

# COMPLIANCE AUDIT

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## City of Allentown Aggregate Pension Fund

Lehigh County, Pennsylvania  
For the Period  
January 1, 2019 to December 31, 2020

February 2022



Commonwealth of Pennsylvania  
Department of the Auditor General

Timothy L. DeFoor • Auditor General



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**TIMOTHY L. DEFOOR  
AUDITOR GENERAL**

The Honorable Mayor and City Council  
City of Allentown  
Lehigh County  
Allentown, PA 18101

We have conducted a compliance audit of the City of Allentown Aggregate Pension Fund for the period January 1, 2019 to December 31, 2020. We also evaluated compliance with some requirements subsequent to that period when possible. The audit was conducted pursuant to authority derived from the Municipal Pension Plan Funding Standard and Recovery Act (Act 205 of 1984, as amended, 53 P.S. § 895.402(j)), which requires the Auditor General, as deemed necessary, to audit every municipality which receives general municipal pension system state aid and every municipal pension plan and fund in which general municipal pension system state aid is deposited. The audit was not conducted, nor was it required to be, in accordance with Government Auditing Standards issued by the Comptroller General of the United States. We planned and performed the 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 report; and
2. To determine if the 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. To determine if municipal officials took appropriate corrective action to address the findings contained in our prior 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 fund 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 plans' governing documents and applicable laws and regulations by examining the municipality's calculation of the plans' annual financial requirements and minimum municipal obligation (MMO) and comparing these calculated amounts to amounts actually budgeted and deposited into the pension plans as evidenced by supporting documentation.
- We determined whether annual employee contributions were calculated, deducted, and deposited into the pension plans in accordance with the plans' governing documents and applicable laws and regulations by testing total members' contributions on an annual basis using the rates obtained from the plans' governing documents in effect for all years within the period under audit and examining documents evidencing the deposit of these employee contributions into the pension plans.
- We determined whether retirement benefits calculated for plan members who retired, elected to vest, or separated employment and received a lump-sum distribution 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 pension benefits due to the retired individuals and comparing these amounts to supporting documentation evidencing amounts determined and actually paid or payable to the recipient.
- We determined whether the January 1, 2017 and January 1, 2019 actuarial valuation reports were prepared and submitted by March 31, 2018 and 2020, 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 fund 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.

- We determined whether the terms and methodologies of the issuance of pension obligation bonds by the municipality, and any restrictions, were in compliance with plan provisions and Act 205 through inquiry of plan officials and examination of supporting documentation.

The City of Allentown contracted with an independent certified public accounting firm for an audit of its basic financial statements for the year ended December 31, 2019, 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 Allentown Aggregate Pension Fund is administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies. As previously described, we tested transactions, interviewed selected officials, and performed procedures to the extent necessary 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 Allentown Aggregate Pension Fund 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:

#### Police Pension Plan

- Finding No. 1 – Noncompliance With Prior Audit Recommendation – Plan Provisions Not In Compliance With The Third Class City Code
- Finding No. 2 – Noncompliance With Prior Audit Recommendation – Incorrect Pension Benefit Calculations

#### Firemen's Pension Plan

- Finding No. 3 – Noncompliance With Prior Audit Recommendation – Plan Provisions Not In Compliance With The Third Class City Code
- Finding No. 4 – Noncompliance With Prior Audit Recommendation – Inconsistent Pension Benefit
- Finding No. 5 – Noncompliance With Prior Audit Recommendation – Cost Of Living Adjustment Not In Accordance With The Third Class City Code

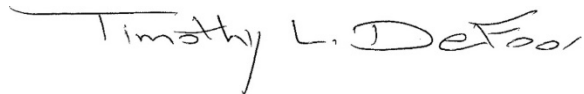
Aggregate Pension Fund:

Finding No. 6 – Partial Compliance With Prior Audit Recommendation –  
Incorrect Data On Certification Form AG 385 Resulting In A  
Net Underpayment Of State Aid

The findings contained in this audit report repeat conditions that were cited in our previous audit report that have not been corrected by city officials. We are concerned by the city's failure to correct those previously reported audit findings and strongly encourage timely implementation of the recommendations 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 Allentown 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.

A handwritten signature in black ink that reads "Timothy L. DeFoor". The signature is written in a cursive style with a horizontal line above the first few letters.

Timothy L. DeFoor  
Auditor General  
January 12, 2022

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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.

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 Allentown Aggregate Pension Fund is also governed by implementing regulations 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.
- 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. § 42001 et seq.

The City of Allentown Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Article 143 of the city's codified ordinances, adopted pursuant to the Third Class City Code. The plan is also affected by the provisions of collective bargaining agreements between the city and its police officers, as well as Act 111 interest arbitration awards. The plan was established March 9, 1926. Active members are required to contribute 5 percent of compensation to the plan. As of December 31, 2020, the plan had 212 active members, 5 terminated members eligible for vested benefits in the future, and 285 retirees receiving pension benefits from the plan.

