COMPLIANCE AUDIT

City of Easton Aggregated Pension Trust Fund

Northampton County, Pennsylvania

For the Period
January 1, 2019 to December 31, 2020

March 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 Easton
Northampton County
Easton, PA 18042

We have conducted a compliance audit of the City of Easton Aggregated Pension Trust 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 trust 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 trust 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 respective plans' governing documents and applicable laws and regulations by examining the municipality's calculation of the plans' annual financial requirements and minimum municipal obligations (MMOs) 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 respective pension plans in accordance with the plans' governing document and applicable laws and regulations by testing total members' contributions on an annual basis using the rates obtained from the plans' 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 plans.

- We determined whether retirement benefits calculated for plan members who retired during the current audit period, and through the completion of our fieldwork procedures, represent payments to all (and only) those entitled to receive them and were properly determined and disbursed in accordance with the plan's governing document, applicable laws, and regulations by recalculating the amount of the pension benefits due to the retired individuals and comparing these amounts to supporting documentation evidencing amounts determined and payable to the recipients.

- 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 trust 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 for pension obligation bonds issued during the current audit period.

- We determined whether provisions of the Deferred Retirement Option Plan (DROP) were in accordance with the provisions of Act 205 by examining provisions stated in the plans' governing documents.

The City of Easton contracted with an independent certified public accounting firm for annual audits of the City of Easton Aggregated Pension Trust Fund'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 Easton Aggregated Pension Trust 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 Easton Aggregated Pension Trust 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:

<u>Police Pension Plan</u>

Finding No. 1 – Noncompliance With Prior Audit Recommendation – Inconsistent Benefit Provisions And Provision Of Pension Benefits Not In Compliance With The Third Class City Code

<u>Firemen's Pension Plan</u>

Finding No. 2 – Noncompliance With Prior Audit Recommendation – Provision Of Benefits Not In Compliance With The Third Class City Code

Finding No. 3 – Noncompliance With Prior Audit Recommendation – Incorrect Data On Certification Form AG 385 Resulting In A Net Underpayment Of State Aid

<u>Officers' and Employees' Pension Plan</u>

Finding No. 4 – Incorrect Pension Benefit Calculations

Finding Nos. 1, 2 and 3 contained in this audit report repeat conditions that were cited in our previous report that have not been corrected by city officials. We are concerned by the city's failure to correct those previously reported findings and strongly encourage timely implementation of the recommendations noted in this audit report.

As previously noted, one of the objectives of our audit of the City of Easton Aggregated Pension Trust Fund was to determine compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies. Act 205 was amended on September 18, 2009, through the adoption of Act 44 of 2009. Among several provisions relating to municipal pension plans, the act provides for the implementation of a distress recovery program. Three levels of distress have been established:

Level	Indication	Funding Criteria
I	Minimal distress	70-89%
II	Moderate distress	50-69%
III	Severe distress	Less than 50%

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. **However, we are extremely concerned about the funded status of the plan contained in the schedules of funding progress included in this report which indicates the police pension plan's funded ratio is 53.0%, and the officers' and employees' pension plan's funded ratio is 59.3% as of January 1, 2019, which is the most recent data available. Based on this information, and the funded status of the city's Officers' and Employee' PMRS Pension Plan, the Municipal Pension Reporting Program issued a notification that the city is currently in Level II moderate distress status.** We encourage city officials to monitor the funding of its pension plans to ensure its long-term financial stability.

The contents of this report were discussed with officials of the City of Easton 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.

Timothy L. DeFoor

Timothy L. DeFoor
Auditor General
February 18, 2022

CONTENTS

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 Easton Aggregated Pension Trust 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 177 - General Local Government Code, Act of December 19, 1996 (P.L. 1158, No. 177), as amended, 53 Pa.C.S. § 101 et seq.

The City of Easton Aggregated Pension Trust Fund acts as a common investment and administrative agent for the city's police, firemen's, and officers' and employees' defined benefit pension plans.

The City of Easton Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Article II of Chapter 110 of the city's codified ordinances. The plan is also affected by the provisions of collective bargaining agreements between the city and its police officers. The plan was established July 1, 1923. Active members are required to contribute 6 percent of compensation to the plan. As of December 31, 2020, the plan had 60 active members, 1 terminated member eligible for vested benefits in the future, and 80 retirees receiving pension benefits from the plan.

