COMPLIANCE AUDIT

City of McKeesport Officers and Employees Pension Plan

Allegheny County, Pennsylvania

For the Period

January 1, 2019 to December 31, 2021

November 2022

Commonwealth of Pennsylvania
Department of the Auditor General

Timothy L. DeFoor • Auditor General

Commonwealth of Pennsylvania
Department of the Auditor General
Harrisburg, PA 17120-0018
Facebook: Pennsylvania Auditor General
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TIMOTHY L. DEFOOR
AUDITOR GENERAL

The Honorable Mayor and City Council
City of McKeesport
Allegheny County
McKeesport, PA 15132

We have conducted a compliance audit of the City of McKeesport Officers and Employees Pension Plan for the period January 1, 2019 to December 31, 2021. We also evaluated compliance with some requirements subsequent to that period when possible. The audit was conducted pursuant to authority derived from the Municipal Pension Plan Funding Standard and Recovery Act (Act 205 of 1984, as amended, 53 P.S. § 895.402(j)), which requires the Auditor General, as deemed necessary, to audit every municipality which receives general municipal pension system state aid and every municipal pension plan and fund in which general municipal pension system state aid is deposited. The audit was not conducted, nor was it required to be, in accordance with Government Auditing Standards issued by the Comptroller General of the United States. We planned and performed the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our finding and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our finding and conclusions based on our audit objective.

The objective of the audit was 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 objective identified above. 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 and the plan member who elected to vest during the current audit period, and through the completion of our fieldwork procedures, represent payments to all (and only) those entitled to receive them and were properly determined and disbursed in accordance with the plan's governing document, applicable laws and regulations by recalculating the amount of the pension benefits due to the retired individuals and comparing these amounts to supporting documentation evidencing amounts determined and actually paid or payable to the recipients.

- We determined whether the January 1, 2019 and January 1, 2021 actuarial valuation reports were prepared and submitted by March 31, 2020 and 2022, respectively, in accordance with Act 205 and whether selected information provided on these reports is accurate, complete, and in accordance with plan provisions to ensure compliance for participation in the state aid program by comparing selected information to supporting source documentation.

- We determined whether 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 and through the completion of our fieldwork procedures.

- We determined whether provisions of the Deferred Retirement Option Plan (DROP) were in accordance with the provisions of Act 205 by examining provisions stated in the plan's governing documents.

The City of McKeesport contracted with an independent certified public accounting firm for annual audits of its basic financial statements for the years ended December 31, 2019 and 2020, 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 McKeesport Officers and 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 objective.

The results of our procedures indicated that, in all significant respects, the City of McKeesport Officers and 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 finding further discussed later in this report:

Finding – Provision Of Benefits In Excess of The Third Class City Code

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

The contents of this report were discussed with officials of the City of McKeesport and, where appropriate, their responses have been included in the report. We would like to thank city officials for the cooperation extended to us during the conduct of the audit.

Timothy L. DeFoor

Timothy L. DeFoor
Auditor General
November 10, 2022

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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 McKeesport Officers and 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 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 McKeesport Officers and Employees Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 06-8, 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 hired prior to January 1, 1993. The plan was established January 18, 1949. Active members are required to contribute 4 percent of compensation during their first 20 years of credited service to the plan; thereafter, they are required to contribute 4.5% of compensation to the plan. As of December 31, 2021, the plan had 6 active members, 1 terminated member eligible for vested benefits in the future, and 37 retirees receiving pension benefits from the plan.

Finding – Provision Of Benefits In Excess Of The Third Class City Code

Condition: The city adopted a home rule charter on August 23, 1973, which became operative on January 1, 1976, pursuant to the Home Rule Charter and Optional Plans Law, 53 Pa. C.S. § 2901 et seq. (previously 53 P.S. § 1-101 et seq.)

The Commonwealth Court of Pennsylvania issued its opinion on January 24, 2001, in *Municipality of Monroeville v. Monroeville Police Department Wage Policy Committee.* Therein, the court held that Section 2962(c)(5) of the Home Rule Charter and Optional Plans Law, 53 Pa. C.S. §2962(c)(5), "clearly precludes home rule municipalities from providing pension benefits different from those prescribed in general law including Act 600." The court's holding was in accord with the position taken by this Department since at least January 1995. Accordingly, pension benefit provisions for plan members hired on or after January 24, 2001 are to be in accordance with the Third Class City Code (Act 37).

The city's Combined Pension Plan was established effective September 24, 1987, via Ordinance No. 87-22 for all new employees hired after January 1, 1994. Although subsequent legal challenges and plan amendments required firefighters to be members of the firefighter's pension plan and police officers to be members of the police pension plan, all non-uniformed employees hired after January 1, 1994, were to be members of the Combined Pension Plan. Any city employees who were members of the Officers and Employees Pension Plan prior to January 1, 1994, could remain in that plan until their retirement or termination.

