COMPLIANCE AUDIT

City of Aliquippa
City Employees Pension Plan
Beaver County, Pennsylvania
For the Period
January 1, 2013 to December 31, 2015

August 2016

Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General

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 City Employees Pension Plan for the period January 1, 2013 to December 31, 2015. 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 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 the plan member 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 individual and comparing these amounts to supporting documentation evidencing amounts determined and actually paid to the recipient.

- We determined whether the January 1, 2011, January 1, 2013 and January 1, 2015 actuarial valuation reports were prepared and submitted to the Public Employee Retirement Commission (PERC) by March 31, 2012, 2014 and 2016, 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 audits of its basic financial statements for the years ended December 31, 2013 and 2014, 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. 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 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 – Pension Benefit Payments Made To Deceased Individuals

Finding No. 1 contained in this audit report repeats a condition that was cited in our previous audit report that has not been corrected by city officials. 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.

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. It should be noted that our prior audit report disclosed that we were extremely concerned about the funding status of the city employees' pension plan. As of January 1, 2011, the city employees' pension plan's funded ratio was 54.0%. Based on this information, and the funded ratios of the City's police and firemen's pension plans, the Public Employee Retirement Commission issued a notification that the City was in Level II moderate distress status.

During the current audit period, the City has continued to contribute more than the required minimum municipal obligation (MMO) to the city employee's pension plan. These additional contributions are due, in part, to the City's implementation of an Act 205 earned income pension funding tax. These deposits have had a dramatic effect on the city employees' pension plan's funding ratios. As of January 1, 2015, the city employees' pension plan's funded ratio has increased to 76.5%. While the City should be commended for its efforts to fund its pension plans, we continue to encourage the City to monitor the funding of the city employees pension plan to ensure its long-term financial stability.

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.

July 27, 2016

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

Act 317 - 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 317. 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 3.5 percent of compensation to the plan. As of December 31, 2015, the plan had 11 active members, no terminated members eligible for vested benefits in the future, and 9 retirees receiving pension benefits from the plan.

BACKGROUND – (Continued)

As of December 31, 2015, selected plan benefit provisions are as follows:

Eligibility Requirements:

Normal Retirement	Age 60 and 20 years of service.
Early Retirement	None
Vesting	A member is 100% vested after 20 years of service and continuance of contributions through age 60.

Retirement Benefit:

A monthly benefit equal to 50% of average compensation (pay averaged over the final or 5 highest calendar years) less 40% of Social Security benefits (starting at Social Security normal retirement age).

Survivor Benefit:

Before Retirement Eligibility	Refund of member contributions.
After Retirement Eligibility	50% of the benefit the participant was entitled to receive on the day of death is payable to the surviving spouse until death or remarriage. In the event of the spouse's death or remarriage, the participant's dependent children will share the benefit until age 18.

Disability Benefit:

For total and permanent disablement that occurs prior to age 60, but after the completion of 10 years of service, a monthly benefit equal to 50% of Average Compensation.

CITY OF ALIQUIPPA CITY EMPLOYEES PENSION PLAN
STATUS OF PRIOR FINDINGS

Compliance With Prior Audit Recommendations

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

· Improper Disability Pension Benefit

  City officials provided documentation to support the propriety of the disability benefit.

· Failure To Implement Act 44 Mandatory Distressed Provisions

  City officials submitted a plan for administrative improvements to the Public Employee Retirement Commission which was reviewed and accepted by the Commission.

Status of Prior Audit Recommendation

· Custodial Account Transactions Not Adequately Monitored By The Municipality

  During the prior audit period, it was noted that the City was not adequately monitoring the activity in the plan's custodial account. During the current audit period, it was noted that plan officials again failed to fully monitor the plan's custodial account activity, which resulted in benefit payments being made to deceased individuals, as discussed in Finding No. 2 of this report.

Noncompliance With Prior Audit Recommendation

The City of Aliquippa has not complied with the prior audit recommendation concerning the following as further discussed in the Findings and Recommendations 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 our prior audit report, 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. 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 authorize a survivor benefit for minor children of retired non-uniformed employees.