BACKGROUND

The City of Easton Firemen's Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Article V of Chapter 110 of the city's codified ordinances. The plan is also affected by the provisions of collective bargaining agreements between the city and its firefighters. The plan was established June 23, 1931. Active members are required to contribute 6.5 percent of compensation to the plan. As of December 31, 2020, the plan had 42 active members, no terminated members eligible for vested benefits in the future, and 46 retirees receiving pension benefits from the plan.

The City of Easton Officers' and Employees' Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Article III of Chapter 110 of the city's codified ordinances for non-uniformed employees hired prior to January 1, 1979. The plan is also affected by the provisions of collective bargaining agreements between the city and its non-uniformed employees. The plan was established May 23, 1945. Active members are required to contribute 6.5 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 51 retirees receiving pension benefits from the plan.

CITY OF EASTON AGGREGATED PENSION TRUST FUND
STATUS OF PRIOR FINDINGS

Noncompliance With Prior Recommendations

The City of Easton 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

- Inconsistent Benefit Provisions And Provision Of Pension Benefits Not In Compliance With The Third Class City Code

Firemen's Pension Plan

- Provision Of Benefits Not In Compliance With The Third Class City Code

Officers' and Employees' Pension Plan

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

Police Pension Plan

Finding No. 1 – Noncompliance With Prior Audit Recommendation – Inconsistent Benefit Provisions And Provision Of Pension Benefits Not In Compliance With The Third Class City Code

Condition: As disclosed in the prior four audit reports, the City of Easton operated pursuant to the Optional Third Class City Charter Law, Act of July 15, 1957 (P.L. 901, No. 399), as amended, 53 P.S. § 41101 et seq. prior to January 2, 2008. Consequently, the city's aggregated pension trust fund was not subject to the constraints of the Third Class City Code. 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.), effective January 2, 2008. Therefore, pursuant to this change, the city's pension plans must be in compliance with the Third Class City Code for employees hired after the adoption of the home rule charter. Our previous audits have disclosed that the city has continued to provide benefits to police officers, hired on or after the effective date noted above, that are not in compliance with the Third Class City Code.

In addition, the police pension plan's governing document, Article II of Chapter 110 of City Codified Ordinances, continues to maintain benefit provisions that conflict with the collective bargaining agreement negotiated between the police officers and the city. The inconsistent benefit provisions and the applicable Third Class City Code provisions are illustrated below:

Benefit Provision	Governing Document	Collective Bargaining Agreement	Third Class City Code
Minimum retirement benefit	The minimum pension payable under this section shall be $3,000 per year.	Not provided	Not provided
Service requirement	The later of the member's 50th birthday and the 20th anniversary of the date on which employment commenced.	Any covered employee may make application to retire at 20 years of service regardless of age.	A minimum service requirement of at least 20 years of continuous service for a normal retirement benefit and a minimum age of 50 years, if prescribed.

Police Pension Plan – (Continued)

Finding No. 1 – (Continued)

Benefit Provision	Governing Document	Collective Bargaining Agreement	Third Class City Code
Service-related disability	Should a participant with 12 or fewer years of service become permanently disabled as the result of an on-duty injury, regardless of age of such participant, he shall be entitled to receive such portion of pension as his service up to the date of his termination bears to 20 years of service.	2018-2020 CBA: Not provided 2021-2024 CBA: Regardless of age or service, a police officer with a disability pension shall receive 50% of the officer's annual compensation	A service-related disability benefit equal to the normal monthly pension benefit, regardless of the time served.
Member's contributions	A participant is required to contribute 6% of pensionable compensation. Each participant is required to contribute $1 per month for the service increment contribution until the member has reached age 60.	Pension contributions shall be deducted at 6.5% of pensionable wages plus $2 per pay for survivor's benefits.	A member's contribution rate of up to 5% of the officer's compensation, plus service increment contributions. Service increment contributions are payable only to age 65.