## **BACKGROUND – (Continued)**

The City of Allentown Firemen’s Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Article 145 of the city’s codified ordinances, adopted pursuant to the Third Class City Code. The plan is also affected by the provisions of collective bargaining agreements between the city and its firefighters, as well as Act 111 interest arbitration awards. The plan was established December 8, 1927. Active members are required to contribute 5 percent of compensation to the plan. As of December 31, 2020, the plan had 129 active members, no terminated members eligible for vested benefits in the future, and 188 retirees receiving pension benefits from the plan.

The City of Allentown Officers’ and Employees’ Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Article 141 of the city’s codified ordinances, adopted pursuant to the Third Class City Code. The plan is also affected by the provisions of collective bargaining agreements between the city and its non-uniformed employees. Non-uniformed employees hired prior to August 5, 1981, are members of the officers’ and employees’ pension plan. The plan was established May 1, 1946. Active members are required to contribute 5.5 percent of compensation to the plan. As of December 31, 2020, the plan had 1 active member, no terminated members eligible for vested benefits in the future, and 96 retirees receiving pension benefits from the plan.



CITY OF ALLENTOWN AGGREGATE PENSION FUND  
STATUS OF PRIOR FINDINGS

Compliance With Prior Audit Recommendation

The City of Allentown has complied with the prior recommendation concerning the following:

- Failure To Implement Mandatory Provisions Of Act 205

The city passed Resolution No. 30349 on December 1, 2021, adopting procedures to govern the procurement of professional services contracts regarding the city's pension plans.

Partial Compliance With Prior Audit Recommendation

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

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

In November 2021, the city reimbursed \$33,505 to the Commonwealth for the overpayment of state aid received in 2018 and 2019; 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 years 2020 and 2021, as further discussed in Finding No. 6 in the Findings and Recommendations section of this report.

Noncompliance With Prior Audit Recommendations

The City of Allentown has not complied with the prior recommendations concerning the following as further discussed in the Findings and Recommendations section of this report:

Police Pension Plan

- Plan Provisions Not In Compliance With The Third Class City Code
- Incorrect Pension Benefit Calculations

Firemen's Pension Plan

- Plan Provisions Not In Compliance With The Third Class City Code
- Inconsistent Pension Benefit
- Cost Of Living Adjustment Not In Accordance With The Third Class City Code

CITY OF ALLENTOWN AGGREGATE PENSION FUND  
FINDINGS AND RECOMMENDATIONS

Police Pension Plan

**Finding No. 1 – Noncompliance With Prior Audit Recommendation – Plan Provisions Not In Compliance With The Third Class City Code**

Condition: The city adopted a home rule charter pursuant to the Home Rule Charter and Optional Plans Law, 53 Pa. C.S. § 2901 et seq. (previously 53 P.S. § 1-101 et seq.). As disclosed in the five most recent audit reports, the plan’s governing document contains provisions that are not in compliance with the Third Class City Code, as noted below:

<u>Provision</u>	<u>Plan Governing Document</u>	<u>Third Class City Code</u>
Survivor benefits for a surviving spouse of a retiree	In case there is no surviving spouse, or after the death of the surviving spouse, or in case of her or his remarriage, the pension and service increment shall be paid to the guardian of the deceased officer’s dependent children, if any, without abatement until the youngest child reaches the age of eighteen (18) years, after which all pension and service increment rights shall cease, with the exception that after the last child has reached the age of eighteen (18) years, then the surviving spouse who has since remarried, at this time will once again have his or her pension rights as a surviving spouse reinstated for the remainder of his/her life.	<p>The spouse of a member of the police force or a member who retires on pension who dies or, if no spouse survives or if the spouse survives and subsequently dies or remarries, the child or children under 18 years of age of a member of the police force or a member who retires on pension who dies on or after August 1, 1963, shall, during the lifetime of the surviving spouse, even if the surviving spouse remarries, or until reaching 18 years of age in the case of a child or children, be entitled to receive a pension calculated at the rate of 50% of the pension the member was receiving or would have been receiving if the member was retired at the time of the member’s death and may receive the pension the member was receiving or would have been receiving had the member been retired at the time of the member’s death.</p> <p>The payments under paragraph (2) shall be made to a surviving spouse even if the spouse remarries or, if no spouse survives or if the individual survives and subsequently dies, to the children under 18 years of age of:</p> <ul style="list-style-type: none"> <li>(i) a member of the police force;</li> <li>(ii) a member retired on pension; or</li> <li>(iii) a member who died in service.</li> </ul>

CITY OF ALLENTOWN AGGREGATE PENSION FUND  
FINDINGS AND RECOMMENDATIONS

Police Pension Plan – (Continued)

**Finding No. 1 – (Continued)**

<u>Provision</u>	<u>Plan Governing Document</u>	<u>Third Class City Code</u>
Refund of service increment contributions	Not provided.	Service increment contributions shall be paid at the same time and in the same manner as retirement contributions, and may be withdrawn in full, without interest, by persons who leave the employment of such city, subject to the same conditions by which retirement contributions may be withdrawn, or by persons who retire before becoming entitled to any service increment.
Nonservice-related disability benefit with more than 10 years of service	50.5% of salary and any service increment in effect on the date which the officer may be entitled to at the time of retirement.	Benefit may be 50% of annual compensation.
Credit for police cadet/para police service	Every current member of the Police Pension Fund who served as a City of Allentown Police “Cadet” or “Para Police” Officer prior to their appointment as a police officer shall be entitled to have full credit for each year or fraction thereof, not to exceed four (4) years of such service, upon payment to the Police Pension Fund of an amount equal to that which they would have paid had they been a member of the Police Pension Fund during the period of Allentown “Cadet” or “Para Police” service. All purchased Allentown “Cadet” or “Para Police” service shall be credited as “active service” for pension purposes.	Not provided.

