

# COMPLIANCE AUDIT

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## City of Hazleton Aggregate Pension Fund Luzerne County, Pennsylvania For the Period January 1, 2019 to December 31, 2020

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May 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 Hazleton  
Luzerne County  
Hazleton, PA 18201

We have conducted a compliance audit of the City of Hazleton Aggregate Pension Fund for the period January 1, 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 plan 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 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 plans' governing documents, applicable laws, and regulations by recalculating the amount of the monthly pension benefits due to the retired individuals and comparing these amounts to supporting documentation evidencing amounts determined and actually paid to the recipients.
- We determined whether the January 1, 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 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 and through the completion of our fieldwork procedures.

City officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the City of Hazleton Aggregate Pension Fund is administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies. 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 Hazleton 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:

- Finding No. 1 – Noncompliance With Prior Recommendation – Failure To Maintain Required Documentation And Evidence Of Required Annual Funding Of The City’s Pension Plans In Accordance With Special Taxing Provisions Of Act 205
- Finding No. 2 – Noncompliance With Prior Recommendation – Failure To Implement Act 44 Mandatory Distressed Provisions
- Finding No. 3 – Incorrect Data On Certification Form AG 385 Resulting In An Underpayment Of State Aid
- Finding No. 4 – Improper Cost-Of-Living Adjustments
- Finding No. 5 – Incorrect Pension Benefit Paid

Finding Nos. 1 and 2 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 Hazleton Aggregate Pension Fund was to determine compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies. Among several provisions relating to municipal pension plans, Act 205, which was amended on September 18, 2009 through the adoption of Act 44 of 2009, provides for the implementation of a distress recovery program. Three levels of distress have been established:

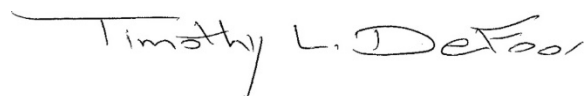
| <u>Level</u> | <u>Indication</u> | <u>Funding Criteria</u> |
|--------------|-------------------|-------------------------|
| I            | Minimal distress  | 70-89%                  |
| II           | Moderate distress | 50-69%                  |
| III          | Severe distress   | Less than 50%           |

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 plans contained in the schedules of funding progress included in this report which indicates the police plan's funded ratio is 66.0% and the paid firemen's plan's funded ratio is 65.3% as of January 1, 2019, which is the most recent data available. Based on this information, and the funding status of the city's non-uniformed pension plan, the Municipal Pension Reporting Program issued a notification that the city is currently in Level II moderate distress status**

Pursuant to Act 205 regulations, it was noted during the conduct of prior engagements that the city's once aggregated pension trust fund, the funding mechanism for its uniformed (police and paid firemen) pension plans designed to limit expenses and maximize investment earnings, appeared to no longer be aggregated pursuant to mandated remedies prescribed in Act 205 for municipalities in Level II distress as the city maintained three separately executed investment agreements with the plan's custodian and discontinued preparation of its annual undivided participation in the assets of the combined pension trust fund for each plan as provisioned for in the City Code, as later discussed in the Background section of this report.

Additionally, the respective plans' funded status and the increase in the city's required contributions to the plans over the last several years are due, in part, to the effect of prior arbitration awards and memoranda of understanding granting excess pension benefits to the city's police officers and paid firefighters, and the provision of Act 44 of 2009 which mandated that if a municipality assesses or utilizes the special municipal tax increase to fund other post-employment benefits, the cost of those benefits shall be subject to the actuarial funding and reporting standards of this act.. We encourage city officials to again comply with the recommendations contained in this report and 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 Hazleton and, where appropriate, their responses have been included in the report. We would like to thank city officials for the cooperation extended to us during the conduct of the audit.



Timothy L. DeFoor  
Auditor General  
March 15, 2022

CONTENTS

|                                                                                                                                                                                                                                                | <u>Page</u> |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------|
| Background.....                                                                                                                                                                                                                                | 1           |
| Status of Prior Findings .....                                                                                                                                                                                                                 | 2           |
| Findings and Recommendations:                                                                                                                                                                                                                  |             |
| Police and Paid Firemen’s Pension Plans:                                                                                                                                                                                                       |             |
| Finding No. 1 – Noncompliance With Prior Recommendation – Failure To Maintain<br>Required Documentation And Evidence Of Required Annual Funding<br>Of The City’s Pension Plans In Accordance With Special Taxing<br>Provisions Of Act 205..... | 3           |
| Finding No. 2 – Noncompliance With Prior Recommendation – Failure To Implement<br>Act 44 Mandatory Distressed Provisions.....                                                                                                                  | 7           |
| Finding No. 3 – Incorrect Data On Certification Form AG 385 Resulting In An<br>Underpayment Of State Aid.....                                                                                                                                  | 9           |
| Police Pension Plan:                                                                                                                                                                                                                           |             |
| Finding No. 4 – Improper Cost-Of-Living Adjustments.....                                                                                                                                                                                       | 11          |
| Paid Firemen’s Pension Plan:                                                                                                                                                                                                                   |             |
| Finding No. 5 – Incorrect Pension Benefit Paid.....                                                                                                                                                                                            | 13          |
| Supplementary Information .....                                                                                                                                                                                                                | 14          |
| Report Distribution List .....                                                                                                                                                                                                                 | 21          |