Police Pension Plan – (Continued)

Finding No. 1 – (Continued)

Benefit Provision	Governing Document	Collective Bargaining Agreement	Third Class City Code
Monthly pension benefit	A participant shall receive an annual pension equal to 50% of the employee's pensionable compensation. (Pensionable compensation is defined as the annual salary plus degree pay, longevity pay, personal day buyback, holiday pay, scheduled shift differential, and acting rank pay for regularly scheduled shift of a participant on the date in question.)	Any covered employee with 20 years of service shall be entitled to 50% of pensionable compensation.	The basis of the apportionment of the pension: (1) Shall be determined by the rate of the monthly pay of the member at the date of injury, death, honorable discharge, vesting under section 14302.1 (relating to limited vested benefit) or retirement, or the highest average annual salary that the member received during any five years of service preceding injury, death, honorable discharge, vesting under section 14302.1 or retirement, whichever is higher. (2) Except as to service increments provided for in subsection (d), may not exceed in a year one-half the annual pay of the member computed at the monthly or average annual rate, whichever is higher. section 14303(b)

Police Pension Plan – (Continued)

Finding No. 1 – (Continued)

Benefit Provision	Governing Document	Collective Bargaining Agreement	Third Class City Code
Service increments	The service increment shall be obtained by computing the number of whole years after 20 years of service, including credit for military service as provided in this plan, and multiplying the number of years so computed by 2.5% of pensionable compensation for each year of service to a maximum of 75% of pensionable compensation after 30 years of service. No employment after the participant has reached the age of 60 years shall be included.	Any covered employee with over 20 years of service shall be entitled to additional service increments of 2.5% of pensionable compensation for each additional year of service to a maximum of seventy-five (75%) of pensionable compensation after thirty (30) years of service. Any employee hired after January 1, 2015 with 20 years of service shall be entitled to a maximum of 50% pensionable compensation with no additional increases.	A service increment provision, indicating that additional benefits accrue to age 65 for service exceeding the minimum required for retirement in an amount equal to 1/40th (2.5%) times the monthly <u>pension benefit</u> for each whole year over the minimum, not to exceed $500 per month. (Emphasis added.)

Police Pension Plan – (Continued)

Finding No. 1 – (Continued)

Benefit Provision	Governing Document	Collective Bargaining Agreement	Third Class City Code
Nonservice-related disability	A participant who has not less than 15 years of service shall be eligible to receive a normal retirement benefit. If the participant has at least 12 years of service but less than 15 years of service, regardless of age of such participant, he shall be entitled to receive such portion of the normal retirement benefit as his service up to the date of termination bears to 20 years of service.	Not provided	For officers with less than 10 years of service, a pension equal to 25% of his annual compensation. For officers with more than 10 years of service, a pension equal to 50% of annual compensation.

Criteria: As previously disclosed, on January 24, 2001, the Commonwealth Court of Pennsylvania issued its opinion in *Municipality of Monroeville v. Monroeville Police Department Wage Policy Committee.* 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 including Act 600." The court's holding was in accord with the position taken by this department since at least January 1995. Therefore, for police officers hired on or after January 2, 2008, the pension plan's benefit structure should be in compliance with the provisions of the Third Class City Code.

Furthermore, a governing document which contains clearly defined and updated benefit provisions is a prerequisite for the consistent, sound administration of retirement benefits.

Cause: The City has not been able to amend their police pension plan accordingly since the prior audit period to comply with the Third Class City Code regarding the aforementioned inconsistencies in plan documents as previously recommended.

Police Pension Plan – (Continued)

Finding No. 1 – (Continued)

Effect: Inconsistent plan documents could result in inconsistent or improper benefit calculations and incorrect benefit payments from the pension plan. As noted previously, in 2011, a member began receiving a retirement benefit at the age of 45 because of the inconsistency between the governing document and the collective bargaining agreement.

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.

Furthermore, as previously noted, the plan's governing document contains provisions that could result in plan members receiving pension benefits that are not in accordance with statutorily prescribed provisions of the Third Class City Code.

Recommendation: We again recommend that the city provide pension benefits in accordance with the Third Class City Code for all police officers who began full-time employment on or after January 2, 2008. To the extent that the city is not in compliance with the Third Class City Code and/or is contractually obligated to provide benefits in excess of those authorized by the Third Class City Code to police officers who began employment on or after January 2, 2008, the excess benefits must be reflected in the Act 205 actuarial valuation reports for the plan and funded in accordance with Act 205 funding standards. Furthermore, such 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, on the city's future state aid allocations and submit this information to the department.

