

COMPLIANCE AUDIT

City of Aliquippa Police Pension Plan Beaver County, Pennsylvania For the Period January 1, 2016 to December 31, 2017

July 2018



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 Police Pension Plan for the period January 1, 2016 to December 31, 2017. We also evaluated compliance with some requirements subsequent to that period when possible. The audit was conducted pursuant to authority derived from Section 402(j) of Act 205 and in accordance with the standards applicable to performance audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform our 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 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. To determine if municipal officials took appropriate corrective action to address the findings contained in our prior audit 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 both of the 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 benefit 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, 2015 and January 1, 2017 actuarial valuation reports were prepared and submitted by March 31, 2016 and 2018, 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 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.

The City of Aliquippa contracted with an independent certified public accounting firm for an audit of its basic financial statements for the year ended December 31, 2016 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 Police Pension Plan is administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies. In conducting our audit, we obtained an understanding of the city's internal controls as they relate to the city's compliance with those requirements and that we considered to be significant within the context of our audit objectives, and assessed whether those significant

controls were properly designed and implemented. Additionally and as previously described, we tested transactions, assessed official actions, performed analytical procedures, and interviewed selected officials 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.

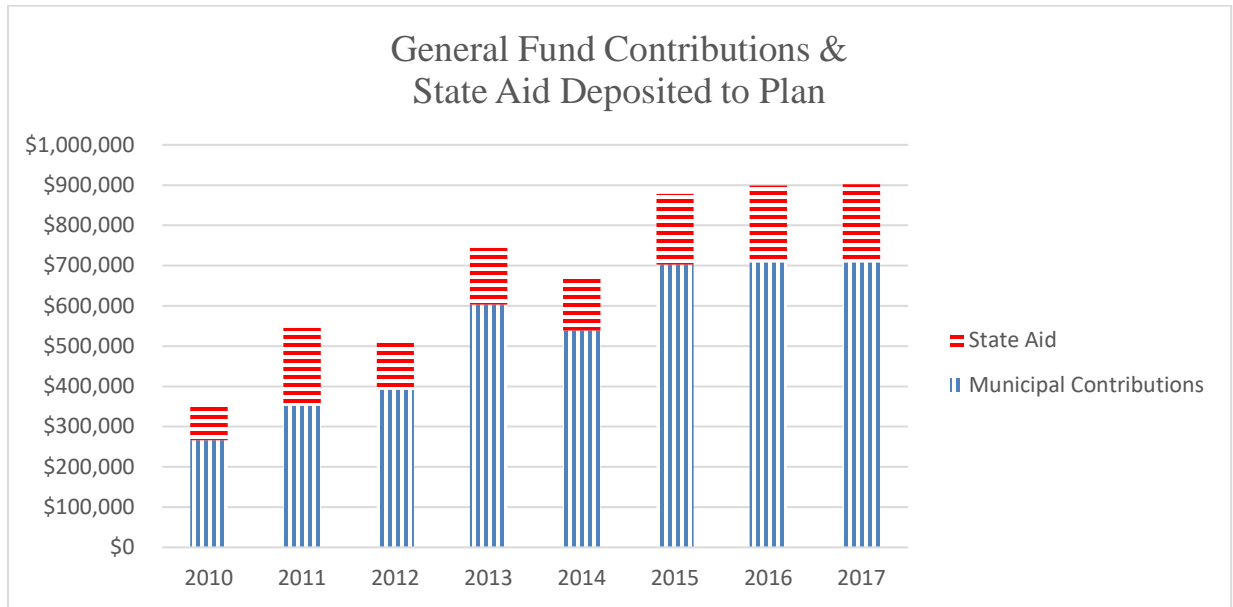
The results of our procedures indicated that, in all significant respects, the City of Aliquippa Police Pension Plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies, except as noted in the following finding further discussed later in this report:

- Finding No. 1 – Noncompliance With Prior Audit Recommendation – Pension Benefit Not Authorized By The Third Class City Code And The Plan’s Governing Document
- Finding No. 2 – Noncompliance With Prior Audit Recommendation – Failure To Approve Pension Benefit Determinations
- Finding No. 3 – Noncompliance With Prior Audit Recommendation – Pension Benefit Payments Made To Deceased Individuals

The findings contained in this audit report 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 recommendations 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.

