

COMPLIANCE AUDIT

City of Bethlehem Aggregate Pension Fund

Northampton County, Pennsylvania
For the Period
January 1, 2020 to December 31, 2021

February 2023



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 Bethlehem
Northampton County
Bethlehem, PA 18018

We have conducted a compliance audit of the City of Bethlehem Aggregate Pension Fund for the period January 1, 2020 to December 31, 2021. 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 finding and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our finding 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 finding contained in our prior report; and
2. To determine if the pension plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies.

Our audit was limited to the areas related to the objectives identified above. To determine if municipal officials took appropriate corrective action to address the finding 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 plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies, our methodology included the following:

- We determined whether state aid was properly determined and deposited in accordance with Act 205 requirements by verifying the annual deposit date of state aid and determining whether deposits were made within 30 days of receipt for all years within the period under audit.
- We determined whether annual employer contributions were calculated and deposited in accordance with the plan's governing document and applicable laws and regulations by examining the municipality's calculation of the plan's annual financial requirements and minimum municipal obligation (MMO) and comparing these calculated amounts to amounts actually budgeted and deposited into the pension plan as evidenced by supporting documentation.
- We determined whether annual employee contributions were calculated, deducted, and deposited into the pension plan in accordance with the plan's governing document and applicable laws and regulations by testing total members' contributions on an annual basis using the rates obtained from the plan's governing document in effect for all years within the period under audit and examining documents evidencing the deposit of these employee contributions into the pension plan.
- We determined whether retirement benefits calculated for 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 actually paid to the recipients.
- We determined whether the January 1, 2019, and January 1, 2021, actuarial valuation reports were prepared and submitted by March 31, 2020, and 2022, 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 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.
- 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 plan's governing documents.

The City of Bethlehem contracted with an independent certified public accounting firm for annual audits of its basic financial statements which are available at the city's offices. Those financial statements were not audited by us and, accordingly, we express no opinion or other form of assurance on them.

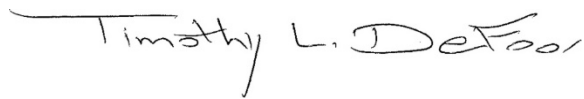
City officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the City of Bethlehem Aggregate Pension Plan is administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances 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 Bethlehem Aggregate Pension Plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies, except as noted in the following finding further discussed later in this report:

Finding – Incorrect Data On Certification Form AG 385 Resulting In A
Net Overpayment Of State Aid

The accompanying supplementary information is presented for purposes of additional analysis. We did not audit the information or conclude on it and, accordingly, express no form of assurance on it.

The contents of this report were discussed with officials of City of Bethlehem 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
January 24, 2023

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BACKGROUND

On December 18, 1984, the Pennsylvania Legislature adopted the Municipal Pension Plan Funding Standard and Recovery Act (P.L. 1005, No. 205, as amended, 53 P.S. § 895.101 et seq.). The Act established mandatory actuarial reporting and funding requirements and a uniform basis for the distribution of state aid to Pennsylvania's public pension plans.

Annual state aid allocations are provided from a 2 percent foreign (out-of-state) casualty insurance premium tax, a portion of the foreign (out-of-state) fire insurance tax designated for paid firefighters and any investment income earned on the collection of these taxes. Generally, municipal pension plans established prior to December 18, 1984, are eligible for state aid. For municipal pension plans established after that date, the sponsoring municipality must fund the plan for three plan years before it becomes eligible for state aid. In accordance with Act 205, a municipality's annual state aid allocation cannot exceed its actual pension costs.

In addition to Act 205, the City of Bethlehem Aggregate Pension Plan 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 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 399 - Optional Third Class City Charter Law, Act of July 15, 1957 (P.L. 901, No. 399), as amended, 53 P.S. § 41101 et seq.

The City of Bethlehem Aggregate Pension Fund serves as a common investment and administrative agent for the city's police and paid firemen's pension plans. The plans are single-employer defined benefit pension plans locally controlled by the provisions of the City's Codified Ordinances, at Articles 153 and 151, respectively. The plans are also affected by the provisions of collective bargaining agreements between the city and its police officers and firefighters.

Police Pension Plan

The police pension plan was established December 28, 1948. The plan is affected by the provisions of collective bargaining agreements between the city and its police officers. Active members hired before January 1, 2012, are required to contribute seven (7.0) percent of compensation to the plan. Active members hired after January 1, 2012, are required to contribute five (5.0) percent of compensation. As of December 31, 2021, the plan had 152 active members, no terminated members eligible for vested benefits in the future, and 206 retirees receiving pension benefits.