CITY OF ALLENTOWN AGGREGATE PENSION FUND  
FINDINGS AND RECOMMENDATIONS

Police Pension Plan – (Continued)

**Finding No. 1 – (Continued)**

Criteria: As previously disclosed, the Commonwealth Court of Pennsylvania issued its opinion in *Municipality of Monroeville v. Monroeville Police Department Wage Policy Committee* on January 24, 2001. Therein, the court held that Section 2962(c)(5) of the Home Rule Charter and Optional Plans Law, 53 Pa. C.S. § 2962(c)(5), “clearly precludes home rule municipalities from providing pension benefits different from those prescribed in general law.” The court’s holding was in accordance with the position taken by this Department since at least January 1995.

Cause: Municipal officials again failed to take appropriate corrective action to comply with the prior audit recommendation.

Effect: The provision of benefits that are not in compliance with the Third Class City Code could increase the plan’s pension costs and reduce the amount of funds available for investment purposes or the payment of authorized benefits or administrative expenses. Since the city received its state aid allocations based on unit value during the current audit period, it did not receive excess state aid allocations attributable to the benefits not in compliance with the Third Class City Code. However, providing benefits not in compliance with the Third Class City Code could result in the receipt of excess state aid in the future, and could also increase the city’s required contributions to the plan.

In addition, the failure to provide benefits mandated by the Third Class City Code could result in plan members or their beneficiaries being denied benefits to which they are statutorily entitled.

Recommendation: As noted in the prior audit report, until *Monroeville*, there was no definitive decision as to whether home rule municipalities were obliged to comply with applicable pension law. The Department seeks, therefore, to implement the decision in as equitable a fashion as possible, while paying necessary deference to the court’s ruling. Accordingly, the Department will not penalize a home rule municipality for granting benefits not authorized by the Third Class City Code to existing retirees or to individuals who began full-time employment before January 24, 2001 (the date *Monroeville* was issued). However, to the extent that the city is providing pension benefits in excess of those authorized by the Third Class City Code to employees who began full-time employment on or after that date, the unauthorized benefits will be deemed ineligible for funding with state pension aid. In such case, the plan’s actuary may be required to determine the impact, if any, of the unauthorized benefits on the city’s future state aid allocations and submit this information to the Department.

CITY OF ALLENTOWN AGGREGATE PENSION FUND  
FINDINGS AND RECOMMENDATIONS

Police Pension Plan – (Continued)

**Finding No. 1 – (Continued)**

Furthermore, we again caution city officials that the Department’s application of *Monroeville* only to employees hired on or after January 24, 2001, does not sanction (1) a municipality’s granting excess benefits to existing or future employees when none had been granted as of January 24, 2001, or (2) a municipality’s increasing excess benefits for existing or future employees beyond those that had been granted as of that date.

Finally, to the extent that the city is not providing benefits mandated by the Third Class City Code, we recommend that those benefits be adopted at the city’s earliest opportunity to do so.

Management’s Response: At the exit conference held on December 8, 2021, current municipal officials indicated agreement with the finding. Although we requested a formal management response, no such response has been provided as of the date of this report.

During the prior audit, municipal officials provided the following response which was included in the prior audit report:

Management is aware of the ongoing finding with respect to apparent inconsistencies between certain City pension plan provisions and those permitted by the Third Class City Code. Management further acknowledges that previous City responses to this finding have questioned the legal inconsistency of such provisions. The City will abide by the provisions of its existing collective bargaining agreements and will aim through future bargaining agreements and amendments to City ordinances to harmonize the plan provisions with those of the Third Class City Code to the extent legally necessary and as quickly as possible.

Auditor’s Conclusion: Compliance will be evaluated during our next audit of the pension fund.

CITY OF ALLENTOWN AGGREGATE PENSION FUND  
FINDINGS AND RECOMMENDATIONS

Police Pension Plan – (Continued)

**Finding No. 2 – Noncompliance With Prior Audit Recommendation – Incorrect Pension Benefit Calculations**

Condition: As disclosed in the prior audit report, the city incorrectly calculated the pension calculations for five retired or vested police officers during prior audit periods, as listed in the following table:

	<u>Date of Termination/ Retirement</u>	<u>Type of Calculation Error</u>	<u>Monthly Benefit Overpaid (Underpaid)</u>
Officer 1	02/10/2014	Incorrect 2009 and 2010 compensation used in calculation.	\$ (47)
Officer 2*	09/15/2016	Calculation contains mathematical error.	\$ (8)
Officer 3	12/05/2017	Calculation based on the incorrect eligible pension percentage.	\$ 863
Officer 4	12/31/2017	Calculation contains inaccurate payroll.	\$ 140
Officer 5	12/03/2018	Calculation contains excess shift differential, incorrect military buyback.	\$ 1,295

\* Officer terminated employment September 15, 2016 and began receiving vested benefit in September 2020.