## 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 Hazleton 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.

Prior to 2015, the City of Hazleton Aggregate Pension Fund served as a common investment and administrative agent for the city's police and paid firemen's pension plans; however, as disclosed earlier in this report and later in Finding No. 2 contained in the report, the city's police and paid firemen's pension plans are no longer aggregated for investment and administrative purposes which is contrary to the distress provisions of Act 205.

The City of Hazleton Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 1949, as amended, adopted pursuant to Act 67, formerly Act 317. The plan is also affected by the provisions of collective bargaining agreements between the city and its police officers. The plan was established October 10, 1968. Active members are required to contribute 5 percent of compensation to the plan. As of December 31, 2020, the plan had 37 active members, no terminated members eligible for vested benefits in the future, and 50 retirees receiving pension benefits from the plan.

The City of Hazleton Paid Firemen's Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 1913, as amended, adopted pursuant to Act 67, formerly Act 317. The plan is also affected by the provisions of collective bargaining agreements between the city and its firefighters. The plan was established July 20, 1968. Active members are required to contribute 5 percent of compensation to the plan. As of December 31, 2020, the plan had 22 active members, no terminated members eligible for vested benefits in the future, and 32 retirees receiving pension benefits from the plan.

CITY OF HAZLETON AGGREGATE PENSION FUND  
STATUS OF PRIOR FINDINGS

Noncompliance With Prior Recommendations

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

- Failure To Maintain Required Documentation And Evidence Of Required Annual Funding Of The City's Pension Plans In Accordance With Special Taxing Provisions Of Act 205
- Failure To Implement Act 44 Mandatory Distressed Provisions



CITY OF HAZLETON AGGREGATE PENSION FUND  
FINDINGS AND RECOMMENDATIONS

**Police and Paid Firemen's Pension Plans**

**Finding No. 1 – Noncompliance With Prior Recommendation – Failure To Maintain Required Documentation And Evidence Of Required Annual Funding Of The City's Pension Plans In Accordance With Special Taxing Provisions Of Act 205**

Condition: As previously disclosed in the prior audit report, the City of Hazleton's pension plans were determined to be Level II Distressed by the former Public Employee Retirement Commission. Utilizing a special tax provision provided in Act 205, the city adopted Ordinance No. 86-28 (effective January 1, 1987) increasing its Earned Income Tax above the maximum rate for both residents and non-residents of the city for the sole purpose of defraying the additional costs required to be paid pursuant to Act 205 directly related to the city's pension plans. The city, however, failed to provide supporting documentation evidencing the determination of its level of contributions to its pension plans prior to the implementation of the special tax and its continued monitoring over current contribution levels to ensure that the city met its annual funding requirements for 2017 and 2018, in accordance with the distress provisions of Act 205. Furthermore, it was also noted that the city failed to utilize the entire proceeds of its annual special municipal tax collected during the aforementioned years pursuant to the distress provisions of the Act. A similar condition occurred during the current audit period. Although the city has made strides during 2020 to properly utilize the funds maintained in the special tax account, which has decreased to \$143 as of December 31, 2020, the city again failed to maintain and/or provide the necessary documentary evidence that the city's funding requirements were appropriately met in accordance with the provisions of Section 607(f) of Act 205 during 2019 and 2020.

Criteria: With regard to the MMO, Section 302(c) of Act 205 states, in part:

Annually, the chief administrative officer of the pension plan shall determine the minimum obligation of the municipality with respect to the pension plan for the following plan year.

Section 302(d) of Act 205 states, in part:

The minimum obligation of the municipality shall be payable to the pension plan from the revenue of the municipality.

CITY OF HAZLETON AGGREGATE PENSION FUND  
FINDINGS AND RECOMMENDATIONS

**Police and Paid Firemen’s Pension Plans – (Continued)**

**Finding No. 1 – (Continued)**

Furthermore, relative to the additional remedies available to distressed municipalities to assist with the funding of their pension plans, Section 607(f) of Act 205 further states:

**(f) Special municipal taxing authority.**

- (1) If the tax rates set by the municipality on earned income or on real property are at the maximum provided by applicable law, the municipality may increase its tax on either earned income or real property above those maximum rates. The proceeds of this special municipal tax increase shall be used solely to defray the additional costs required to be paid pursuant to this act, which are directly related to the pension plans of the municipality. The municipality utilizing this special municipal taxing authority shall not reduce the level of municipal contributions to the pension plans prior to the implementation of the special municipal taxing authority. (Emphasis added.)
  