BACKGROUND – (Continued)

Firemen's Pension Plan

The firemen's pension plan was established April 23, 1940. The plan is affected by the provisions of collective bargaining agreements between the city and its paid firefighters. Active members are required to contribute eight (8.0) percent of compensation to the plan. As of December 31, 2021, the plan had 105 active members, no terminated members eligible for vested benefits in the future, and 121 retirees receiving pension benefits.

CITY OF BETHLEHEM AGGREGATE PENSION PLAN
STATUS OF PRIOR FINDING

Compliance With Prior Recommendation

City of Bethlehem has complied with the prior recommendation concerning the following:

- Failure To Implement Professional Services Contract Provisions Of Act 205

During the audit period, municipal officials adopted the mandatory provisions regarding professional services contracts as required by Act 205.

CITY OF BETHLEHEM AGGREGATE PENSION PLAN
FINDING AND RECOMMENDATION

Finding – Incorrect Data On Certification Form AG 385 Resulting In A Net Overpayment Of State Aid

Condition: The city failed to certify two eligible non-uniformed employees (2 units) but also included an ineligible non-uniformed employee (1 unit), and an ineligible firefighter (2 units) and understated total eligible payroll by \$42,199 on the Certification Form AG 385 filed in 2021. Plan officials inadvertently omitted the two eligible non-uniformed employees, who began employment on March 2, 2020 and worked six consecutive months full-time during 2020, but also included a non-uniformed employee who began employment during 2020 but did not work six consecutive months full-time in 2020 and a firefighter who entered the DROP program on March 1, 2020; both were ineligible for certification according to Act 205. In addition, the city certified an ineligible firefighter (2 units) and overstated payroll by \$10,148 on the Certification Form AG 385 filed in 2022. The firefighter entered the DROP program on February 1, 2021, and therefore was ineligible for certification. 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.

Furthermore, Act 205 at Section 402(e)(2) states, in part:

For the purpose of computing and reporting the applicable number of units, a DROP participant shall not be reported to the Auditor General as an active employee.

Cause: The city failed to implement adequate internal control procedures, such as having another individual review the data certified, to timely identify errors and/or omissions and ensure the accuracy of the reported data 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 incorrect certification of pension data affected the city's state aid allocations, as identified below:

CITY OF BETHLEHEM AGGREGATE PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

<u>Year</u>	<u>Type Of Plan</u>	<u>Units Overstated (Understated)</u>	<u>Unit Value</u>	<u>State Aid Overpayment (Underpayment)</u>
2021	Non-Uniformed Firemen's	(1) 2	\$ 4,797 4,797	\$ (4,797) 9,594
2022	Firemen's	2	5,180	<u>10,360</u>
Net Overpayment of State Aid				<u>\$ 15,157</u>

In addition, the city used the overpayments of state aid to pay the minimum municipal obligations (MMOs) due to the city's pension plans; therefore, if the reimbursement to the Commonwealth is made from the pension plans, the plans' MMOs will not be fully paid.

Recommendation: We recommend that the net overpayment of state aid, in the amount of \$15,157, plus interest, be returned to the Commonwealth. A check in this amount, with interest compounded annually from date of receipt to date of repayment, at a rate earned by the pension plan, should be made payable to: Commonwealth of Pennsylvania and mailed to: Department of the Auditor General, Municipal Pension & Fire Relief Programs Unit, 321 Finance Building, Harrisburg, PA 17120. A copy of the interest calculation must be submitted along with the check.

We also recommend that in the future, plan officials implement 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.

In addition, if the reimbursement to the Commonwealth is made from pension plans' funds, we recommend that any resulting MMO deficiencies be paid to the pension plan with interest, at a rate earned by the pension plan.

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.

CITY OF BETHLEHEM AGGREGATE PENSION PLAN
POTENTIAL WITHHOLD OF STATE AID

The finding contained in this audit report cites an overpayment of state aid to the city in the amount of \$15,157, plus interest. A condition of this nature may lead to a total withholding of state aid in the future unless that finding is corrected. A check in this amount with interest, at a rate earned by the pension plan, should be made payable to: Commonwealth of Pennsylvania, and mailed to: Department of the Auditor General, Municipal Pension & Fire Relief Programs Unit, 321 Finance Building, Harrisburg, PA 17120.

