COMPLIANCE AUDIT

City of Aliquippa
Police Pension Plan
Beaver County, Pennsylvania
For the Period
January 1, 2018 to December 31, 2019

December 2020

EUGENE A. DEPASQUALE • AUDITOR GENERAL •
Commonwealth of Pennsylvania
Department of the Auditor General
Eugene A. DePasquale • Auditor General

COUNCIL 90 AFSCME UNION LABEL

Commonwealth of Pennsylvania
Department of the Auditor General
Harrisburg, PA 17120-0018
Facebook: Pennsylvania Auditor General
Twitter: @PAAuditorGen
www.PaAuditor.gov

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, 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 that there were no benefit calculations prepared for the years covered by our audit period.

- 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 Police 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 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 findings further discussed later in this report:

Finding No. 1	–	Partial Compliance With Prior Audit Recommendation – Pension Benefit Payments Made To Deceased Individuals
Finding No. 2	–	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. 3	–	Incorrect Pension Benefit Paid

Finding No. 1 contained in this audit report repeats a condition that was cited in our previous report that has not been fully corrected by city officials. We are concerned by the city's failure to correct this previously reported finding and strongly encourage timely implementation of the recommendations noted in this 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 police 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. 2 contained in this report)*. These deposits have had a dramatic effect on the city police pension plan's funding ratios. The plan's funded ratio increased to 80.3% 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.

December 1, 2020

EUGENE A. DEPASQUALE
Auditor General

CONTENTS

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 Police 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 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. 1 of 2018, which consolidates and restates the police pension plan in its entirety, adopted pursuant to Act 67 (formerly Act 317). The plan is also affected by the provisions of collective bargaining agreements between the city and its police officers. The plan was established December 1, 1957. Active members are required to contribute 5 percent of monthly pay to the plan plus $1 per month until age 65. As of December 31, 2019, the plan had 17 active members and 23 retirees receiving pension benefits.

Compliance With Prior Recommendations

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

- Failure To Approve Benefit Determinations

  The city implemented procedures to ensure appropriate approvals of all pension benefit determinations. City council is now responsible for the review and approval of all pension benefit calculations. Additionally, there were no new retirements during the current audit period.

Partial Compliance With Prior Audit Recommendations

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

- Pension Benefit Payments Made To Deceased Individual

  Although the city ceased payments to this individual during the prior audit period and implemented procedures to monitor the continued eligibility of its benefit recipients, as of December 31, 2019, the city failed to address the pension overpayments, amounting to $21,011, previously disbursed from the plan as further discussed in Finding No. 1 of this report.

Status Of Prior Audit Recommendation

- Pension Benefit Not Authorized By The Third Class City Code And The Plan's Governing Document

  Municipal officials enacted Ordinance No. 1 of 2018 to bring the plan's benefit structure into compliance with Act 67 for police officers hired after October 30, 2015. To the extent that the City is not in compliance with Act 67 and/or is contractually obligated to pay benefits to existing or future retirees in excess of those authorized by Act 67, 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, such benefits will be deemed ineligible for funding with state pension aid. Since the city received state aid based on unit value during the current audit period, it did not receive state aid attributable to the excess benefits provided. The Department will continue to monitor the impact of the excess benefits being paid to current and future retirees on the township's state aid allocations during future audits of the plan, which may require the township to reimburse any excess state aid received attributable to the excess pension benefits to the Commonwealth.

Finding No. 1 – 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, although the city ceased payments to the ineligible individual and implemented procedures to monitor the continued eligibility of its pension recipients, as of December 31, 2019, the city again failed to address the pension overpayments, amounting to $21,011, previously distributed from the plan during prior periods as disclosed in the prior report.

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: City officials failed to ensure compliance with the department's prior recommendation.

Effect: The plan experienced a loss totaling $21,011 for the overpayments made to the deceased recipient during 2013 through 2016.

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

Management's Response: Management is aware of this overpayment and is going to work with city council and the solicitor to get the finding resolved.

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. 2 – 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 2007 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.

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.)

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

Finding No. 2 – (Continued)

(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.

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.

Finding No. 2 – (Continued)

In addition, we recommend that city officials establish and implement adequate procedures to ensure that the city does not reduce its level of contributions to its pension plans from funding sources prior to the implementation of the special municipal tax in accordance with Act 205 for periods subsequent to 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.

Finding No. 3 – Incorrect Pension Benefit Paid

Condition: During the prior audit, the City was notified via verbal observation that the plan is paying $131 per month to a retiree, who retired July 30, 2015, in excess of the amount calculated. Plan officials correctly determined the monthly pension benefit as $4,168 per month; however, the pension plan continues to pay the retiree $4,299 per month through the date of this report.

Criteria: Section 4.02 of Ordinance No. 2 of 2008, states in, in part:

> Normal Retirement Benefit – The monthly amount of the Normal Retirement Benefit shall be equal to fifty percent (50%) of the Participant's Average Compensation, plus Service Increment Benefit, if any.

Cause: Plan officials failed to correct the monthly pension benefit being paid to the retiree as previously recommended.

Effect: The City continues to pay monthly pension benefits in excess of authorized amounts from the plan. 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.

Recommendation: We again recommend that the City adjust the retiree's pension benefit prospectively, to the correct monthly pension benefit due.

Management's Response: Management is aware of the incorrect pension benefit paid and is in litigation.

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

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, 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	$ 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%
01-01 -19	9,155,435	11,402,259	2,246,824	80.3%

Note: The market values of the plan's assets at 01-01-15, 01-01-17, and 01-01-19 have been adjusted to reflect 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
2014	$ 482,612	140.2%
2015	611,135	143.7%
2016	614,750	146.2%
2017	603,326	149.5%
2018	483,180	185.2%
2019	529,711	175.4%

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, 2019
Actuarial cost method	Entry age normal
Amortization method	Level dollar, closed
Remaining amortization period	10 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	7.0%
Projected salary increases *	4.5%

* Includes inflation at 2.50%

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 Mayor
Dwan B. Walker

Mr. Samuel L. Gill
City Administrator

Ms. Cheryl McFarland
Finance Administrator

Ms. Jennifer Milliner
Council Member

Mr. Matthew Mottes
Council Member

Mr. Arthur J. Piroli, Jr.
Council Member

Mr. Donald C. Walker, III
Council Member

This report is a matter of public record and is available online at www.PaAuditor.gov. Media questions about the report can be directed to the Pennsylvania Department of the Auditor General, Office of Communications, 229 Finance Building, Harrisburg, PA 17120; via email to: news@PaAuditor.gov.