As disclosed in the prior audit report, the plan’s funded status has been impacted through the years, as noted in the Comments section of this audit report, by the city’s continued practice of determining pension benefits for its police officers based on their final month’s accumulated earnings, which include large amounts of overtime and additional payments for other forms of compensation, such as monitoring sporting events, if applicable. This methodology has resulted in pension benefit determinations that are much greater than 50 percent of the respective retirees’ final annual base pay. This condition is partially responsible for the City’s implementation of an Act 205 earned income pension funding tax. As a result of the proceeds collected from this tax, the city has been able to dramatically increase their contributions to the police pension plan, which have been in excess of Act 205 funding requirements. Including annual state aid allocations, the city’s contributions to its police pension plan have increased from \$353,707 in 2010, as reported in the prior audit report, to \$901,808 in 2017, as illustrated below:



Despite these increased deposits, the plan’s funding ratio as noted in the Schedule of Funding Progress included in this report, which illustrates the police plan’s funded ratio, has only increased to 72.2% as of January 1, 2017 which is the most recent data available. However, this represents a marked improvement over the funding status noted in the prior audit, up from 60.1% as of January 1, 2011, and we commend the city for their efforts in improving the financial position of the city’s police pension plan.

However, as noted in the prior audit report and in the Findings and Recommendations section of this report, we again recommend that city officials exercise a greater oversight role over the plan’s benefit determinations and custodial account activity, which will enable city officials to make fiscally responsible decisions as plan fiduciaries that will benefit the City of Aliquippa and its taxpayers to ensure the city’s pension plans have adequate resources to meet current and future benefit obligations to the city’s hard working police officers that are determined in accordance with the provisions and the intent of the Third Class City Code.

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

June 29, 2018

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. 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.

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 Police Pension Plan is also governed by implementing regulations adopted by the former 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 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 Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 2 of 2008, as amended, adopted pursuant to Act 67 (formerly Act 317). Effective January 1, 2018, the plan is locally controlled by the provisions of Ordinance No. 1 of 2018. The plan is also affected by the provisions of collective bargaining agreements between the city and its police officers. The plan was established December 1, 1957. Active members are required to contribute 3 percent of monthly pay to the plan for 2016 and 4 percent of monthly pay to the plan for 2017, plus \$1 per month until age 65. As of December 31, 2017, the plan had 16 active members, no terminated members eligible for vested benefits in the future, and 24 retirees receiving pension benefits from the plan.

BACKGROUND – (Continued)

As of December 31, 2017, selected plan benefit provisions are as follows:

Eligibility Requirements:

Normal Retirement	Age 50 and 25 years of service
Early Retirement	None
Vesting	None

Retirement Benefit:

A monthly benefit equal to 50% of the greater of monthly compensation at retirement or average compensation (total wages averaged during the 5 years that produce the greatest average), plus a service increment equal to 1/40 of the normal retirement benefit for each year of service in excess of 25, up to a maximum of \$100 per month (service after 65 not included). If hired after January 1, 2016, compensation is the consecutive fixed amount of salary paid at regular, periodic intervals. Otherwise, compensation is total wages.

Survivor Benefit:

Before 10 years of service and not Killed In Service – 25% of participant’s compensation at death.

After 10 years of service but prior to retirement eligibility – 50% of participant’s compensation at death.

After retirement eligibility or for members killed in service – 50% of the amount the participant was receiving or entitled to receive is payable to the participant’s spouse until death.

Service Related Disability Benefit:

For total and permanent disability, the normal retirement benefit calculated at date of disability, offset by Workers’ Compensation and any benefits provided under the Enforcement Officer Disability Benefits Law.

CITY OF ALIQUIPPA POLICE PENSION PLAN
STATUS OF PRIOR FINDINGS

Compliance With Prior Audit Recommendations

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

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

The city reimbursed \$8,123 to the Commonwealth for the excess reimbursement received in 2014, including interest.