- (2) The average level of municipal contributions to the pension plans from all revenue sources for the three years immediately prior to the implementation of the special municipal taxing authority shall be expressed as a percentage of the average covered payroll for that same three-year period: Provided, however, that any supplemental contributions made to the plans pursuant to any pension recovery legislation enacted by the municipalities shall be excluded for purposes of determining the level of municipal contribution to the pension plans prior to the implementation of the special municipal taxing authority. In each year subsequent to the implementation of the special municipal taxing authority, the municipal contributions to the pension plan from all revenue sources existing prior to the implementation of the special existing municipal taxing authority, reduced by any supplemental pension recovery contributions, shall equal or exceed this average percentage of the current covered payroll. A municipality utilizing the provisions of section 404 may levy or continue to levy the special municipal tax increase under this subsection provided that the municipality does not reduce the level of municipal contributions to the pension plans prior to the implementation of the special municipal taxing authority. In executing the procedure prescribed in this subsection to determine the level of municipal contributions, the debt service payments for bonds or notes issued under section 404 shall be considered municipal contributions. (Emphasis added.)

CITY OF HAZLETON AGGREGATE PENSION FUND  
FINDINGS AND RECOMMENDATIONS

**Police and Paid Firemen's Pension Plans – (Continued)**

**Finding No. 1 – (Continued)**

Cause: The city again failed to establish and implement procedures to assist them in documenting compliance with the special tax provisions of Act 205 and was unable to locate or provide substantive documentation evidencing whether previous officials appropriately determined the city's required funding levels prior to enacting the special tax and/or whether the city previously performed procedures necessary to ensure and evidence that annual funding levels mandated by Act 205 since implementation of the special tax were met.

Effect: The continued failure to establish and/or implement adequate internal control procedures to apply the distress provisions of Section 607(f) of Act 205 and fund the city's pension plans accordingly, results in less annual funding towards the city's distressed pension plans than afforded under the provisions of Act 205 and could result in the plans not having the necessary resources to meet current and future benefit obligations to its members. Additionally, as was previously disclosed, we were unable to determine the impact on the city's pension plans for 2017 and 2018 and again during the audit period for 2019 and 2020 because, as noted in the Cause above, the city was unable to provide the original determination of its level of municipal contributions to its plans or its revenue sources existing prior to implementation of the special tax. The failure to maintain the levels of contribution prior to enacting the additional special tax reduces the net overall contributions to the plan, potentially negating benefits of the additional tax.

Furthermore, the city's failure to appropriately utilize the entire proceeds from the special tax provisions of Act 205 results in less overall funding available to defray the additional costs of its already distressed pension plans as intended under Act 205 and the risk of misapplication is increased.

Recommendation: We again recommend that the city, with assistance from its actuary, determine or locate the prior determination of the city's required level of annual contributions under Section 607(f) of Act 205. Copies of these calculations must be maintained by the city for examination during our next audit of the plans.

In addition, we again recommend that city officials establish and implement adequate internal control procedures to ensure that the city does not reduce its level of contributions to its pension plans from funding sources prior to the implementation of the special municipal tax in accordance with Act 205 for periods subsequent to the issuance of this report beginning with the city's 2023 budgetary process. Such procedures should include maintaining appropriate supporting documentation identifying the sources of its annual contributions to its pension plans as well as an annual reconciliation evidencing that funding requirements are appropriately met in accordance with Section 607(f) of Act 205.

CITY OF HAZLETON AGGREGATE PENSION FUND  
FINDINGS AND RECOMMENDATIONS

**Police and Paid Firemen’s Pension Plans – (Continued)**

**Finding No. 1 – (Continued)**

Management’s Response: Municipal officials indicated that following the release of the prior audit report in late 2019, the city contacted the plan’s actuary at the time inquiring about the finding, the steps to remedy it, and any information that the actuary may possess in order to abate the finding in a timely manner. City officials indicated that the inquiry was never addressed by the actuary, but that the city is committed to ensuring that the findings are correctly addressed and will continue to get this issue resolved.

Auditor’s Conclusion: Based on the management response and given the unique circumstances relative to this issue, the department has compiled the following estimated level of contributions by the city prior to enactment of the special tax based on files and records previously provided by the city.

