COMPLIANCE AUDIT

City of Aliquippa
City Employees' Pension Plan

Beaver County, Pennsylvania

For the Period

January 1, 2018 to December 31, 2019

December 2020

Commonwealth of Pennsylvania
Department of the Auditor General
Eugene A. DePasquale • Auditor General

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EUGENE A. DEPASQUALE
AUDITOR GENERAL

The Honorable Mayor and City Council
City of Aliquippa
Beaver County
Aliquippa, PA 15001

We have conducted a compliance audit of the City of Aliquippa City Employees' Pension Plan for the period January 1, 2018 to December 31, 2019. 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 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 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 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 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 monthly pension benefits due to the retired individuals and comparing these amounts to supporting documentation evidencing amounts determined and payable to the recipients.

- We determined whether the January 1, 2019 actuarial valuation report was prepared and submitted by March 31, 2020, in accordance with Act 205 and whether selected information provided on the report 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 plan 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.

City of Aliquippa 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 Aliquippa City Employees' 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 Aliquippa City Employees' 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 findings further discussed later in this report:

Finding No. 1 – Noncompliance With Prior Audit Recommendation – Pension Benefits In Excess of the Third Class City Code

Finding No. 2 – Partial Compliance With Prior Audit Recommendation – Pension Benefit Payments Made to Deceased Individuals

Finding No. 3 – 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. 1 and No. 2 repeat conditions that were cited in our previous audit report that have not been corrected by city officials. We are concerned by the city's failure to correct those previously reported audit findings and strongly encourage timely implementation of the recommendation noted in this audit report.

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

During the current audit period, the City has continued to contribute more than the required minimum municipal obligation (MMO) to the city employees' pension plan. These additional contributions are due, to the City's implementation of an Act 205 earned income pension funding tax *(referred to later in Finding No. 3 contained in this report)*. These deposits have had a dramatic effect on the city employees' pension plan's funding ratios. The plan's funded ratio increased to 118.6% as of January 1, 2019, which is the most recent data available, and we commend the city for their continuing efforts in improving the financial position of the city's police pension plan.

The contents of this report were discussed with officials of City of Aliquippa 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.

December 1, 2020

EUGENE A. DEPASQUALE
Auditor General

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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 Aliquippa City Employees' 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

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.

The City of Aliquippa City Employees' Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 3 of 2008, as amended, adopted pursuant to Act 67. The plan is also affected by the provisions of collective bargaining agreements between the city and its non-uniformed employees. The plan was established December 1, 1970. Active members are required to contribute 5 percent of compensation to the plan. As of December 31, 2019, the plan had 10 active members and 7 retirees receiving pension benefits.

CITY OF ALIQUIPPA CITY EMPLOYEES PENSION PLAN
STATUS OF PRIOR FINDINGS

Partial Compliance With Prior Audit Recommendation

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

· Pension Benefit Payments Made To Deceased Individuals

As disclosed in audit reports prior to 2016, pension payments were improperly made to deceased members totaling $23,044, which has not been resolved as further discussed in Finding No. 2 of this report. In addition, during the most recent prior audit period covering January 1, 2016 to December 31, 2017, additional pension payments were made to a deceased individual totaling $2,941. The city has since recovered this amount and reimbursed the plan accordingly; however, a similar condition occurred during the current audit period. The city again failed to monitor the activity in the plan's custodial account and made additional improper monthly benefit payments from the pension plan for the period November 2018 through December 2018 totaling $1,361 as further discussed in Finding No. 2 of this report.

Noncompliance With Prior Audit Recommendations

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

· Pension Benefits In Excess Of The Third Class City Code

Finding No. 1 – Noncompliance With Prior Audit Recommendation – Pension Benefits In Excess Of The Third Class City Code

Condition: As disclosed in the nine most recent audit reports, the pension plan's governing document and collective bargaining agreement between the non-uniformed employees and the city provide for a survivor benefit for minor children of retirees, which is not authorized in accordance with the Third Class city Code. Section 6.03 of Ordinance No. 3 of 2008 states, in part:

> If there is no surviving spouse or if the surviving spouse becomes ineligible such benefit shall be paid to the surviving children of the deceased participant who are under the age of eighteen (18).

Criteria: The Third Class City Code does not specifically authorize a survivor benefit for minor children of retired non-uniformed employees.

Cause: City officials again failed to establish adequate internal controls to ensure compliance with this department's prior recommendation as evidenced by the recently negotiated collective bargaining agreements covering the period January 1, 2020 through December 31, 2023, which did not correct this issue.

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

Recommendation: We again recommend that the city comply with the Third Class City Code upon the renewal, extension, or renegotiation of the collective bargaining agreement. To the extent that the city is not in compliance with the Third Class City Code and/or is contractually obligated to pay benefits to existing survivors in excess of those authorized by the Third Class City Code, the excess benefits must be reflected in the Act 205 actuarial valuation reports for the plan and funded in accordance with Act 205 funding standards. Furthermore, the excess benefits will be deemed ineligible for funding with state pension aid. In such case, the plan's actuary may be required to determine the impact, if any, of the improper survivor benefits on the city's future state aid allocations and submit this information to the Department.

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

Auditor's Conclusion: We are concerned that the municipality has not complied with the prior audit recommendation and encourage compliance at the earliest opportunity to do so.