Criteria: Article 143 of the Codified Ordinances at Section 143.14.5 states, in part:

C. Effective January 1, 2005, the basis of the amount of the pension shall be determined by the rate of the monthly pay of the employee at the time of retirement, or the highest average annual salary which the Covered Employee received during any five (5) years of service preceding retirement, whichever is higher. During the final thirty (30) days of employment, a retiring employee shall not artificially contrive or manipulate his regular or overtime hours so as to increase the rate of pension to which he would otherwise be entitled. When the Covered Employee submits his/her letter of retirement to the City, the City shall provide the employee with an itemized list of salary for each and all years of service. Salary will include base pay, longevity, holiday pay, shift differential and overtime....

CITY OF ALLENTOWN AGGREGATE PENSION FUND  
FINDINGS AND RECOMMENDATIONS

Police Pension Plan – (Continued)

**Finding No. 2 – (Continued)**

Article 143 of the Codified Ordinances at Section 143.16 states, in part:

Effective August 23, 1999, every covered employee who has served for a period of at least twenty (20) years of continuous service, regardless of age, shall be permitted to retire and receive a pension at the rate of fifty and one half (50.5%) percent of his/her salary on the date of retirement.

Article 143 of the Codified Ordinances at Section 143.18 (B) states:

Effective January 1, 2005, the total of pension and service increments shall represent the following percentages of salary:

21 years of service	58%
22 years of service	61%
23 years of service	64%
24 years of service	67%
25 years of service	70%

Act 67 at Section 14302 (c) states:

Military service.--With the approval of council, a member of the police pension fund shall be entitled to have full credit for each year or fraction of a year, not to exceed five years, of the service upon the member's payment to:

- (1) the police pension fund of an amount equal to that which the member would have paid had the member been a member during the period for which credit is desired; and
- (2) the fund of an additional amount as the equivalent of the contributions of the city on account of the military service.

To be eligible under this subsection, the member must be a contributor who served in the armed forces of the United States after September 1, 1940, and was not a member of the police pension fund prior to the military service.

CITY OF ALLENTOWN AGGREGATE PENSION FUND  
FINDINGS AND RECOMMENDATIONS

Police Pension Plan – (Continued)

**Finding No. 2 – (Continued)**

Article 143 of the Codified Ordinances at Section 143.21 states, in part:

Every covered employee who served in the Armed Forces of the United States subsequent to September 1, 1940, and who was not a member of the covered Police Department prior to such military service, shall be entitled to have full credit for each year or fraction thereof, not to exceed five (5) years of such service, upon his/her payment to the Police Pension Fund of an amount equal to that which he/she would have paid had he/she been a member during the period for which he/she desires credit, and his/her payment to such fund of an additional amount as the equivalent of the contributions of the CITY OF ALLENTOWN on account of such military service. All purchased military time shall be credited as “active service” for pension purposes.

Article 143 of the Codified Ordinances at Section 143.08 C (4) states, in part:

Any police officer who has less than ten (10) years of service and who is totally disabled due to injuries or mental incapacities not in the line of duty and is unable to perform the duties of a police officer, shall be entitled to a pension of twenty-five (25%) percent of his or her annual compensation. For injuries received after ten (10) years of service, the compensation shall be fifty (50%) percent of his or her annual compensation. If such retirement occurs on or after January 1, 1995, such pension shall be equivalent to fifty and one-half (50-1/2%) percent of such salary and any service increment in effect on that date which the officer may have been entitled to at the time of retirement.

Cause: Municipal officials again failed to take appropriate corrective action to comply with the prior audit recommendation.

Effect: The plan is not paying the proper amount of pension benefits to retirees as authorized by the plan’s governing document.

Recommendation: We again recommend that municipal officials adjust the retiree’s pension benefits in accordance with the provisions contained in the plan’s governing document.



CITY OF ALLENTOWN AGGREGATE PENSION FUND  
FINDINGS AND RECOMMENDATIONS

Police Pension Plan – (Continued)

**Finding No. 2 – (Continued)**

Management's Response: At the exit conference held on December 8, 2021, current municipal officials indicated agreement with the finding. Although we requested a formal management response, no such response has been provided as of the date of this report.

During the prior audit, municipal officials provided the following response which was included in the prior audit report:

Management agrees with this finding and is taking proactive steps to minimize the likelihood of incorrect pension calculations going forward. Discrete written procedures by which the City calculates beneficiary pensions are nearing completion, and they will be disseminated to all affected parties when finished. Additionally, the City has added staff for pension computation and therefore should achieve both greater accuracy and speed in the computation process.

Auditor's Conclusion: Compliance will be evaluated during our next audit of the pension fund.

