

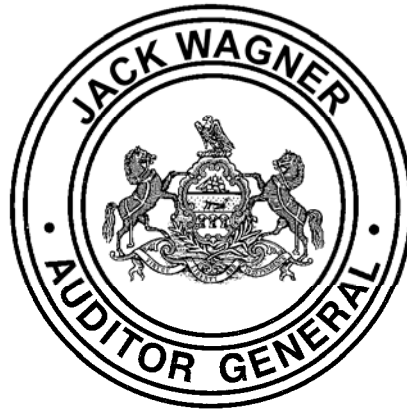
CITY OF HAZLETON NONUNIFORMED PENSION PLAN

LUZERNE COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2003, TO DECEMBER 31, 2004



CITY OF HAZLETON NONUNIFORMED PENSION PLAN

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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 Nonuniformed Pension Plan for the period January 1, 2003, to December 31, 2004. The audit was conducted pursuant to authority derived from Section 402(j) of Act 205 of 1984 and in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States.

The objectives of the audit were:

1. To determine if municipal officials took appropriate corrective action to address the findings contained in our prior audit report; and
2. To determine if the 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. The City of Hazleton contracted with an independent certified public accounting firm for annual audits of its basic financial statements which are available at the city's offices. Those financial statements were not audited by us and, accordingly, we express no opinion or other form of assurance on them.

The Department of the Auditor General (Department) is mandated by state statute to calculate state aid provided to municipal pension funds and to audit municipal pension funds having received such aid. State aid is calculated by an administrative unit that is not involved in the audit process. The Department's Comptroller Office then pre-audits the calculation and submits requests to the Commonwealth's Treasury Department for the disbursement of state aid to the municipality. The Department has implemented procedures to ensure that Department audit personnel are not directly involved in the calculation and disbursement processes. The Department's mandatory responsibilities are being disclosed in accordance with *Government Auditing Standards*.

The results of our tests indicated that, in all significant respects, the City of Hazleton Nonuniformed 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 in the conclusions section of this report:

Objective No. 1

Finding – Governing Document Lacks Provisions Mandated By Act 362

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

The contents of this report were discussed with officials of the City of Hazleton and, where appropriate, their responses have been included in the report.

February 23, 2006

JACK WAGNER
Auditor General

BACKGROUND

On December 18, 1984, the Pennsylvania Legislature adopted the Municipal Pension Plan Funding Standard and Recovery Act (P.L. 1005, No. 205, 53 P.S. §895.101, et seq.). The act established mandatory actuarial reporting and funding requirements and a uniform basis for the distribution of state aid to Pennsylvania's public pension plans. Section 402(j) of Act 205 specifically requires the Auditor General, as deemed necessary, to make an audit of every municipality which receives general municipal pension system State aid and of every municipal pension plan and fund in which general municipal pension system State aid is deposited.

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

In addition to Act 205, the City of Hazleton Nonuniformed Pension Plan is also governed by implementing regulations adopted by the Public Employee Retirement Commission published at Title 16, Part IV of the Pennsylvania Code and applicable provisions of various other state statutes including, but not limited to, the following:

Act 362 - Allowing Third Class Cities to Establish An Optional Retirement System, Act of May 23, 1945, (P.L. 903, No. 362), as amended, 53 P.S. § 39371, et seq.

The City of Hazleton Nonuniformed Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 2001-26, as amended, adopted pursuant to Act 362. The plan is also affected by the provisions of collective bargaining agreements between the city and its nonuniformed employees.

CITY OF HAZLETON NONUNIFORMED PENSION PLAN
AUDIT REPORT

OBJECTIVES, SCOPE AND METHODOLOGY

The objectives of the audit were:

1. To determine if municipal officials took appropriate corrective action to address the findings contained in our prior audit report for the period January 1, 2001, to December 31, 2002, dated February 19, 2004; and
2. To determine if the City of Hazleton Nonuniformed Pension Plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies.

The scope of the audit covered the period January 1, 2003, to December 31, 2004.

City officials are responsible for establishing and maintaining an internal control structure to provide reasonable assurance that the City of Hazleton Nonuniformed Pension Plan is administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies. To assist us in planning and performing our audit, we obtained an understanding of the city's internal control structure as it relates to the city's compliance with those requirements. Additionally, we tested transactions, assessed official actions, performed analytical procedures and interviewed selected officials to the extent necessary to satisfy the audit objectives.

CITY OF HAZLETON NONUNIFORMED PENSION PLAN
AUDIT REPORT

CONCLUSIONS - OBJECTIVE NO. 1

The first objective of the audit was to determine if municipal officials took appropriate corrective action to address the findings contained in our prior audit report for the period January 1, 2001, to December 31, 2002, dated February 19, 2004. Our audit conclusions are presented below.

Status Of Prior Audit Finding

· Pension Benefits In Excess Of The Third Class City Code

Benefits in excess of the Third Class City Code are still being provided to certain retired and active nonuniformed employees. Since the city received state aid based on eligible units during the current audit period, it did not receive any state aid attributable to the unauthorized benefits provided. The department will continue to monitor this situation to ensure that no excess state aid is allocated to the city in the future attributable to these unauthorized benefits.