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 Recommendations section of this report:

- Pension Benefit Not Authorized By The Third Class City Code And The Plan's Governing Document
- Failure To Approve Pension Benefit Determinations
- Pension Benefit Payments Made To Deceased Individuals

CITY OF ALIQUIPPA POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Noncompliance With Prior Audit Recommendation – Pension Benefit Not Authorized By The Third Class City Code And The Plan’s Governing Document

Condition: As disclosed in the prior audit report, the city provided pension benefits in excess of the provisions contained in the Third Class City Code and the plan’s governing document through the inclusion of additional vacation time earned outside of the final month averaging period and the inclusion of excessive amounts of overtime and holiday pay in the monthly pension benefit determinations of two retired police officers based on their final monthly compensation, as noted in the Comments section of this report. Based on additional documentation provided by the city, we also noted that for one of the previously disclosed retired police officers, who retired during 2015, his monthly pension benefit also included an error in the amount of \$367 per month due to an incorrectly determined longevity component and an adjustment to monthly pension benefit amount which should not have been included in his monthly benefit.

A similar condition occurred during the current audit period. Two additional police officers, one who retired July 29, 2016 and one who retired January 1, 2017, each had additional vacation time included in their individual pension calculations, which was earned outside of the final month pension averaging period. In addition, the police officer who retired in 2016 also had an excessive longevity component added to his final monthly compensation and 160 hours of overtime and holiday pay included in his calculation, and for the police officer who retired in 2017, he had additional personal time earned outside of the final month pension averaging period and 208 hours of overtime and holiday pay included in his calculation as also noted in the comments section of this report. Finally, the pension calculations for each of the retiring police officers included an additional monthly increase amounting to \$76 and \$85, respectively, which should not have been part of the final monthly pension benefit because it represented the amount of the monthly pension benefit not subject to federal tax, not an actual component of the monthly pension benefit itself.

It should be noted that, subsequent to the current audit period, effective January 1, 2018, the city adopted Ordinance No. 1 of 2018 which defines compensation for members hired on or after October 30, 2015, as the consecutive fixed amount of salary paid at regular, periodic intervals. However, the city continues to pay pension benefits to current retirees in excess of the provisions contained in the Third Class City Code and the plan’s governing document.

CITY OF ALIQUIPPA POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Criteria: As previously disclosed, Section 4303(b) of the Third Class City Code states, in part:

The basis of the apportionment of the pension shall be determined by the rate of the monthly pay of the member at the date of injury, death, honorable discharge, vesting under section 4302.1 or retirement, or the highest average annual salary which the member received during any five years of service preceding injury, death, honorable discharge, vesting under section 4302.1 or retirement, whichever is the higher, and except as to service increments provided for in subsection (d), shall not in any case exceed in any year one-half the annual pay of such member computed at such monthly or average annual rate, whichever is the higher.

Furthermore, Section 4309 of the Third Class City Code states:

As used in this subdivision, the term “salary” is defined as the fixed amount of compensation paid at regular, periodic intervals by the city to the member and from which pension contributions have been deducted.

In addition Section 1.12 of the pension plan’s governing document, Ordinance No. 2 of 2008, states, in part:

“Compensation” shall mean the total remuneration paid to an Employee by the Employer with respect to personal services rendered as an Employee. Amounts paid as lump sums for back-pay damage awards or settlements other than to the extent that such amount are credited to periods of time when they would otherwise have accrued or been earned shall be excluded such that no amounts are credited in a manner which results in duplication of remunerations for any particular period of time.

The department has concluded that lump sum payments for accumulated unused leave at retirement are not encompassed by “salary” or “rate of the monthly pay” as used in Section 4303(b) of the Third Class City Code, unless the unused leave was earned during the pension computation period.

Cause: Plan officials and current council members contend that they are bound to include leave payments not earned in the pension averaging period by past practice and collective bargaining provisions.

Effect: The plan is paying \$2,106 per month to four retired police officers in excess of what is authorized by the Third Class City Code and the plan’s governing document.

CITY OF ALIQUIPPA POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

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 and subsequent to 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.

To the extent that the city has already obligated itself to pay benefits in excess of those authorized by the Third Class City Code and the plan's governing document, the excess benefits must be reflected in the Act 205 actuarial valuation report for the plan and funded in accordance with Act 205 funding standards. Furthermore, the unauthorized portion of such benefits will be deemed ineligible for funding with state pension aid. In such case, the plan's actuary may be required to determine the impact, if any, of the excess benefit on the city's future state aid allocations and submit this information to the department.

Recommendation: We again recommend that city officials take appropriate action to ensure that pension benefits are paid in accordance with the Third Class City Code and the plan's governing document. We further recommend that city council effectively monitor the plan's benefit payments and exercise its oversight duties as noted in Finding No. 2 contained in this report.