CITY OF ALLENTOWN AGGREGATE PENSION FUND  
FINDINGS AND RECOMMENDATIONS

Firemen’s Pension Plan

**Finding No. 3 – Noncompliance With Prior Audit Recommendation – Plan Provisions Not In Compliance With The Third Class City Code**

Condition: The city adopted a home rule charter pursuant to the Home Rule Charter and Optional Plans Law, 53 Pa. C.S. § 2901 et seq. (previously 53 P.S. § 1-101 et seq.). As disclosed in the five most recent audit reports, certain plan provisions are not in compliance with the Third Class City Code, as noted below:

<u>Provision</u>	<u>Plan Governing Document</u>	<u>Third Class City Code</u>
Survivor benefits for minor children of members not killed in service	Upon the death of the surviving spouse, pension benefits shall be paid to the guardian of the deceased officer’s dependent children, if any, without abatement until the youngest child reaches the age of 18 or up to 23 if enrolled in and attending a post-secondary certified education institution on a full time basis.	Not provided.
Refund of service increment contributions	Not provided.	Service increment contributions may be withdrawn in full, without interest, by persons who leave the employment of such city, subject to the same conditions by which retirement contributions may be withdrawn, or by persons who retire before becoming entitled to any service increment.

Criteria: As previously disclosed, the Commonwealth Court of Pennsylvania issued its opinion in *Municipality of Monroeville v. Monroeville Police Department Wage Policy Committee* on January 24, 2001. Therein, the court held that Section 2962(c)(5) of the Home Rule Charter and Optional Plans Law, 53 Pa. C.S. § 2962(c)(5), “clearly precludes home rule municipalities from providing pension benefits different from those prescribed in general law.” The court’s holding was in accordance with the position taken by this Department since at least January 1995.

CITY OF ALLENTOWN AGGREGATE PENSION FUND  
FINDINGS AND RECOMMENDATIONS

Firemen's Pension Plan – (Continued)

**Finding No. 3 – (Continued)**

Cause: Municipal officials again failed to take appropriate corrective action to comply with the prior audit recommendation.

Effect: The provision of benefits that are not in compliance with the Third Class City Code could increase the plan's pension costs and reduce the amount of funds available for investment purposes or the payment of authorized benefits or administrative expenses. Since the city received its state aid allocations based on unit value during the current audit period, it did not receive excess state aid allocations attributable to the benefits not in compliance with the Third Class City Code. However, providing benefits not in compliance with the Third Class City Code could result in the receipt of excess state aid in the future, and could also increase required municipal contributions to the plan.

In addition, the failure to provide benefits mandated by the Third Class City Code could result in plan members or their beneficiaries being denied benefits to which they are statutorily entitled.

Recommendation: As noted in the prior audit report, until *Monroeville*, there was no definitive decision as to whether home rule municipalities were obliged to comply with applicable pension law. The Department seeks, therefore, to implement the decision in as equitable a fashion as possible, while paying necessary deference to the court's ruling. Accordingly, the Department will not penalize a home rule municipality for granting benefits not authorized by Third Class City Code to existing retirees or to individuals who began full-time employment before January 24, 2001 (the date *Monroeville* was issued). However, to the extent that the city is providing pension benefits in excess of those authorized by the Third Class City Code to employees who began full-time employment on or after that date, the unauthorized benefits will be deemed ineligible for funding with state pension aid. In such case, the plan's actuary may be required to determine the impact, if any, of the unauthorized benefits on the city's future state aid allocations and submit this information to the Department.

Furthermore, we again caution city officials that the Department's application of *Monroeville* only to employees hired on or after January 24, 2001, does not sanction (1) a municipality's granting excess benefits to existing or future employees when none had been granted as of January 24, 2001, or (2) a municipality's increasing excess benefits for existing or future employees beyond those that had been granted as of that date.

CITY OF ALLENTOWN AGGREGATE PENSION FUND  
FINDINGS AND RECOMMENDATIONS

Firemen's Pension Plan – (Continued)

**Finding No. 3 – (Continued)**

Finally, to the extent that the city is not providing benefits mandated by the Third Class City Code, we recommend that those benefits be adopted at the city's earliest opportunity to do so.

Management's Response: At the exit conference held on December 8, 2021, current municipal officials indicated agreement with the finding. Although we requested a formal management response, no such response has been provided as of the date of this report.

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Management is aware of the ongoing finding with respect to apparent inconsistencies between certain City pension plan provisions and those permitted by the Third Class City Code. Management further acknowledges that previous City responses to this finding have questioned the legal inconsistency of such provisions. The City will abide by the provisions of its existing collective bargaining agreements and will aim through future bargaining agreements and amendments to City ordinances to harmonize the plan provisions with those of the Third Class City Code to the extent legally necessary and as quickly as possible.

Auditor's Conclusion: Compliance will be evaluated during our next audit of the pension fund.