*Analysis of City’s Funding Prior to Enactment of Special Tax:*

Contributions:

|       | 1984              | 1985              | 1986              | Total               |
|-------|-------------------|-------------------|-------------------|---------------------|
| NUPP  | *                 | *                 | \$ 57,888         | \$ 57,888           |
| FPP   | \$ 126,995        | \$ 175,851        | 298,495           | 601,341             |
| PPP   | 167,740           | 167,740           | 210,293           | 545,773             |
| Total | <u>\$ 294,735</u> | <u>\$ 343,591</u> | <u>\$ 566,676</u> | <u>\$ 1,205,002</u> |

Payroll:

|        | 1984                | 1985                | 1986                | Total               |
|--------|---------------------|---------------------|---------------------|---------------------|
| NUPP * | \$ 765,142          | \$ 765,142          | \$ 765,142          | \$ 2,295,426        |
| FPP    | 583,076             | 643,756             | 647,001             | 1,873,833           |
| PPP *  | 488,545             | 488,545             | 488,545             | 1,465,635           |
| Total  | <u>\$ 1,836,763</u> | <u>\$ 1,897,443</u> | <u>\$ 1,900,688</u> | <u>\$ 5,634,894</u> |

3-year Total Contributions as % of Total Payroll                      21.4%

*\* Information not readily available/determinable from city records. For 1984 and 1985, payroll for employees of the non-uniformed and police pension plans was assumed based on the available payroll for 1986.*

CITY OF HAZLETON AGGREGATE PENSION FUND  
FINDINGS AND RECOMMENDATIONS

**Police and Paid Firemen’s Pension Plans – (Continued)**

**Finding No. 1 – (Continued)**

We recommend the city implement adequate procedures to ensure that the city does not reduce its level of contributions to its pension plans from funding sources prior to the implementation of the special municipal tax in accordance with Act 205 for periods subsequent to the issuance of this report beginning with the city’s 2023 budgetary process using the above table. Such procedures should include maintaining appropriate supporting documentation identifying the sources of its annual contributions to its pension plans as well as an annual reconciliation evidencing that funding requirements are appropriately met in accordance with Section 607(f) of Act 205.

It should be noted that city officials were provided with the above analysis subsequent to the exit conference and indicated their agreement with the additional information and recommendations and reiterated their commitment to correcting this matter going forward. Compliance will be evaluated during our next audit of the plan.

**Finding No. 2 – Noncompliance With Prior Recommendation – Failure To Implement Act 44 Mandatory Distressed Provisions**

Condition: Among several provisions relating to municipal pension plans, Act 205, which was amended on September 18, 2009, through the adoption of Act 44 of 2009, provides for the implementation of a distress recovery program. Three levels of distress have been established:

| <u>Level</u> | <u>Indication</u> | <u>Funding Criteria</u> |
|--------------|-------------------|-------------------------|
| I            | Minimal distress  | 70-89%                  |
| II           | Moderate distress | 50-69%                  |
| III          | Severe distress   | Less than 50%           |

As disclosed in the prior audit report, based on the police pension plan’s funded ratio of 57.3% and the paid firemen’s pension plan’s funded ratio of 51.7%, in aggregation with the funded ratio of the municipality’s non-uniformed pension plan’s funded ratio of 74.9% as of January 1, 2017, the Municipal Pension Reporting Program (MPRP) (*formerly the Public Employee Retirement Commission*) issued notification in 2018 that the city was in Level II moderate distress status. During the current audit period, based on the police pension plan’s funded ratio of 66.0% and the paid firemen’s pension plan’s funded ratio of 65.3%, in aggregation with the funded ratio of the municipality’s non-uniformed pension plan’s funded ratio of 80.9% as of January 1, 2019, the MPRP issued notification in 2020 that the city remained in Level II moderate distress status.

CITY OF HAZLETON AGGREGATE PENSION FUND  
FINDINGS AND RECOMMENDATIONS

**Police and Paid Firemen’s Pension Plans – (Continued)**

**Finding No. 2 – (Continued)**

Included with the determination notices, the MPRP sent the municipality the Act 205 Recovery Program Election Form outlining the mandatory remedies that must be implemented and the voluntary remedies that the municipality could elect to implement. This form was required to be signed by the plan’s Chief Administrative Officer and returned. And although the municipality submitted the election forms to the MPRP, as of the date of this audit report, the city failed to comply with the mandatory provision regarding the aggregation of pension trust funds for administration and investment purposes under Act 205.

Criteria: For financially distressed municipal pension systems, Section 605(a) of Act 205, as previously amended by Act 44, states:

Recovery program level II.

- (a) Mandatory remedies. Any municipality to which level II of the recovery program applies shall utilize the following remedies:
  - (1) The aggregation of trust funds pursuant to section 607(b).
  - (2) The submission of a plan for administrative improvement pursuant to section 607(i).