In April 2020, the city adopted Ordinance No. 020-006 and in April 2022, the city adopted Ordinance No. 022-006 which together authorized the transfer of a total of six employees from the Combined Pension Plan to the Officers and Employees Pension Plan and amended and completely restated Section 8.03 of the plan's governing document regarding deferred retirement benefits. In May 2022, the city authorized the transfer of employee contributions between the two plans for these participants. Additionally, plan officials indicated that the city is in the process of having the pension plan's actuary calculate the present value of the accrued benefit of the benefits held by the Combined Pension Plan which will be transferred to the Officers and Employees Pension Plan in the near future. It was noted that four of the six employees transferred were hired after January 24, 2001, as follows:

Employee	Date of Hire	Date of Transfer	Age at Date of Transfer	Years of Service at Date of Transfer
1	7/06/2017	4/1/2020	49	2
2	7/22/2013	4/1/2020	43	6
3	1/02/2012	4/1/2020	43	8
4	2/04/2020	4/1/2022	42	2

Finding – (Continued)

Since pension benefit provisions for plan members hired on or after January 24, 2001 are to be in accordance with the Third Class City Code, the following benefit provisions contained in the plan's governing document have been determined to be in excess of the restrictions found in the Third Class City Code for such plan members:

Benefit	Governing Document	Third Class City Code
Deferred Retirement Benefit – 12 years of service	*Section 8.03, as amended and completely restated by Ordinance No. 020-006, states*: A participant who shall have completed at least twelve (12) years of Credited Service and who shall be involuntarily or voluntarily terminated from Employment prior to attainment of Normal Retirement Age shall be entitled to elect to receive a deferred retirement benefit in lieu of a distribution of Accumulated Contributions under Section 8.02. Such a deferred retirement benefit shall be in an amount equal to the Participants Accrued Benefit as of the date Employment ceases and shall commence after application pursuant to Section 4.05 and not earlier than the date which would be the date the Participant attains age fifty-five (55). *Prior to amending section 8.03 through the adoption of Ordinance No. 020-006, the plan's governing document, Ordinance No. 06-8, contained the following provision at section 8.03 for employees hired on or after January 24, 2001, which complied with Act 67:* A Participant hired on or after January 24, 2001 who shall have completed at least twelve (12) years of Credited Service but less than twenty (20) Years of Credited Service and who shall be dismissed or otherwise deprived of active	After the completion of 12 years of full-time service, and the benefit is not payable until the date that would have been the member's retirement date if he had continued employment. *(Normal retirement date under Act 67 is when the participant would have attained age 60 with 20 years of service.)*

Finding – (Continued)

Benefit	Governing Document	Third Class City Code
Deferred Retirement Benefit – 12 years of service - (Continued)	Employment other than due to death or Total and Permanent Disability prior to attainment of Normal Retirement Age shall be entitled to elect to receive a deferred retirement benefit in lieu of a Distribution of Accumulated Contributions under Section 8.02. Such deferred retirement benefit shall be equal to the Accrued Benefit and shall commence after application under Section 4.05 and not earlier than the date on which the Participant attains age sixty (60).	After the completion of 12 years of full-time service, and the benefit is not payable until the date that would have been the member's retirement date if he had continued employment. *(Normal retirement date under Act 67 is when the participant would have attained age 60 with 20 years of service.)*
Deferred Retirement Benefit – 20 years of service	*Section 8.03, as amended and completely restated by Ordinance No. 020-006, states*: A participant who shall have completed at least twenty (20) years of Credited Service and who shall be dismissed, voluntarily retired, or otherwise deprived of active employment other than due to death or Total and Permanent Disability prior to attainment of Normal Retirement Age shall be entitled to elect to receive a deferred retirement benefit in lieu of a distribution of Accumulated Contributions under Section 8.02. Such deferred retirement benefit shall be equal to the benefit determined pursuant to Section 4.02 hereof and shall commence after application pursuant to Section 4.05 and not earlier than the date which is the Participant's Normal Retirement Date under the Plan. *(The plan's governing document, Ordinance No. 06-8, provides that for participants hired on or after January 24, 2001, the Normal Retirement Date is when the participant would have attained age 60 with 20 years of service.)*	A participant who has completed at least 20 years of service, but has not attained age 60, shall be entitled to a pension at age 60 if the participant continues paying monthly employee contributions equal to the last amount due while in active employment until the employee reaches age 60.

Finding – (Continued)

Benefit	Governing Document	Third Class City Code
Deferred Retirement Benefit – 20 years of service - (Continued)	*Prior to amending section 8.03 through the adoption of Ordinance No. 020-006, the plan's governing document, Ordinance No. 06-8, contained the following provision at section 8.03 for employees hired on or after January 24, 2001:* A participant hired on or after January 24, 2001, who shall have completed at least twenty (20) years of Credited Service and who shall voluntarily retire, be dismissed or otherwise deprived of active Employment other than due to death or Total and Permanent Disability prior to attainment of Normal Retirement Age shall be entitled to elect to receive a deferred retirement benefit equal to the Participant's Normal Retirement Benefit as of the date of termination, in lieu of a Distribution of Accumulated Contributions. Such deferred retirement benefit shall commence after application under Section 4.05 and not earlier than the date on which the Participant attains age sixty (60) in the case of voluntary retirement or on the date on which the Participant attains age fifty-five (55) in the case of dismissal or being otherwise deprived of employment, provided the Participant contributes into the fund at the same rate as of the date of termination until age fifty-five (55). *Both of these provisions contain elements that comply with Act 67, but neither is in full compliance.*	A participant who has completed at least 20 years of service, but has not attained age 60, shall be entitled to a pension at age 60 if the participant continues paying monthly employee contributions equal to the last amount due while in active employment until the employee reaches age 60.