Management's Response: City officials agreed with the finding without exception and will work with city council and the Act 47 coordinator to resolve the finding.

Auditor's Conclusion: This finding repeats a condition that was cited in several of our previous audit reports that has not been corrected by city officials. A written response was requested regarding the city's intended corrective action relative to this issue, however, as of the date of this report, no formal written response was received. We are concerned by the city's failure to correct this previously reported audit finding and strongly encourage timely implementation of the recommendation noted in this audit report.

CITY OF ALIQUIPPA POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Noncompliance With Prior Audit Recommendation – Failure To Approve Pension Benefit Determinations

Condition: As disclosed in our prior audit report, the city failed to provide any documentation that the pension benefit determinations prepared during the prior audit period were ever formally approved by municipal officials. A similar condition occurred during the current audit period. And, although city council minutes indicate that city officials approve wages and other retirement information prior to pension calculations being prepared, city officials again failed to ensure that all pension benefit determinations made during the current audit period were formally reviewed and approved by City officials prior to the payment of monthly pension benefits to retirees and beneficiaries. These benefit determinations again included leave pay earned outside of the final month averaging period and longevity and other component errors as disclosed in Finding No. 1 of this report and large amounts of overtime and other forms of remuneration as illustrated in the Comments section of this audit report.

Criteria: As previously disclosed, Section 4301(2) of Third Class City Code states:

The fund shall at all times be under the direction and control of council but may be committed to the custody and management of such officers of the city or to such other persons or entities, as may be designated by council by ordinance. [Emphasis added.]

Cause: Plan officials again failed to adopt adequate internal control procedures to ensure pension benefit determinations were reviewed and approved by city council after they had been prepared by the plan's actuary.

Effect: In their capacity as plan fiduciaries, municipal officials are not providing proper oversight of the pension benefit determinations being prepared and paid to retirees and their beneficiaries which has contributed to the increased municipal contributions necessary to maintain the plan's current funding status.

Recommendation: We again recommend that municipal officials establish adequate internal control procedures to ensure that all pension benefit determinations are reviewed and approved by City Council prior to the payment of monthly pension benefits to retirees and beneficiaries.

Management's Response: City officials agreed with the finding without exception and will work with city council and the Act 47 coordinator to resolve the finding.

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.

CITY OF ALIQUIPPA POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – Noncompliance With Prior Audit Recommendation – Pension Benefit Payments Made To Deceased Individuals

Condition: As disclosed in our prior audit report, the plan continued to make monthly pension benefits to a deceased retiree who died August 26, 2013, and continued to receive benefits through May 2016 according to the plan’s custodial account statements. Although the city ceased payments to this individual during the current audit period, the city again failed to provide evidence that procedures were implemented to ensure that this condition does not happen again in the future or whether recovery of the improper payments would be appropriate.

Criteria: As previously disclosed, the city or the plan’s custodian should have procedures in place 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 and that payments to deceased individuals are detected timely and properly terminated.

Cause: City officials failed to establish adequate internal controls to ensure compliance with this department’s prior recommendation.

Effect: The plan made 33 payments to the deceased member totaling \$21,011 through May 2016. The continued failure to implement formal procedures to monitor continued eligibility of benefit recipients receiving monthly benefits from the pension plan could result in a similar condition occurring in a subsequent period.

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.

Finally, we again recommend that plan officials review these benefit payments with the city solicitor and determine whether recovery of the improper payments would be appropriate and whether referral to appropriate law enforcement agencies is warranted.

Management’s Response: City officials agreed with the finding without exception and will work with city council and the Act 47 coordinator to resolve the finding.

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.

CITY OF ALIQUIPPA POLICE 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, 2013, 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)
01-01-13	\$ 5,258,252	\$ 8,873,594	\$ 3,615,342	59.3%
01-01-15	6,400,858	9,690,898	3,290,040	66.1%
01-01-17	7,913,339	10,957,722	3,044,383	72.2%

Note: The market values of the plan’s assets at 01-01-13, 01-01-15, and 01-01-17 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 POLICE 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 POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER
AND OTHER CONTRIBUTING ENTITIES

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2012	\$ 401,130	127.8%
2013	487,079	152.8%
2014	482,612	140.2%
2015	611,135	143.7%
2016	614,750	146.2%
2017	603,326	149.5%

CITY OF ALIQUIPPA POLICE 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, 2017
Actuarial cost method	Entry age normal
Amortization method	Level dollar, closed
Remaining amortization period	9 years
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	7.5%
Projected salary increases	4.5%

CITY OF ALIQUIPPA POLICE PENSION PLAN
COMMENTS

As noted in our prior audit report, the City of Aliquippa's practice has been to calculate its police officers' pension benefits based on the amount of the retiree's final month's pay. This includes regular monthly pay plus overtime and other forms of remuneration. It has also been the police officers' practice to incur significant amounts of overtime during their final month of employment which has resulted in pension benefit determinations that are much greater than 50 percent of the respective retirees' final annual base pay amounts.