Furthermore, to the extent that the city has failed to provide benefits which are mandated by the Third Class City Code, we again recommend that the city increase those benefits to the levels prescribed by the code at its earliest opportunity to do so.

We also again recommend that municipal officials eliminate the inconsistencies between the plan's governing document and the collective bargaining agreement at their earliest opportunity to do so.

Police Pension Plan – (Continued)

Finding No. 1 – (Continued)

Special note should be taken that the department's application of *Monroeville* only to employees hired on or after January 2, 2008, does not sanction (1) a municipality's granting excess benefits to existing or future employees when none had been granted as of January 2, 2008, or (2) a municipality's increasing excess benefits for existing or future employees beyond those that had been granted as of that date.

Management's Response: In 2021, the City Administration and Fraternal Order of Police successfully negotiated a new, four-year Collective Bargaining Agreement and proposed revisions to the Police Pension Ordinance (Governing Document) to ensure that they are in line with Third Class City Code. These amendments should alleviate the inconsistent and out-of-compliance pension benefit provisions seen in prior versions of these documents.

In addition, the Administration and FOP are in the final stages of revising the City's pension ordinance for the police officers. Once those revisions are completed, they will be presented to Easton City Council for approval and should bring the Governing Document in-line with Third Class City Code.

The City Administration also negotiated a successful four-year Collective Bargaining Agreement in 2020 with the International Association of Firefighters. The new Collective Bargaining Agreement attempts to address non-compliant provisions of benefits while proposed amendments to the Governing Document (Fire Pension Ordinance) are also being reviewed with the purpose of bringing both documents in line with Third Class City Code. This should alleviate the provisions of benefits currently not in compliance.

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

Firemen's Pension Plan

Finding No. 2 – Noncompliance With Prior Audit Recommendation – Provision Of Benefits Not In Compliance With The Third Class City Code

Condition: As disclosed in the four previous audit reports, the City of Easton operated pursuant to the Optional Third Class City Charter Law, Act of July 15, 1957 (P.L. 901, No. 399), as amended, 53 P.S. § 41101 et seq. prior to January 2, 2008. Consequently, the city's aggregated pension trust fund was not subject to the constraints of the Third Class City Code. 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.), effective January 2, 2008. Therefore, pursuant to this change the city's pension plans must be in compliance with the Third Class City Code for employees hired after the adoption of the home rule charter.

As previously disclosed in prior reports and evident during the current audit period, the city continues to provide benefits to firefighters hired on or after the January 2, 2008 effective date, that are not in compliance with the Third Class City Code, as noted below:

Benefit Provision	Governing Document	Third Class City Code
Monthly pension benefit	The greater of the compensation at the date of retirement or 1/12 of the highest average annual salary during any five years of service preceding retirement. The multiplier percentage set forth corresponds to years of service; 20 years at 50%, 21 years at 52.5%, 22 years at 55%, 23 years at 57.5%, 24 years at 60%, 25 years at 62.5%, 26 years at 65%, 27 years at 67.5%, 28 years at 70%, 29 years at 72.5%, and 30 years at 75%. (*Collective bargaining agreement modified provision for members hired after January 1, 2013, to 50% of pensionable compensation.)*	A monthly pension benefit of 50% of the higher of the monthly salary at the date of termination or the highest average annual salary during any 5 years of service.

Firemen's Pension Plan – (Continued)

Finding No. 2 – (Continued)

Benefit Provision	Governing Document	Third Class City Code
Definition of salary	A firefighter's total gross annual compensation, including, without limitation, position salary, longevity pay, degree pay, extra-duty pay, and birthday pay.	A definition of salary as the fixed amount of compensation paid at regular, periodic intervals by the city to the member and from which pension contributions have been deducted.
Member's contributions	A monthly contribution equal to 4.5% of compensation, plus an additional 1% of compensation towards the survivor benefit and an additional $1 per month for the service increment contribution.	A member's contribution rate of up to 5% of the firefighter's compensation, plus service increment contributions.
Minimum pension benefit	The pension benefit of any participant who becomes entitled to a pension benefit under the plan shall not be less than $3,000 annually.	Not provided
Survivor benefit	Nonservice-related death benefits where participant has 20 or more years of service. The surviving spouse of any participant who has retired or died while in service after having served for a minimum of 20 years, shall during their lifetime receive a pension benefit of the amount which would have been payable had the firefighter been retired and 50 years of age at the time of death.	A survivor's benefit to the surviving spouse of a deceased retiree or employee equal to the amount that the member was receiving or would have been receiving if he was retired, and continuing during the spouse's life.