Cause: As disclosed in the prior audit report, prior to 2015, the City of Hazleton Aggregate Pension Fund served as a common investment and administrative agent for the city’s police and paid firemen’s pension plans; however, during 2015, the city entered into three separate investment agreements with the plan’s current custodian for the management of its police, paid firemen’s, and non-uniformed pension funds. Current plan officials were not party to that change or aware of the underlying cause for the administrative change in the management of its pension funds; however, it appears that prior city officials formerly responsible for administration of its pension plans failed to implement adequate internal control procedures to ensure continued compliance with the mandatory distress provisions of Act 205. The current plan officials’ position is described in the Management Response.

Effect: The city is not in compliance with the mandatory distress provisions of Act 205 applicable to Level II distressed municipal pension systems designed to improve the funding status and administrative efficiency of its pension plans.

Recommendation: We again recommend that municipal officials contact the MPRP for guidance in the implementation of the mandatory distress remedies applicable to Level II pursuant to Act 205 and aggregate its pension funds accordingly, pursuant to section 607(b).

CITY OF HAZLETON AGGREGATE PENSION FUND  
FINDINGS AND RECOMMENDATIONS

**Police and Paid Firemen’s Pension Plans – (Continued)**

**Finding No. 2 – (Continued)**

Management’s Response: Plan officials provided the following response:

Currently the city has pension funds spread across three firms handling investment. The city’s pension board had been considerate of local asset management firms as part of their previous RFP process, in light of this the board at the time chose to continue to use these three different management firms. Recently, administration has met with the pension board and reiterated the need to consider the finding in assessing if this situation should persist. The board at this time does seem more open to making this change, however, they cite the relative performance of each as an impediment to change, additionally, it is possible the city’s distress level may improve as well. Still, the administration is committed to being in proper compliance with our audit findings and will continue to strenuously recommend these changes to the city’s pension board.

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

**Finding No. 3 – Incorrect Data On Certification Form AG 385 Resulting In An Underpayment Of State Aid**

Condition: The city failed to certify four eligible police officers (8 units), one firefighter (2 units), and two non-uniformed employees (2 units), and certified one ineligible non-uniformed employee (1 unit) on the Certification Form AG 385 filed in 2020. In addition, the city failed to certify three eligible police officers (6 units) and one non-uniformed employee (1 unit) 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), an employee who has been employed on a full-time basis for at least six consecutive months and has been participating in a pension plan during the certification year is eligible for certification. In addition, pursuant to the instructions that accompany Certification Form AG 385, the total payroll eligible to be certified should be Internal Revenue Service Form W-2 earnings pertaining to full-time positions.

CITY OF HAZLETON AGGREGATE PENSION FUND  
FINDINGS AND RECOMMENDATIONS

**Police and Paid Firemen’s Pension Plans – (Continued)**

**Finding No. 3 – (Continued)**

Cause: Due to recent turnover in personnel responsible for the administration of the plan, current plan officials did not have a thorough understanding of the Certification Form AG 385 instructions or the limitations on earnings eligible for certification purposes. In addition, the township lacked adequate oversight procedures to ensure the accuracy of the data certified.

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 an underpayment of state aid of \$87,743 as identified below:

| <u>Year</u>                     | <u>Type of Plan</u> | <u>Units Understated</u> | <u>Unit Value</u> | <u>State Aid Underpayment</u> |
|---------------------------------|---------------------|--------------------------|-------------------|-------------------------------|
| 2020                            | Police              | 8                        | \$ 4,924          | \$ 39,392                     |
|                                 | Non-Uniformed       | 1                        | 4,924             | 4,924                         |
|                                 | Paid Firemen’s      | 2                        | 4,924             | 9,848                         |
|                                 |                     |                          |                   | <u>\$ 54,164</u>              |
| 2021                            | Police              | 6                        | \$ 4,797          | \$ 28,782                     |
|                                 | Non-Uniformed       | 1                        | 4,797             | 4,797                         |
|                                 |                     |                          |                   | <u>\$ 33,579</u>              |
| Total Underpayment of State Aid |                     |                          |                   | <u>\$ 87,743</u>              |

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 recommend that 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 fund.



CITY OF HAZLETON AGGREGATE PENSION FUND  
FINDINGS AND RECOMMENDATIONS

**Police Pension Plan**

**Finding No. 4 – Improper Cost-Of-Living Adjustments**

Condition: The city granted improper cost-of-living adjustments (COLAs) during the years 2019, 2020, and 2021 to 35 retirees of the police pension plan.

