accrued liability, the smaller this percentage, the stronger the plan. However, when assets are in excess of the actuarial accrued liability, the higher the bracketed percentage, the stronger the plan.

CITY OF HAZLETON AGGREGATE PENSION FUND  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

SCHEDULES OF CONTRIBUTIONS FROM EMPLOYER  
AND OTHER CONTRIBUTING ENTITIES

POLICE PENSION PLAN

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2003	\$ 979,749	169.2%
2004	1,006,957	100.0%
2005	865,850	100.0%
2006	1,030,295	114.6%
2007	1,078,538	100.0%
2008	1,155,549	119.5%

CITY OF HAZLETON AGGREGATE PENSION FUND  
 SUPPLEMENTARY INFORMATION  
 (UNAUDITED)

SCHEDULES OF CONTRIBUTIONS FROM EMPLOYER  
 AND OTHER CONTRIBUTING ENTITIES

FIREMEN'S PENSION PLAN

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2003	\$ 258,309	346.7%
2004	263,136	100.0%
2005	296,414	100.0%
2006	385,955	138.9%
2007	380,765	100.0%
2008	381,312	159.0%

CITY OF HAZLETON AGGREGATE PENSION FUND  
SUPPLEMENTARY INFORMATION  
NOTES TO SUPPLEMENTARY SCHEDULES  
(UNAUDITED)

The information presented in the required supplementary schedules was determined as part of the actuarial valuation at the date indicated. Additional information as of the latest actuarial valuation date follows:

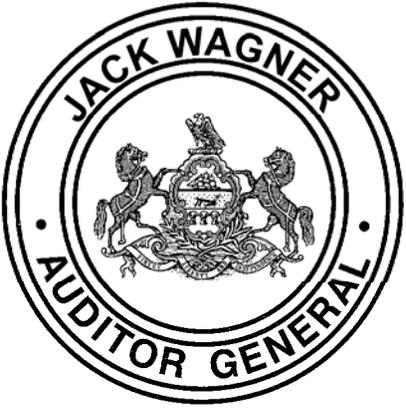
POLICE PENSION PLAN

Actuarial valuation date	January 1, 2007
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	14 years
Asset valuation method	Fair value, 4-year smoothing
Actuarial assumptions:	
Investment rate of return	8.0%
Projected salary increases	5.5%

CITY OF HAZLETON AGGREGATE PENSION FUND  
SUPPLEMENTARY INFORMATION  
NOTES TO SUPPLEMENTARY SCHEDULES  
(UNAUDITED)

FIREMEN'S PENSION PLAN

Actuarial valuation date	January 1, 2007
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	Not determinable
Asset valuation method	Fair value, 4-year smoothing
Actuarial assumptions:	
Investment rate of return	8.0%
Projected salary increases	5.5%



CITY OF HAZLETON AGGREGATE PENSION FUND  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell  
Governor  
Commonwealth of Pennsylvania

City of Hazleton Aggregate Pension Fund  
Luzerne County  
40 North Church Street  
Hazleton, PA 18201

The Honorable Louis J. Barletta	Mayor
Mr. Joseph Yannuzzi	Council President
Ms. Mary Ellen Lieb	Acting Director of Administration
Mr. Greg Steber	Secretary, Firemen's Pension Plan
Mr. Edward McAlarney	Treasurer, Police Pension Plan

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