Firemen's Pension Plan – (Continued)

Finding No. 2 – (Continued)

Criteria: As previously disclosed, on January 24, 2001, the Commonwealth Court of Pennsylvania issued its opinion in *Municipality of Monroeville v. Monroeville Police Department Wage Policy Committee.* 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 including Act 600." The court's holding was in accord with the position taken by this department since at least January 1995.

Therefore, for firefighters hired on or after January 2, 2008, the pension plan's benefit structure should be in compliance with the Third Class City Code.

Cause: The City has not been able to amend their firemen's pension plan accordingly since the prior audit period to comply with the Third Class City Code regarding the aforementioned inconsistencies in plan documents as previously recommended.

Effect: 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 provide pension benefits in accordance with the Third Class City Code for all firefighters who began full-time employment on or after January 2, 2008, upon the renewal, extension, or renegotiation of the collective bargaining agreement. To the extent that the city is not in compliance with the Third Class City Code and/or is contractually obligated to provide benefits in excess of those authorized by the Third Class City Code to firefighters who began employment on or after January 2, 2008, the excess benefits must be reflected in the Act 205 actuarial valuation reports for the plan and funded in accordance with Act 205 funding standards. Furthermore, such 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, on the city's future state aid allocations and submit this information to the department.

Special note should be taken that the department's application of *Monroeville* only to employees hired on or after January 2, 2008, does not sanction (1) a municipality's granting excess benefits to existing or future employees when none had been granted as of January 2, 2008, or (2) a municipality's increasing excess benefits for existing or future employees beyond those that had been granted as of that date.

Firemen's Pension Plan – (Continued)

Finding No. 2 – (Continued)

Management's Response: In 2021, the City Administration and Fraternal Order of Police successfully negotiated a new, four-year Collective Bargaining Agreement and proposed revisions to the Police Pension Ordinance (Governing Document) to ensure that they are in line with Third Class City Code. These amendments should alleviate the inconsistent and out-of-compliance pension benefit provisions seen in prior versions of these documents.

In addition, the Administration and FOP are in the final stages of revising the City's pension ordinance for the police officers. Once those revisions are completed, they will be presented to Easton City Council for approval and should bring the Governing Document in-line with Third Class City Code.

The City Administration also negotiated a successful four-year Collective Bargaining Agreement in 2020 with the International Association of Firefighters. The new Collective Bargaining Agreement attempts to address non-compliant provisions of benefits while proposed amendments to the Governing Document (Fire Pension Ordinance) are also being reviewed with the purpose of bringing both documents in line with Third Class City Code. This should alleviate the provisions of benefits currently not in compliance.

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

Finding No. 3 – Noncompliance With Prior Audit Recommendation – Incorrect Data On Certification Form AG 385 Resulting In A Net Underpayment Of State Aid

Condition: As disclosed in the prior audit report, the city failed to report accurate data on the Certification Form AG 385 filed in 2019, resulting in an underpayment of state aid. Although the additional state aid was subsequently allocated to the city, a similar condition occurred during and subsequent to the current audit period. The city again failed to comply with the instructions that accompanied Certification Form AG 385 and failed to certify 6 eligible firefighters (12 units) and understated payroll by $123,220 on the Certification Form AG 385 filed in 2020. In addition, the city certified 6 ineligible non-uniformed employees (6 units) and overstated payroll by $165,533 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.

Firemen's Pension Plan – (Continued)

Finding No. 3 – (Continued)

Cause: The referenced firefighters were hired June 28, 2019 and became plan members in 2019 and, therefore, met the eligibility requirement for certification. The referenced non-uniformed employees did not work at least six months in 2019 due to being furloughed. Additionally, the city lacked adequate internal control procedures, such as having another individual review the data certified to ensure compliance with the instructions that accompanied Certification Form AG 385 prior to submission.