As previously noted in this audit report, the City of Aliquippa Police Pension Plan is governed by local ordinances adopted pursuant to Act 67, the Third Class City Code. With regard to the determination of pension benefits for police officers, Section 4303 of the Third Class City Code states, in part:

Allowances and Service Increments (a) Payments for allowances shall only be a charge on the police pension fund and shall not a charge on any other fund under the control, or in the treasury, of the city. The basis of the apportionment of the pension shall be determined by the rate of the monthly pay of the member at the date of injury, death, honorable discharge, vesting under section 4302.1 or retirement, or the highest average annual salary which the member received during any five years of service preceding injury, death, honorable discharge, vesting under section 4302.1 or retirement, whichever is the higher, and except as to service increments provided for in subsection (d), shall not in any case exceed in any year one-half the annual pay of such member computed at such monthly or average annual rate, whichever is the higher. [Emphasis added.]

Although the Code does not contain a definition for the term "pay", at Section 4309, the Code defines the term salary as follows:

Definitions. As used in this subdivision, the term "salary" is defined as the fixed amount of compensation paid at regular, periodic intervals by the city to the member and from which pension contributions have been deducted.

CITY OF ALIQUIPPA POLICE PENSION PLAN
COMMENTS

During the prior audit period, the former police chief (Retiree No. 1) retired on a non-disability normal retirement benefit. Additionally, a police officer (Retiree No. 2) retired also on a non-disability normal retirement pension. Similarly, during the current audit period, two additional police officers, Retiree No. 3 who retired in July 2016, and Retiree No. 4 who retired in July 2017, also retired on non-disability normal retirement pensions. All four police officers had significant amounts of additional overtime, vacation and holiday hours earned in their final month of employment included in their pension calculations, as illustrated below:

Retiree	Total Hours	Regular Hours	Additional Hours
(1)	424.0	212.0	212.0
(2)	358.0	190.0	168.0
(3)	336.0	176.0	160.0
(4)	384.0	176.0	208.0

The following chart illustrates the effect that using the retirees' final month's accumulated earnings to determine the retirees' pension benefits had on the pension calculations for each retiree:

Retiree - Full Years Of Service	Annual Pension Benefits	Monthly Pension Benefits
(1)-25	\$ 81,960	\$ 6,830
(2)-25	51,588	4,299
(3)-25	59,019	4,918
(4)-25	63,396	5,283

Consequently, as previously disclosed, Retiree No. 1 is receiving a monthly pension benefit that is approximately 146% of his 2013 annual earnings of \$56,260 while Retiree No. 2 is receiving a monthly pension benefit that is approximately 78% of his 2014 annual earnings of \$65,796 and includes \$367 per month more than noted in our prior audit report as disclosed earlier in Finding No. 1. Retiree No. 3 is receiving a monthly pension benefit that is approximately 104% of his 2015 annual earnings of \$56,660 and Retiree No. 4 is receiving a monthly pension benefit that is approximately 100% of his 2016 annual earnings of \$63,513.

CITY OF ALIQUIPPA POLICE PENSION PLAN
COMMENTS

We again encourage city officials to review the methodology they use to calculate pension benefits for its police officers. The city's practice of allowing police officers the opportunity to accumulate large amounts of overtime and other forms of compensation during their last month of employment and including that compensation in the calculation of pension benefits has created apparent windfalls for retirees, significantly increased required municipal contributions necessary to fund the plan, thwarted actuarial projections, and jeopardized the fiscal soundness of the pension plan.

CITY OF ALIQUIPPA POLICE PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

The Honorable Dwan B. Walker
Mayor

Mr. Samuel L. Gill
City Administrator

Ms. Vickie Fratangeli
Council Member

Mr. Matthew Mottes
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