Finding No. 2 – Partial Compliance With Prior Audit Recommendation – Pension Benefit Payments Made To Deceased Individuals

Condition: As disclosed in the Status of Prior Findings section of this report, the city partially complied with the prior recommendation by recovering and reimbursing $2,941 in ineligible benefit payments made during the prior audit period to the plan. However, no recovery of the excess pension payments made to two deceased members prior to 2016 totaling $23,044 or reimbursement to the pension plan has been made for these unauthorized payments as of the date of this report. In addition, a similar condition occurred during the current audit period. The city again failed to monitor the activity in the plan's custodial account and made additional improper monthly benefit payments from the pension plan for the period November 2018 through December 2018 totaling $1,361 to a retiree who died on November 10, 2018.

Criteria: As disclosed in prior reports, the city has a fiduciary responsibility to monitor the continued eligibility of individuals receiving pension benefits and ensure that each eligible individual receives only the benefits to which he or she is entitled as well as detecting timely and properly terminating payments to deceased individuals.

Cause: Plan officials again failed to adopt adequate internal control procedures to ensure the continued eligibility of all retirees and beneficiaries receiving pension benefits under the pension plan and compliance with the department's prior recommendation.

Effect: The city's continued failure to implement procedures to monitor the continued eligibility of all retirees and beneficiaries receiving pension benefits under the pension plan has resulted in additional excess benefit payments from the plan totaling $1,361, in addition to a loss experienced by the plan totaling $23,044 for the overpayments made to deceased recipients prior to 2016.

Recommendation: We again recommend that plan officials either implement adequate internal procedures at the city, or ensure the plan's custodial agreement is amended, to provide for the timely detection and cessation of payments to deceased benefit recipients.

In addition, regardless of whether the city or the plan's custodian is given the responsibility to monitor continued benefit eligibility, plan officials should implement procedures to monitor either the internally prepared or custodial benefit eligibility reports to ensure their accuracy.

Furthermore, to the extent possible after consultation with the solicitor, we again recommend that the city pursue recovery of the improper payments and determine whether referral to appropriate law enforcement agencies is warranted.

Finding No. 2 – (Continued)

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

Auditor's Conclusion: We are concerned that the municipality has not fully complied with the prior audit recommendation and encourage compliance at the earliest opportunity to do so.

Finding No. 3 – 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: Between 2001 and 2003, the City's pension plans experienced actuarial investment losses of almost $4,000,000 and were classified by the state as Level III Distress. In 2002 and for 2003, the City assessed a 0.1% special Earned Income Tax (EIT) levy under Act 205 dedicated to the pension funds. The City Council, in the 2004 budget, voted to increase the EIT special levy to 0.6% for pension purposes. In 2005, the City conducted a pension study with the assistance from a Department of Community Economic Development (DCED) Act 47 grant that studied the pension funding deficits and made recommendations for dealing with pension liabilities. As a result, this study recommended, in part, a continuation of the dedicated 0.6% levy for the purposes of addressing delinquent Minimum Municipal Obligation (MMO) payments to the funds. This levy was reduced to 0.5% beginning in 2007and thereafter because delinquent MMO payments were completely addressed by that time.[1]

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 during 2018 and 2019 in accordance with the distress provisions of Act 205.

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.

[1] 2018 City of Aliquippa Financial Condition Evaluation of Designated Status Under Act 47; Filed December 12, 2018

Finding No. 3 – (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:

(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.

Cause: The city failed to establish adequate internal control procedures to assist them in complying with the special tax provisions of Act 205. Current officials were unable to locate or provide substantive documentation evidencing whether previous plan 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.

Finding No. 3 – (Continued)

Effect: The failure to establish adequate internal control procedures to apply the distress provisions of Section 607(f) of Act 205 and fund the city's pension plans accordingly, could result in the plans not having the necessary resources to meet current and future benefit obligations to its members; however, we were unable to determine the impact on the city's pension plans for 2018 and 2019 because as noted in the cause section 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 special tax that is being collected is the only contribution that is being deposited into the pension plan in addition to state aid.

Recommendation: We 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 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 this report beginning with the city's 2021 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.

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 ALIQUIPPA CITY EMPLOYEES 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. The historical information, beginning as of January 1, 2015, 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)
01-01-15	$ 1,169,684	$ 1,529,289	$ 359,605	76.5%
01-01-17	1,422,814	1,642,253	219,439	86.6%
01-01-19	1,760,992	1,484,289	(276,703)	118.6%

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 a 4-year smoothing of gains and/or losses subject to a corridor between 90 to 110 percent of the market value of assets. This method will lower contributions in years of less than expected returns and increase contributions in years of greater than expected returns. The net effect over long periods of time is to have less variance in contribution levels from year to year

CITY OF ALIQUIPPA CITY EMPLOYEES 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 ALIQUIPPA CITY EMPLOYEES PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER
AND OTHER CONTRIBUTING ENTITIES

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2014	$ 139,280	143.9%
2015	93,209	138.6%
2016	84,534	156.4%
2017	95,235	175.8%
2018	99,819	188.0%
2019	56,576	164.3%

CITY OF ALIQUIPPA CITY EMPLOYEES 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:

Actuarial valuation date	January 1, 2019
Actuarial cost method	Entry age normal
Amortization method	N/A
Remaining amortization period	N/A
Asset valuation method	Fair value, 4 year smoothing, subject to a corridor between 90-110% of the market value of assets.
Actuarial assumptions:	
Investment rate of return	7.0%
Projected salary increases *	4.50%

* Includes inflation at 2.50%

CITY OF ALIQUIPPA CITY EMPLOYEES PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
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Commonwealth of Pennsylvania

The Honorable Mayor
Dwan B. Walker

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