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 city received a net underpayment of state aid of $30,306 as identified below:

Year	Type of Plan	Units Overstated (Understated)	Unit Value	State Aid Overpayment (Underpayment)
2020	Firemen's	(12)	$ 4,924	$ (59,088)
2021	O&E - PMRS	6	$ 4,797	$ 28,782
		Net Underpayment of State Aid		$ (30,306)

Although the additional state aid will be allocated to the city, the 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 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 plan.

Officers' And Employees' Pension Plan

Finding No. 4 – Incorrect Pension Benefit Calculations

Condition: During the prior two audits, this Department issued a verbal observation to plan officials notifying them that two members of the officers' and employees' pension plan who retired on May 12, 2015 and January 31, 2016, respectively, had their pension benefits incorrectly determined because city officials failed to accurately calculate the members' service increments in accordance with the plan's governing document. Plan officials have not taken action to correct those pension benefits.

Criteria: Article III of Chapter 110 of City Codified Ordinances, at Section 110-30A, states, in part:

> In computing the service increment, no employment after the contributor has reached the age of 65 years shall be included.

Effect: The plan is paying pension benefits to retirees in excess of those authorized by the plan's governing document.

Cause: City officials failed to establish adequate internal control procedures to ensure the pension benefits were properly determined in accordance with the plan's governing document. In addition, city officials failed to take any action on the verbal observations issued in the two prior audits.

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

Management's Response: At our exit conference held on February 7, 2022, management indicated that they would provide a written response to this finding within 10 days; however, no response has been received.

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

CITY OF EASTON AGGREGATED PENSION TRUST 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. The historical information, beginning as of January 1, 2015, is as follows:

POLICE PENSION PLAN

	(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)
01-01-15	$18,779,544	$ 35,537,390	$ 16,757,846	52.8%
01-01-17	21,864,956	40,589,613	18,724,657	53.9%
01-01-19	24,608,642	46,417,326	21,808,684	53.0%

Note: The market values of the plan's assets at 01-01-15, 01-01-17, and 01-01-19 have been adjusted to reflect the smoothing of gains and/or losses subject to a corridor between 90 to 110 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 EASTON AGGREGATED PENSION TRUST FUND
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULES OF FUNDING PROGRESS – (Continued)

FIREMEN'S PENSION PLAN

	(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)
01-01-15	$ 18,229,363	$ 26,123,452	$ 7,894,089	69.8%
01-01-17	21,575,242	30,274,312	8,699,070	71.3%
01-01-19	24,736,465	35,118,290	10,381,825	70.4%

Note: The market values of the plan's assets at 01-01-15, 01-01-17, and 01-01-19 have been adjusted to reflect the smoothing of gains and/or losses subject to a corridor between 90 to 110 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 EASTON AGGREGATED PENSION TRUST FUND
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULES OF FUNDING PROGRESS – (Continued)

OFFICERS' AND EMPLOYEES' PENSION PLAN

	(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)
01-01-15	$ 5,370,446	$ 9,679,302	$ 4,308,856	55.5%
01-01-17	5,111,875	9,086,749	3,974,874	56.3%
01-01-19	5,139,930	8,668,202	3,528,272	59.3%

Note: The market values of the plan's assets at 01-01-15, 01-01-17, and 01-01-19 have been adjusted to reflect the smoothing of gains and/or losses subject to a corridor between 90 to 110 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.

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 EASTON AGGREGATED PENSION TRUST FUND
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF CONTRIBUTIONS

POLICE PENSION PLAN

Year Ended December 31	Actuarially Determined Contribution	Actual Contributions	Contribution Deficiency (Excess)	Covered-Employee Payroll*	Contributions as a Percentage of Covered-Employee Payroll
2011	$ 843,933	$ 843,934	$ (1)		
2012	761,291	761,291	-		
2013	1,684,086	1,684,086	-		
2014	1,703,854	1,703,854	-	$4,648,695	36.65%
2015	2,304,171	2,304,171	-	4,755,170	48.46%
2016	2,246,363	2,246,363	-	4,758,818	47.20%
2017	2,510,888	2,510,888	-	4,561,549	55.04%
2018	2,501,073	2,501,073	-	4,837,962	51.70%
2019	2,887,077	2,887,077	-	4,617,458	62.53%
2020	2,884,612	2,884,612	-	4,850,072	59.48%

* This schedule is presented pursuant to the implementation of GASB Statement No. 67, *Financial Reporting for Pension Plans* by reporting entities responsible for administering the pension plan to improve financial reporting by state and local governmental pension plans. Due to the statement being implemented only recently, the amount of Covered-Employee Payroll was not provided for years prior to 2014.