Criteria: Section 14303.1 of Act 67 states:

- (a) **Increase of allowance** -- Upon the recommendation of the persons having custody and management of the police pension fund, a city may, at its discretion, increase the allowance of individuals receiving an allowance from the police pension fund by reason of and after the termination of the services of a member of the fund.
- (b) **Limitation** -- An increase made under this section must be in conformity with a uniform scale that may be based on the cost of living, but the total of the allowance may not exceed one-half of the current salary being paid patrol persons of the highest pay grade.

The city enacted Ordinance No. 2000-26 in 2000 establishing the pension benefits of certain retired and active City of Hazleton police officers pursuant to a collective bargaining settlement and amending and restating the police pension plan of the City of Hazleton. These benefits were classified by the city as Plan A. Section 1 of the ordinance lists the affected retired and active police officers and states the following:

Each above-named Retired Officer and those above-named Active Officers who complete twenty (20) years of service shall receive a full cost-of-living benefit in which the City shall annually increase the allowances of each such Officer by reason of and after the termination of services of such Officer, members of said fund. Said increases shall be in conformity with a uniform scale based upon fifty (50%) percent or up to seventy-five (75%) percent of the current salary being paid, to include any and all premium pay due the police officer of whichever is greater, a patrolman of the highest grade, or the highest grade or rank or title at which the Hazleton City police officer retired.

Fifteen of the retirees referenced above were named members of Plan A and, as such, were eligible for COLAs pursuant to this provision in Ordinance No. 2000-26. Instead, however, COLAs were granted to the fifteen retirees in 2019, 2020, and 2021 based on the percentage utilized by the Social Security Administration for COLAs in the respective years.

CITY OF HAZLETON AGGREGATE PENSION FUND  
FINDINGS AND RECOMMENDATIONS

**Police Pension Plan – (Continued)**

**Finding No. 4 – (Continued)**

In addition, a motion made at the monthly meeting of the Hazleton Police Pension Fund Association held September 7, 1971 states, in part:

Beginning January 1, 1973, in the event the federal government grants an increase in social security benefits, the men or (widows) shall receive one half of the percentage the federal government grants.

Such increases shall be in conformity with a uniform scale, which may be based on the cost of living, but the total of any such allowances shall not at any time exceed one-half of the current salary being paid patrolmen of the highest pay grade.

Twenty of the retirees referenced above are not members of Plan A and were eligible for COLAs pursuant to the provision above. Instead, COLAs were granted to the twenty retirees in 2019, 2020, and 2021 based on the percentage (rather than one half of the percentage) utilized by the Social Security Administration for COLAs in the respective years.

Cause: Due to recent turnover in personnel responsible for the processing of the granted COLAs, current plan officials did not have a thorough understanding of the plan's governing documents and the various provisions relating to COLAs.

Effect: The pension plan is paying benefits to 35 retirees in excess of those authorized by the plan's governing documents.

Recommendation: We recommend that plan officials adjust the pension benefits of the retirees whose benefits were not determined in accordance with the plan's governing documents. We also recommend that plan officials familiarize themselves with the provisions of the various plan documents to ensure that future COLAs are properly determined.

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

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

CITY OF HAZLETON AGGREGATE PENSION FUND  
FINDINGS AND RECOMMENDATIONS

**Paid Firemen's Pension Plan**

**Finding No. 5 – Incorrect Pension Benefit Paid**

Condition: The pension fund is paying an incorrect semi-monthly pension benefit to a paid firemen's plan member who retired on January 12, 2019, in excess of the amount calculated.

Criteria: Chapter 45 of the Codified Ordinances, at Section 45-31A, states, in part:

The basis of the pension of a member of the fund shall be determined by the monthly salary of the member at the date of retirement, or the highest average annual salary which he received during any five (5) years of service preceding retirement, whichever is the higher, ... and ... shall be one-half (1/2) the annual salary of such member at the time of retirement computed at such monthly or average annual rate, whichever is higher.

Cause: The retiree's first semi-monthly pension payment correctly included an additional prorated amount for a partial period, but plan officials inadvertently continued to pay this higher amount rather than the semi-monthly pension benefit that was actually calculated, and internal control procedures were not adequate to timely identify the error and ensure the correct monthly benefit was being paid to the retiree.

Effect: The retiree was paid a semi-monthly pension benefit of \$2,312 instead of \$1,927, or an excess semi-monthly benefit of \$385, totaling \$8,479 during 2019. In addition, since COLAs were granted during 2020 and 2021 based on the incorrect semi-monthly benefit, excess annual benefits amounting to \$9,398 and \$9,520 were paid to the retiree during 2020 and 2021, respectively.

Recommendation: We recommend that the city adjust the retiree's pension benefit prospectively to the correct semi-monthly amount due the member as calculated in accordance with the plan document.