Cause: The current collective bargaining agreement expired on December 31, 2015, and the new agreement has not yet been finalized.

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 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.

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.

Finding No. 1 – (Continued)

Management's Response: We have been and will be addressing all the findings. We have reached out to our ACT 47 representatives, pension administration firm (Mockenhaupt Benefits Group), Bank of New York (Pension Depository), the CBA representatives and pension money managers (CIM Investments, Inc).

As you are aware, many of the finding are repeats and will require us to review along with our partners to change particular language in the CBA to comply. Others require us to inform them to make certain changes (i.e. Bank of New York to make a group account entry adjustment to a payout to a former member of the non-uniformed plan), and monitor the status of pension distribution recipients.

As a matter of reinforcing the current policies and procedures, we recently reviewed the practice of the pension benefit pension calculations with the Chief City Council. I supplied the Council with a copy your audit exit conference final draft for their review. They agreed and understand that they will be responsible and are to oversee the pension distribution process is in accordance with regulations and contractual agreements.

Auditor's Conclusion: Compliance will be subject to verification through our next audit.

Finding No. 2 – Pension Benefit Payments Made To Deceased Individuals

Condition: During the prior audit period, it was noted that plan officials were not adequately monitoring the plan's custodial account activity. During the current audit period, the city again failed to monitor the activity in the plan's custodial account. The city made improper monthly pension benefit payments from March 2013 through November 2015 from the pension plan to a retiree who died on February 11, 2013. In addition, the plan continued to pay monthly pension benefits from May 2015 through July 2015 to a retiree who died on April 10, 2015.

Criteria: The city or the plan's custodian should have procedures in place to monitor the continued eligibility of individuals receiving pension benefits and to 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: Plan officials failed to either establish internal procedures to prevent and detect improper benefit payments or ensure that the agreement with the plan custodian included the monitoring of all retirees' and beneficiaries' continued eligibility to receive pension benefit payments.

Finding No. 2 – (Continued)

Effect: The city made $23,044 of improper pension benefit payments from the pension plan to the two deceased members.

Recommendation: We 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.

Furthermore, 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.

In addition, we recommend 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: We have been and will be addressing all the findings. We have reached out to our ACT 47 representatives, pension administration firm (Mockenhaupt Benefits Group), Bank of New York (Pension Depository), the CBA representatives and pension money managers (CIM Investments, Inc).

As you are aware, many of the finding are repeats and will require us to review along with our partners to change particular language in the CBA to comply. Others require us to inform them to make certain changes (i.e. Bank of New York to make a group account entry adjustment to a payout to a former member of the non-uniformed plan), and monitor the status of pension distribution recipients.

As a matter of reinforcing the current policies and procedures, we recently reviewed the practice of the pension benefit pension calculations with the Chief City Council. I supplied the Council with a copy your audit exit conference final draft for their review. They agreed and understand that they will be responsible and are to oversee the pension distribution process is in accordance with regulations and contractual agreements.

Auditor's Conclusion: Compliance will be subject to verification through our next audit.

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, 2011, 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)
01-01-11	$ 740,898	$ 1,371,013	$ 630,115	54.0%
01-01-13	869,115	1,420,469	551,354	61.2%
01-01-15	1,169,684	1,529,289	359,605	76.5%

Note: The market values of the plan's assets at 01-01-11, 01-01-13, and 01-01-15 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.

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
2010	$ 66,944	139.4%
2011	80,436	175.8%
2012	98,066	128.2%
2013	134,213	151.2%
2014	139,280	143.9%
2015	93,209	138.6%

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, 2015
Actuarial cost method	Entry age normal
Amortization method	Level dollar, closed
Remaining amortization period	11 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 CITY EMPLOYEES 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

Mr. Mark Delon
Council Member

Mr. Donald C Walker, III
Council Member

Ms. Vickie Fratangeli
Council Member

Mr. Robert Rager
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.