CITY OF EASTON AGGREGATED PENSION TRUST FUND
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF CONTRIBUTIONS

FIREMEN'S PENSION PLAN

Year Ended December 31	Actuarially Determined Contribution	Actual Contributions	Contribution Deficiency (Excess)	Covered-Employee Payroll*	Contributions as a Percentage of Covered-Employee Payroll
2011	$ 434,219	$ 434,219	$ -		
2012	441,521	441,521	-		
2013	1,073,905	1,073,905	-		
2014	1,061,666	1,061,666	-	$3,081,522	34.45%
2015	1,415,944	1,415,944	-	3,624,573	39.07%
2016	1,418,639	1,418,639	-	3,782,072	37.51%
2017	1,508,983	1,508,983	-	2,918,361	51.71%
2018	1,522,361	1,522,361	-	2,841,066	53.58%
2019	1,463,642	1,463,642	-	3,594,188	40.72%
2020	1,525,438	1,525,438	-	3,665,119	41.62%

* This schedule is presented pursuant to the implementation of GASB Statement No. 67, *Financial Reporting for Pension Plans* by reporting entities responsible for administering the pension plan to improve financial reporting by state and local governmental pension plans. Due to the statement being implemented only recently, the amount of Covered-Employee Payroll was not provided for years prior to 2014.

CITY OF EASTON AGGREGATED PENSION TRUST FUND
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF CONTRIBUTIONS

OFFICERS' AND EMPLOYEES' PENSION PLAN

Year Ended December 31	Actuarially Determined Contribution	Actual Contributions	Contribution Deficiency (Excess)	Covered-Employee Payroll*	Contributions as a Percentage of Covered-Employee Payroll
2011	$ 164,399	$ 164,399	$ -		
2012	157,440	157,440	-		
2013	516,830	516,830	-		
2014	524,433	524,433	-	$ 242,604	216.17%
2015	804,861	804,861	-	180,815	445.13%
2016	782,506	782,506	-	143,982	543.47%
2017	827,782	827,782	-	117,832	702.51%
2018	828,255	828,255	-	75,486	1,097.23%
2019	436,867	436,867	-	77,184	566.01%
2020	437,370	437,370	-	79,500	550.15%

* This schedule is presented pursuant to the implementation of GASB Statement No. 67, *Financial Reporting for Pension Plans* by reporting entities responsible for administering the pension plan to improve financial reporting by state and local governmental pension plans. Due to the statement being implemented only recently, the amount of Covered-Employee Payroll was not provided for years prior to 2014.

CITY OF EASTON AGGREGATED PENSION TRUST 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, 2019
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	12 years
Asset valuation method	Plan assets are valued using the method described in Section 210 of Act 205, as amended, subject to a corridor between 90-110% of the market value of assets.
Actuarial assumptions:	
Investment rate of return	7.00%
Projected salary increases	5.00%

CITY OF EASTON AGGREGATED PENSION TRUST FUND
SUPPLEMENTARY INFORMATION
NOTES TO SUPPLEMENTARY SCHEDULES
(UNAUDITED)

FIREMEN'S PENSION PLAN

Actuarial valuation date	January 1, 2019
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	10 years
Asset valuation method	Plan assets are valued using the method described in Section 210 of Act 205, as amended, subject to a corridor between 90-110% of the market value of assets.
Actuarial assumptions:	
Investment rate of return	7.00%
Projected salary increases	5.00%

CITY OF EASTON AGGREGATED PENSION TRUST FUND
SUPPLEMENTARY INFORMATION
NOTES TO SUPPLEMENTARY SCHEDULES
(UNAUDITED)

OFFICERS' AND EMPLOYEES' PENSION PLAN

Actuarial valuation date	January 1, 2019
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	13 years
Asset valuation method	Plan assets are valued using the method described in Section 210 of Act 205, as amended, subject to a corridor between 90-110% of the market value of assets
Actuarial assumptions:	
Investment rate of return	7.00%
Projected salary increases	5.00%

CITY OF EASTON AGGREGATED PENSION TRUST FUND
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

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