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

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

CITY OF HAZLETON AGGREGATE PENSION FUND  
 SUPPLEMENTARY INFORMATION  
 (UNAUDITED)

SCHEDULES OF FUNDING PROGRESS

Historical trend information about the plan is presented herewith as supplementary information. It is intended to help users assess the plan's funding status on a going-concern basis, assess progress made in accumulating assets to pay benefits when due, and make comparisons with other state and local government retirement systems.

The actuarial information is required by Act 205 biennially. The historical information, beginning as of January 1, 2015, is as follows:

POLICE PENSION PLAN

|                                | (1)                                    | (2)                                                              | (3)                                                                                    | (4)                        |
|--------------------------------|----------------------------------------|------------------------------------------------------------------|----------------------------------------------------------------------------------------|----------------------------|
| Actuarial<br>Valuation<br>Date | Actuarial<br>Value of<br>Assets<br>(a) | Actuarial<br>Accrued<br>Liability<br>(AAL) -<br>Entry Age<br>(b) | Unfunded<br>(Assets in<br>Excess of)<br>Actuarial<br>Accrued<br>Liability<br>(b) - (a) | Funded<br>Ratio<br>(a)/(b) |
| 01-01-15                       | \$ 21,267,396                          | \$ 37,528,221                                                    | \$ 16,260,825                                                                          | 56.6%                      |
| 01-01-17                       | 25,159,504                             | 43,899,179                                                       | 18,739,675                                                                             | 57.3%                      |
| 01-01-19                       | 30,057,900                             | 45,573,697                                                       | 15,515,797                                                                             | 66.0%                      |

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 over a 4-year averaging period. This method will lower contributions in years of less than expected returns and increase contributions in years of greater than expected returns. The net effect over long periods of time is to have less variance in contribution levels from year to year.

The plan's actuarial accrued liability at 01-01-15, 01-01-17, and 01-01-19 includes the cost of postemployment benefits funded through the proceeds of the Act 205 special tax.

CITY OF HAZLETON AGGREGATE PENSION FUND  
 SUPPLEMENTARY INFORMATION  
 (UNAUDITED)

SCHEDULES OF FUNDING PROGRESS – (Continued)

PAID FIREMEN’S PENSION PLAN

|                                | (1)                                    | (2)                                                              | (3)                                                                                    | (4)                        |
|--------------------------------|----------------------------------------|------------------------------------------------------------------|----------------------------------------------------------------------------------------|----------------------------|
| Actuarial<br>Valuation<br>Date | Actuarial<br>Value of<br>Assets<br>(a) | Actuarial<br>Accrued<br>Liability<br>(AAL) -<br>Entry Age<br>(b) | Unfunded<br>(Assets in<br>Excess of)<br>Actuarial<br>Accrued<br>Liability<br>(b) - (a) | Funded<br>Ratio<br>(a)/(b) |
| 01-01-15                       | \$ 10,156,221                          | \$ 20,888,771                                                    | \$ 10,732,550                                                                          | 48.6%                      |
| 01-01-17                       | 12,241,710                             | 23,674,930                                                       | 11,433,220                                                                             | 51.7%                      |
| 01-01-19                       | 15,330,473                             | 23,493,931                                                       | 8,163,458                                                                              | 65.3%                      |

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 over a 4-year averaging period. This method will lower contributions in years of less than expected returns and increase contributions in years of greater than expected returns. The net effect over long periods of time is to have less variance in contribution levels from year to year.

The plan’s actuarial accrued liability at 01-01-15 01-01-17, and 01-01-19 includes the cost of postemployment benefits funded through the proceeds of the Act 205 special tax.

CITY OF HAZLETON AGGREGATE PENSION FUND  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

The comparability of trend information is affected by changes in actuarial assumptions, benefit provisions, actuarial funding methods, accounting policies, and other changes. Those changes usually affect trends in contribution requirements and in ratios that use the actuarial accrued liability as a factor.

Analysis of the dollar amount of the actuarial value of assets, actuarial accrued liability, and unfunded (assets in excess of) actuarial accrued liability in isolation can be misleading. Expressing the actuarial value of assets as a percentage of the actuarial accrued liability (Column 4) provides one indication of the plan's funding status on a going-concern basis. Analysis of this percentage, over time, indicates whether the system is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the plan.