CITY OF BETHLEHEM AGGREGATE PENSION PLAN
 SUPPLEMENTARY INFORMATION
 (UNAUDITED)

SCHEDULE OF FUNDING PROGRESS

POLICE PENSION PLAN

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

The actuarial information is required by Act 205 biennially. The historical information, beginning as of January 1, 2017, is as follows:

	(1)	(2)	(3)	(4)
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded (Assets in Excess of) Actuarial Accrued Liability (b) - (a)	Funded Ratio (a)/(b)
01-01-17	\$ 80,676,559	\$ 113,576,965	\$ 32,900,406	71.0%
01-01-19	84,386,702	123,840,680	39,453,978	68.1%
01-01-21	109,040,890	139,158,860	30,117,970	78.4%

CITY OF BETHLEHEM AGGREGATE PENSION PLAN
 SUPPLEMENTARY INFORMATION
 (UNAUDITED)

SCHEDULE OF FUNDING PROGRESS

FIREMEN’S PENSION PLAN

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

The actuarial information is required by Act 205 biennially. The historical information, beginning as of January 1, 2017, is as follows:

	(1)	(2)	(3)	(4)
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded (Assets in Excess of) Actuarial Accrued Liability (b) - (a)	Funded Ratio (a)/(b)
01-01-17	\$ 59,177,551	\$ 77,756,872	\$ 18,579,321	76.1%
01-01-19	61,091,088	79,736,833	18,645,745	76.6%
01-01-21	80,886,222	88,567,142	7,680,920	91.3%

CITY OF BETHLEHEM AGGREGATE PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

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

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

CITY OF BETHLEHEM AGGREGATE PENSION PLAN
 SUPPLEMENTARY INFORMATION
 (UNAUDITED)

SCHEDULE OF CONTRIBUTIONS

POLICE PENSION PLAN

<u>Year Ended December 31</u>	<u>Actuarially Determined Contribution</u>	<u>Actual Contributions</u>	<u>Contribution Deficiency (Excess)</u>	<u>Covered- Employee Payroll*</u>	<u>Contributions as a Percentage of Covered- Employee Payroll*</u>
2012	\$ 2,520,216	\$ 2,520,217	\$ (1)		
2013	3,494,690	3,494,690	-		
2014	3,520,610	3,520,610	-	\$11,524,100	30.55%
2015	4,298,925	4,298,925	-	11,756,420	36.57%
2016	4,430,587	4,430,587	-	12,453,621	35.58%
2017	4,463,427	4,463,427	-	11,580,766	38.54%
2018	4,515,210	4,515,210	-	11,814,880	38.22%
2019	5,316,066	5,316,066	-	12,894,055	41.23%
2020	5,372,729	5,372,729	-	12,741,001	42.17%
2021	6,258,279	6,258,279	-	13,060,571	47.92%

* 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 BETHLEHEM AGGREGATE PENSION PLAN
 SUPPLEMENTARY INFORMATION
 (UNAUDITED)

SCHEDULE OF CONTRIBUTIONS

FIREMEN'S PENSION PLAN

<u>Year Ended December 31</u>	<u>Actuarially Determined Contribution</u>	<u>Actual Contributions</u>	<u>Contribution Deficiency (Excess)</u>	<u>Covered- Employee Payroll*</u>	<u>Contributions as a Percentage of Covered- Employee Payroll*</u>
2012	\$ 1,492,988	\$ 1,492,989	\$ (1)		
2013	2,245,105	2,245,105	-		
2014	2,223,040	2,223,040	-	7,065,479	31.46%
2015	2,683,110	2,683,110	-	6,860,596	39.11%
2016	2,550,742	2,550,742	-	8,021,606	31.80%
2017	2,595,844	2,595,844	-	7,639,322	33.98%
2018	2,668,509	2,668,509	-	7,711,777	34.60%
2019	3,384,368	3,384,368	-	8,398,361	40.30%
2020	3,422,628	3,422,628	-	8,425,386	40.62%
2021	3,652,422	3,652,422	-	8,639,120	42.28%

* 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 BETHLEHEM AGGREGATE PENSION PLAN
SUPPLEMENTARY INFORMATION
NOTES TO SUPPLEMENTARY SCHEDULES
(UNAUDITED)

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

POLICE PENSION PLAN

Actuarial valuation date	January 1, 2021
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	11 years
Asset valuation method	Fair value
Actuarial assumptions:	
Investment rate of return	7.0%
Projected salary increases	4.0%

CITY OF BETHLEHEM AGGREGATE PENSION PLAN
SUPPLEMENTARY INFORMATION
NOTES TO SUPPLEMENTARY SCHEDULES
(UNAUDITED)

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

FIREMEN'S PENSION PLAN

Actuarial valuation date	January 1, 2021
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	6 years
Asset valuation method	Fair value
Actuarial assumptions:	
Investment rate of return	7.0%
Projected salary increases	4.0%

CITY OF BETHLEHEM AGGREGATE PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Joshua D. Shapiro
Governor
Commonwealth of Pennsylvania

The Honorable J. William Reynolds
Mayor

Mr. Michael G. Colón
Council President

Mr. Eric R. Evans
Business Administrator

Ms. Linnea Lazarchak
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