CITY OF ALLENTOWN AGGREGATE PENSION FUND  
FINDINGS AND RECOMMENDATIONS

Firemen’s Pension Plan – (Continued)

**Finding No. 4 – Noncompliance With Prior Audit Recommendation – Inconsistent Pension Benefit**

Condition: As disclosed in the two most recent audit reports, the pension plan’s governing document, Article 145 of the city’s codified ordinance, contains a benefit provision that conflicts with the collective bargaining agreement between the firefighters and the city, as follows:

<u>Benefit Provision</u>	<u>Governing Document</u>	<u>Collective Bargaining Agreement</u>
Service increment	21 years of service – 3%; 22-25 years of service – 3.5%; at least 22 ½ years of service but less than 23 years of service - receive credit of 2.5 service increments.	For all employees hired after 1/1/2012, 1/40 <sup>th</sup> (2.5%) of pension benefit multiplied by the number of whole years in excess of 20 years, not to exceed \$200 per month.

Criteria: A governing document which contains clearly defined and updated benefit provisions is a prerequisite for the consistent, sound administration of retirement benefits. The plan’s governing document and the collective bargaining agreement should contain consistent benefit provisions to ensure the sound administration of retirement benefits.

Cause: Municipal officials again failed to take appropriate corrective action to comply with the prior audit recommendation.

Effect: Inconsistent plan documents could result in inconsistent or improper benefit calculations and incorrect benefit payments from the pension plan.

Recommendation: We again recommend that municipal officials take appropriate action to ensure the plan’s governing document and the collective bargaining agreement contain consistent benefit provisions at their earliest opportunity to do so.

Management’s Response: At the exit conference held on December 8, 2021, current municipal officials indicated agreement with the finding. Although we requested a formal management response, no such response has been provided as of the date of this report.

CITY OF ALLENTOWN AGGREGATE PENSION FUND  
FINDINGS AND RECOMMENDATIONS

Firemen's Pension Plan – (Continued)

**Finding No. 4 – (Continued)**

During the prior audit, municipal officials provided the following response which was included in the prior audit report:

Management agrees with this finding. The City will harmonize the appropriate provisions of the ordinances with those of the collective bargaining agreements as soon as possible.

Auditor's Conclusion: Compliance will be evaluated during our next audit of the pension fund.

**Finding No. 5 – Noncompliance With Prior Audit Recommendation – Cost Of Living Adjustment Not In Accordance With The Third Class City Code**

Condition: As disclosed in the prior audit report, the pension plan's governing document contains a cost of living adjustment (COLA) provision that is not authorized by the Third Class City Code. Section 145.18.3 of the city's codified ordinance states, in part:

Any covered employee, retiring after January 1, 2005 shall be eligible to receive an annual Cost of Living Adjustment. Such adjustments shall be in conformity with a uniform scale, which shall be based on the cost of living as described below, but the sum total of the employee's pension and such allowances shall not at any time exceed one-half of the current salary being paid to Fire Fighters of the same rank held by the Firefighter prior to retirement.

During the prior audit period, excess COLAs were granted to six retired firefighters. During the current audit period, two of those retirees' COLAs continued to be in excess in addition to one new additional retiree with an excess COLA, totaling three retired firefighters.

Criteria: Section 14322.1 (b) of the Third Class City Code states:

Increases made pursuant to this section shall be in conformity with a uniform scale, which may be based on the cost of living, but the total of the allowances shall not, at any time, exceed one-half of the current salary being paid firefighters of the highest pay grade. [Emphasis added.]

Cause: Municipal officials again failed to take appropriate corrective action to comply with the prior audit recommendation.

CITY OF ALLENTOWN AGGREGATE PENSION FUND  
FINDINGS AND RECOMMENDATIONS

Firemen's Pension Plan – (Continued)

**Finding No. 5 – (Continued)**

Effect: The plan is paying pension benefits to three retirees in excess of those authorized by the Third Class City Code. As of the date of this report, the retirees have received total excess benefits of approximately \$17,648 until the date of this report.

Providing unauthorized pension benefits increases the plan's pension costs and reduces the amount of funds available for investment purposes or for the payment of authorized benefits or administrative expenses. Since the city received state aid based on unit value during the current audit period, it did not receive allocations attributable to the excess pension benefits provided. However, the increased costs to the pension plan as a result of the excess pension benefits could result in the receipt of excess state aid in the future and increase the municipal contributions necessary to fund the plan in accordance with Act 205 funding standards.

Recommendation: We again recommend that the city amend the governing document to be in compliance with the Third Class City Code and ensure that future cost of living adjustments are in compliance with the Third Class City Code.

Management's Response: At the exit conference held on December 8, 2021, current municipal officials indicated agreement with the finding. Although we requested a formal management response, no such response has been provided as of the date of this report.

During the prior audit, municipal officials provided the following response which was included in the prior audit report:

Management agrees with this finding and seeks to ensure that future cost-of-living calculations adhere to the provisions of the Third Class City Code.

Auditor's Conclusion: Compliance will be evaluated during our next audit of the pension fund.

CITY OF ALLENTOWN AGGREGATE PENSION FUND  
FINDINGS AND RECOMMENDATIONS

Aggregate Pension Fund

**Finding No. 6 – Partial Compliance With Prior Audit Recommendation – Incorrect Data On Certification Form AG 385 Resulting In A Net Underpayment Of State Aid**

Condition: As disclosed in the Status of Prior Findings section of this report, although the city reimbursed the Commonwealth for the overpayment of state aid received in 2018 and 2019, 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 years 2020 and 2021.