Finding – (Continued)

Benefit	Governing Document	Third Class City Code
Disability Benefit	*Section 5.01 of Ordinance No. 06-08, effective June 7, 2006, as amended, states:* A participant who has completed at least fifteen (15) Years of Credited Service and who incurs a Total and Permanent Disability before attaining age 55 shall be entitled to a Disability Retirement Benefit.	A disability benefit is provided if an employee incurs a total and permanent disability after completing at least 10 years of service and before attaining age 60.

Criteria: The pension plan's benefit structure should be in compliance with the provisions of the Third Class City Code for employees hired on or after January 24, 2001.

Cause: City officials indicated that it was their intent to enable all management employees to be eligible to retire or vest at age 55 but were not aware that, as a home rule municipality, employees in the Officers and Employees Pension Plan hired on or after January 24, 2001 would be subject to the requirements of the Third Class City Code.

Effect: The provision of unauthorized benefits increases the plan's pension costs and reduces the amount of funds available for investment purposes or the payment of authorized benefits or administrative expenses. In addition, it could result in the receipt of state aid in excess of the municipality's entitlement or increase required municipal contributions to the plan.

Recommendation: We recommend that the city restrict pension benefits to those authorized by the Third Class City Code for all employees who began full-time employment on or after January 24, 2001 (the date *Monroeville* was issued) at its earliest opportunity to do so. To the extent that the city is not in compliance with the Third Class City Code and/or is contractually obligated to provide benefits in excess of those authorized by the Third Class City Code to employees who began employment on or after January 24, 2001, 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. In such case, the plan's actuary may be required to determine the impact, if any, of the unauthorized benefits on the city's future state aid allocations and submit this information to the department. If it is determined the unauthorized benefits had an impact on the city's future state aid allocations after the submission of this information, the plan's actuary would then be required to contact the department to verify the overpayment of state aid received. Plan officials would then be required to reimburse the overpayment to the Commonwealth.

Finding – (Continued)

Management's Response: At our exit conference held on September 26, 2022, management indicated that they would provide a written response to this finding within 10 days; however, as of the date of this report, no such response has been provided.

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

CITY OF MCKEESPORT OFFICERS AND 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, 2017, is as follows:

	(1)	(2)	(3)	(4)
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded (Assets in Excess of) Actuarial Accrued Liability (b) - (a)	Funded Ratio (a)/(b)
01-01-17	$ 5,575,697	$ 7,679,699	$ 2,104,002	72.6%
01-01-19	5,414,940	7,188,031	1,773,091	75.3%
01-01-21	5,847,721	7,711,983	1,864,262	75.8%

Note: The market values of the plan's assets at 01-01-17, 01-01-19, and 01-01-21 are valued using the smoothing method described in Section 210 of Act 205, as amended, subject to a ceiling of 120 percent of the market value of the assets. These methods 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.

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 MCKEESPORT OFFICERS AND EMPLOYEES PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF CONTRIBUTIONS

Year Ended December 31	Actuarially Determined Contribution	Actual Contributions	Contribution Deficiency (Excess)	Covered-Employee Payroll*	Contributions as a Percentage of Covered-Employee Payroll
2012	$ 225,162	$ 225,162	$ -	$ 544,912	41.32%
2013	325,477	325,477	-	450,188	72.30%
2014	312,837	312,837	-	433,936	72.09%
2015**	3,697	-	3,697	289,067	0.00%
2016**	736,214	736,214	-	294,869	249.67%
2017	503,462	503,462	-	261,760	192.34%
2018	497,688	497,688	-	261,760	190.13%
2019	579,036	579,036	-	161,064	359.51%
2020	569,689	569,689	-	524,164	108.69%
2021	593,774	593,774			

* Due to the timing of this audit, covered-employee payroll for 2021 was not provided in this schedule.

** Due to severe financial distress, the city did not have funds available to pay its required obligation for 2015. However, outstanding obligation, along with applicable interest, was added to the 2016 required obligation and deposited during 2016.

CITY OF MCKEESPORT OFFICERS AND 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, 2021
Actuarial cost method	Entry age normal
Amortization method	Level dollar, closed
Remaining amortization period	5 years
Asset valuation method	Plan assets are valued using the method describe in Section 210 of Act 205, as amended, subject to a ceiling of 120% of the market value of assets.
Actuarial assumptions:	
Investment rate of return	7.75%
Projected salary increases	4.00%

CITY OF MCKEESPORT OFFICERS AND EMPLOYEES PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
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