CITY OF HAZLETON AGGREGATE PENSION FUND  
 SUPPLEMENTARY INFORMATION  
 (UNAUDITED)

SCHEDULES OF CONTRIBUTIONS

POLICE PENSION PLAN

| <u>Year Ended<br/>December 31</u> | <u>Actuarially<br/>Determined<br/>Contribution</u> | <u>Actual<br/>Contributions</u> | <u>Contribution<br/>Deficiency<br/>(Excess)</u> | <u>Covered-<br/>Employee<br/>Payroll*</u> | <u>Contributions as<br/>a Percentage of<br/>Covered-<br/>Employee<br/>Payroll</u> |
|-----------------------------------|----------------------------------------------------|---------------------------------|-------------------------------------------------|-------------------------------------------|-----------------------------------------------------------------------------------|
| 2011                              | \$ 1,160,376                                       | \$ 1,160,376                    | \$ -                                            | \$2,371,667                               | 48.9%                                                                             |
| 2012                              | 1,150,109                                          | 1,150,109                       | -                                               | 2,494,207                                 | 46.1%                                                                             |
| 2013                              | 1,451,683                                          | 1,451,683                       | -                                               | 2,373,180                                 | 61.2%                                                                             |
| 2014                              | 1,446,209                                          | 1,446,209                       | -                                               | 2,511,634                                 | 57.6%                                                                             |
| 2015                              | 1,833,875                                          | 1,833,875                       | -                                               | 2,577,195                                 | 71.2%                                                                             |
| 2016                              | 2,498,784                                          | 2,498,784                       | -                                               | 2,375,493                                 | 105.2%                                                                            |
| 2017                              | 2,819,641                                          | 2,819,641                       | -                                               | 2,510,364                                 | 112.3%                                                                            |
| 2018                              | 3,381,827                                          | 3,381,827                       | -                                               | 2,716,436                                 | 124.5%                                                                            |
| 2019                              | 3,397,458                                          | 3,397,458                       | -                                               |                                           |                                                                                   |
| 2020                              | 3,311,124                                          | 3,311,124                       | -                                               |                                           |                                                                                   |

\* Due to the timing of this audit, covered-employee payroll for 2019 and 2020 was not provided in this schedule.

Note: Prior to 2016, contributions for post-retirement benefits were not included on this schedule.

CITY OF HAZLETON AGGREGATE PENSION FUND  
 SUPPLEMENTARY INFORMATION  
 (UNAUDITED)

SCHEDULES OF CONTRIBUTIONS – (Continued)

PAID FIREMEN’S PENSION PLAN

| <u>Year Ended<br/>December 31</u> | <u>Actuarially<br/>Determined<br/>Contribution</u> | <u>Actual<br/>Contributions</u> | <u>Contribution<br/>Deficiency<br/>(Excess)</u> | <u>Covered-<br/>Employee<br/>Payroll*</u> | <u>Contributions as<br/>a Percentage of<br/>Covered-<br/>Employee<br/>Payroll</u> |
|-----------------------------------|----------------------------------------------------|---------------------------------|-------------------------------------------------|-------------------------------------------|-----------------------------------------------------------------------------------|
| 2011                              | \$ 628,103                                         | \$ 628,103                      | \$ -                                            | \$ 1,121,363                              | 56.0%                                                                             |
| 2012                              | 637,702                                            | 637,702                         | -                                               | 1,120,550                                 | 56.9%                                                                             |
| 2013                              | 648,030                                            | 648,030                         | -                                               | 1,154,591                                 | 56.1%                                                                             |
| 2014                              | 810,934                                            | 810,934                         | -                                               | 1,214,031                                 | 66.8%                                                                             |
| 2015                              | 1,104,056                                          | 1,104,056                       | -                                               | 1,248,015                                 | 88.5%                                                                             |
| 2016                              | 1,515,962                                          | 1,515,962                       | -                                               | 1,286,369                                 | 117.8%                                                                            |
| 2017                              | 1,849,759                                          | 1,849,759                       | -                                               | 1,323,401                                 | 139.8%                                                                            |
| 2018                              | 2,107,857                                          | 2,107,857                       | -                                               | 1,328,927                                 | 158.6%                                                                            |
| 2019                              | 2,107,074                                          | 2,107,074                       | -                                               |                                           |                                                                                   |
| 2020                              | 2,141,052                                          | 2,141,052                       | -                                               |                                           |                                                                                   |

\* Due to the timing of this audit, covered-employee payroll for 2019 and 2020 was not provided in this schedule.

Note: Prior to 2016, contributions for post-retirement benefits were not included on this schedule.



CITY OF HAZLETON 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, 2019              |
| Actuarial cost method         | Entry age normal             |
| Amortization method           | Level dollar                 |
| Remaining amortization period | 12 years                     |
| Asset valuation method        | Fair value, 4-year smoothing |
| Actuarial assumptions:        |                              |
| Investment rate of return     | 8.0%                         |
| Projected salary increases    | 5.5%                         |
| Cost-of-living adjustments    | 3.0% compounded annually     |

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

PAID FIREMEN'S 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        | Fair value, 4-year smoothing |
| Actuarial assumptions:        |                              |
| Investment rate of return     | 8.0%                         |
| Projected salary increases    | 5.5%                         |

CITY OF HAZLETON AGGREGATE PENSION FUND  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

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