The city failed to certify 2 eligible police employees (4 units) and certified 1 ineligible non-uniformed employee (1 unit) on the Certification Form AG 385 filed in 2020. In addition, subsequent to the current audit period, the city failed to certify 3 eligible non-uniformed employees (3 units) on the Certification Form AG 385 filed in 2021. The data contained on these certification forms 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: Plan officials again failed to establish adequate internal control procedures to ensure the accuracy of the data certified. As a result, errors occurred due to oversights by the city given the large population size of the city’s active employees.

Effect: The data submitted on these certification forms 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 allocations were based on unit value, the incorrect certification of pension data affected the city’s state aid allocations, 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>
2020	Police	(4)	\$ 4,924	\$ (19,696)
	O&E - PMRS	1	4,924	4,924
			Total	<u>(14,772)</u>
2021	O&E - PMRS	(3)	\$ 4,797	<u>\$ (14,391)</u>
			Net Underpayment of State Aid	<u>\$ (29,163)</u>



CITY OF ALLENTOWN AGGREGATE PENSION FUND  
FINDINGS AND RECOMMENDATIONS

Aggregate Pension Fund – (Continued)

**Finding No. 6 – (Continued)**

Although the additional state aid will be allocated to the city, full amount of the 2020 and 2021 state aid allocations were not available to be deposited timely and therefore were not available to pay operating expenses or for investment.

Recommendation: We again 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.

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

Auditor's Conclusion: Compliance will be evaluated during our next audit of the pension fund.

CITY OF ALLENTOWN AGGREGATE PENSION FUND  
 SUPPLEMENTARY INFORMATION  
 (UNAUDITED)

SCHEDULE OF FUNDING PROGRESS

POLICE PENSION PLAN

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, 2016, 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)
01-01-16*	\$ 150,541,282	\$ 172,087,146	\$ 21,545,864	87.5%
01-01-17	154,217,523	189,076,712	34,859,189	81.6%
01-01-18*	159,712,488	196,303,459	36,590,971	81.4%
01-01-19	163,859,683	202,033,321	38,173,638	81.1%
01-01-20*	172,043,392	210,488,281	38,444,889	81.7%
01-01-21*	186,545,645	231,507,633	44,961,988	80.6%

\* Data reported on annual actuarial valuation report prepared in addition to the reports filed biennially with the Municipal Pension Reporting Program.

Note: The market values of the plan’s assets at 01-01-16, 01-01-17, 01-01-18, 01-01-19, 01-01-20, and 01-01-21 have been adjusted to reflect five-year smoothing of gains and/or losses. 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 ALLENTOWN AGGREGATE PENSION FUND  
 SUPPLEMENTARY INFORMATION  
 (UNAUDITED)

SCHEDULE OF FUNDING PROGRESS

FIREMEN’S PENSION PLAN

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, 2016, 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)
01-01-16*	\$ 102,403,794	\$ 117,476,288	\$ 15,072,494	87.2%
01-01-17	103,743,077	123,554,344	19,811,267	84.0%
01-01-18*	106,397,272	126,055,338	19,658,066	84.4%
01-01-19	107,080,303	127,317,052	20,236,749	84.1%
01-01-20*	110,546,468	129,965,868	19,419,400	85.1%
01-01-21*	117,897,805	134,967,566	17,069,761	87.4%

\* Data reported on annual actuarial valuation report prepared in addition to the reports filed biennially with the Municipal Pension Reporting Program.

Note: The market values of the plan’s assets at 01-01-16, 01-01-17, 01-01-18, 01-01-19, 01-01-20, and 01-01-21 have been adjusted to reflect five-year smoothing of gains and/or losses. 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 ALLENTOWN AGGREGATE PENSION FUND  
 SUPPLEMENTARY INFORMATION  
 (UNAUDITED)

SCHEDULE OF FUNDING PROGRESS

OFFICERS' AND EMPLOYEES' PENSION PLAN

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, 2016, 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)
01-01-16*	\$ 15,112,390	\$ 15,970,269	\$ 857,879	94.6%
01-01-17	14,124,036	15,098,812	974,776	93.5%
01-01-18*	13,100,702	13,877,224	776,522	94.4%
01-01-19	11,728,438	12,913,821	1,185,383	90.8%
01-01-20*	10,554,983	12,078,320	1,523,337	87.4%
01-01-21*	9,716,940	10,926,347	1,209,407	88.9%

\* Data reported on annual actuarial valuation report prepared in addition to the reports filed biennially with the Municipal Pension Reporting Program.

Note: The market values of the plan's assets at 01-01-16, 01-01-17, 01-01-18, 01-01-19, 01-01-20, and 01-01-21 have been adjusted to reflect five-year smoothing of gains and/or losses. 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 ALLENTOWN 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.