Noncompliance With Prior Audit Recommendation

The City of Hazleton has not complied with the prior audit recommendation concerning the following:

Finding - Governing Document Lacks Provisions Mandated By Act 362

Condition: The pension plan's governing document, a separately executed plan agreement adopted by Ordinance No. 2003-39, does not contain certain provisions that are mandated by Act 362, as follows:

<u>Plan Provision</u>	<u>Act 362</u>
Involuntary early termination after age 60	A participant who has served for 12 years, or more, and shall have attained the age of 60 years and is involuntarily terminated before the expiration of 20 years of service, shall be entitled to receive such portion of the full compensation as the period of his service up to date of its termination bears to the full 20 year period of service.
Member contribution for less than 20 years	If any compensation be granted to a person who has not been a contributor to the fund, for an aggregate period of 20 years, such person shall be required to pay monthly, 3% of his compensation until such time as his contribution shall have been extended to a period of 20 years.

CITY OF HAZLETON NONUNIFORMED PENSION PLAN
AUDIT REPORT

CONCLUSIONS - OBJECTIVE NO. 1 - (Continued)

Finding - (Continued)

Criteria: A governing document which contains clearly defined and updated provisions is a prerequisite for the consistent, sound administration of retirement benefits. In addition, the nonuniformed pension plan's provisions should be in compliance with Act 362.

Cause: Municipal officials have failed to adopt adequate internal control procedures to ensure compliance with this department's prior audit recommendation.

Effect: A governing document which lacks provisions mandated by Act 362 could result in plan members or their beneficiaries receiving incorrect benefit amounts or being denied benefits to which they are statutorily entitled. It could also result in improper funding of the plan.

Recommendation: We recommend that municipal officials, after consulting with their solicitor, take whatever action is necessary to bring the nonuniformed pension plan's provisions into compliance with Act 362 at their earliest opportunity to do so.

Management's Response: Municipal officials indicated that they would provide a written response to this finding within 10 days of the exit conference which was held on February 23, 2006; however, no written response has been received from the city. The city may provide a written response upon receipt of the formal audit report.

CITY OF HAZLETON NONUNIFORMED PENSION PLAN
AUDIT REPORT

CONCLUSIONS - OBJECTIVE NO. 2

The second objective of the audit was to determine if the City of Hazleton Nonuniformed Pension Plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies. Our audit conclusions are presented below.

Our tests indicated that, in all significant respects, the City of Hazleton Nonuniformed Pension Plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies, except as noted in Objective No. 1.

CITY OF HAZLETON NONUNIFORMED PENSION PLAN
 SUPPLEMENTARY INFORMATION
 (UNAUDITED)

SCHEDULE OF FUNDING PROGRESS

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

The actuarial information is required by Act 205 biennially, except for distressed pension plans, for which annual reporting was required through January 1, 2003. The historical information, beginning as of January 1, 1999, is as follows:

	(1)	(2)	(3)	(4)	(5)	(6)
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded (Assets in Excess of) Actuarial Accrued Liability (b) - (a)	Funded Ratio (a)/(b)	Covered Payroll (c)	Unfunded (Assets in Excess of) Actuarial Accrued Liability as a % of Payroll [(b-a)/(c)]
01-01-99	\$ 3,160,016	\$ 2,455,487	\$ (704,529)	128.7%	\$ 1,336,424	(52.7%)
01-01-01	4,028,449	2,662,298	(1,366,151)	151.3%	1,314,050	(104.0%)
01-01-03	3,793,331	3,134,665	(658,666)	121.0%	1,320,659	(49.9%)

CITY OF HAZLETON NONUNIFORMED 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.

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

CITY OF HAZLETON NONUNIFORMED PENSION PLAN
 SUPPLEMENTARY INFORMATION
 (UNAUDITED)

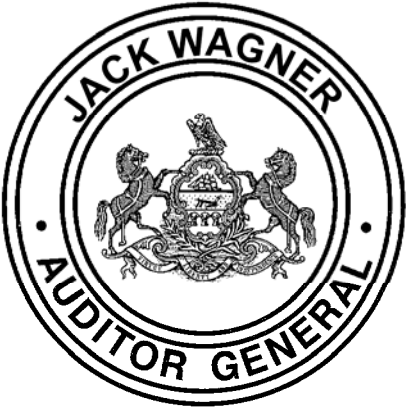
SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER
 AND OTHER CONTRIBUTING ENTITIES

Year Ended December 31	Annual Required Contribution	Percentage Contributed
1999	\$ 32,031	100%
2000	25,727	100%
2001	None	N/A
2002	None	N/A
2003	None	N/A
2004	None	N/A

CITY OF HAZLETON NONUNIFORMED PENSION PLAN
SUPPLEMENTARY INFORMATION
NOTES TO SUPPLEMENTARY SCHEDULES
(UNAUDITED)

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

Actuarial valuation date	January 1, 2003
Actuarial cost method	Entry age normal
Amortization method	N/A
Remaining amortization period	N/A
Asset valuation method	Fair value
Actuarial assumptions:	
Investment rate of return	7.5%
Projected salary increases	5.0%



CITY OF HAZLETON NONUNIFORMED PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell
Governor
Commonwealth of Pennsylvania

City of Hazleton Nonuniformed Pension Plan
Luzerne County
40 North Church Street
Hazleton, PA 18201

The Honorable Louis J. Barletta	Mayor
Mr. Joseph Yannuzzi	Council President
Mr. Samuel Monticello	Director of Administration

This report is a matter of public record. Copies of this report may be obtained from the Pennsylvania Department of the Auditor General, Office of Communications, Room 318 Finance Building, Harrisburg, PA 17120. If you have any questions regarding this report or any other matter, you may contact the Department of the Auditor General by accessing our website at www.auditorgen.state.pa.us.