CITY OF ALLENTOWN AGGREGATE PENSION FUND  
 SUPPLEMENTARY INFORMATION  
 (UNAUDITED)

POLICE PENSION PLAN

SCHEDULE OF CONTRIBUTIONS

<u>Year Ended December 31</u>	<u>Actuarially Determined Contribution</u>	<u>Actual Contributions</u>	<u>Contribution Deficiency (Excess)</u>	<u>Covered- Employee Payroll</u>	<u>Contributions as a Percentage of Covered- Employee Payroll</u>
2011	\$ 7,338,716	\$ 7,597,844	\$ (259,128)	\$13,788,954	55.10%
2012	7,324,133	8,248,725	(924,592)	14,487,385	56.94%
2013	2,276,774	86,776,774	(84,500,000)*	15,293,935	567.39%
2014	2,507,471	2,507,471	-	17,031,352	14.72%
2015	2,669,759	2,669,759	-	17,794,000	15.00%
2016	4,216,537	4,216,537	-	18,931,433	22.27%
2017	4,341,381	4,341,381	-	19,231,733	22.57%
2018	6,924,460	6,924,460	-	19,718,764	35.12%
2019	7,046,609	7,046,609	-	20,904,708	33.71%
2020	7,918,392	7,918,392	-	**	

\* The 2013 Contribution Excess reflects the deposit of note proceeds in the amount of \$84,500,000.

\*\* Due to the timing of this audit, covered-employee payroll for 2020 was not provided in this schedule.

CITY OF ALLENTOWN AGGREGATE PENSION FUND  
 SUPPLEMENTARY INFORMATION  
 (UNAUDITED)

FIREMEN'S PENSION PLAN

SCHEDULE OF CONTRIBUTIONS

<u>Year Ended December 31</u>	<u>Actuarially Determined Contribution</u>	<u>Actual Contributions</u>	<u>Contribution Deficiency (Excess)</u>	<u>Covered- Employee Payroll</u>	<u>Contributions as a Percentage of Covered- Employee Payroll</u>
2011	\$ 4,146,949	\$ 4,293,176	\$ (146,227)	\$ 7,558,653	56.80%
2012	4,069,771	4,583,476	(513,705)	9,755,213	46.98%
2013	1,508,323	62,708,409	(61,200,086)*	8,117,293	772.53%
2014	1,345,613	1,355,613	(10,000)	8,968,810	15.11%
2015	1,205,379	1,205,379	-	9,544,000	12.63%
2016	2,965,478	2,965,478	-	9,901,453	29.95%
2017	3,068,607	3,068,607	-	10,408,858	29.48%
2018	3,714,299	3,714,299	-	10,776,923	34.47%
2019	3,779,843	3,779,843	-	11,226,704	33.67%
2020	4,063,701	4,063,701	-	**	

\* The 2013 Contribution Excess reflects the deposit of note proceeds in the amount of \$61,200,086.

\*\* Due to the timing of this audit, covered-employee payroll for 2020 was not provided in this schedule.

CITY OF ALLENTOWN AGGREGATE PENSION FUND  
 SUPPLEMENTARY INFORMATION  
 (UNAUDITED)

OFFICERS' AND EMPLOYEES' PENSION PLAN

SCHEDULE OF CONTRIBUTIONS

<u>Year Ended December 31</u>	<u>Actuarially Determined Contribution</u>	<u>Actual Contributions</u>	<u>Contribution Deficiency (Excess)</u>	<u>Covered- Employee Payroll</u>	<u>Contributions as a Percentage of Covered- Employee Payroll</u>
2011	\$ 514,014	\$ 532,150	\$ (18,136)	\$ 250,324	212.58%
2012	512,669	577,431	(64,762)	250,856	230.18%
2013	81,097	4,381,097	(4,300,000)*	62,491	7,010.76%
2014	103,519	103,519	-	64,960	159.36%
2015	161,022	161,022	-	70,000	230.03%
2016	149,540	149,540	-	71,512	209.11%
2017	149,845	149,845	-	74,062	202.32%
2018	203,427	203,427	-	76,590	265.61%
2019	203,401	203,401	-	78,833	258.02%
2020	230,346	230,346	-	**	

\* The 2013 Contribution Excess reflects the deposit of note proceeds in the amount of \$4,300,000.

\*\* Due to the timing of this audit, covered-employee payroll for 2020 was not provided in this schedule.



CITY OF ALLENTOWN AGGREGATE PENSION FUND  
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:

POLICE PENSION PLAN

Actuarial valuation date	January 1, 2021
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	11 years
Asset valuation method	5-year smoothing method described in Section 3.16 of Revenue Procedure 2000-40.
Actuarial assumptions:	
Investment rate of return	7.4%
Projected salary increases	3.5% - 4.5%

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

FIREMEN'S PENSION PLAN

Actuarial valuation date	January 1, 2021
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	11 years
Asset valuation method	5-year smoothing method described in Section 3.16 of Revenue Procedure 2000-40.
Actuarial assumptions:	
Investment rate of return	7.4%
Projected salary increases	3.5% - 4.5%

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

OFFICERS' AND EMPLOYEES' PENSION PLAN

Actuarial valuation date	January 1, 2021
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	2 years
Asset valuation method	5-year smoothing method described in Section 3.16 of Revenue Procedure 2000-40.
Actuarial assumptions:	
Investment rate of return	6.4%
Projected salary increases	4.5%

CITY OF ALLENTOWN AGGREGATE PENSION FUND  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

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