

COMPLIANCE AUDIT

City of Aliquippa Firemen's 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



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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 Firemen's 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 1 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 Firemen's 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 Firemen's 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 -
Incorrect Data On Certification Form AG 385 Resulting In An
Overpayment Of State Aid

Finding No. 2 – Partial Compliance With Prior Audit Recommendation -
Failure To Maintain Custodial Account Statements

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. It should be noted that our prior audit report disclosed that we were extremely concerned about the funding status of the firemen's pension plan. As of January 1, 2011, the firemen's pension plan funded ratio was 69.7%. Based on this information, and the funded ratios of the City's police and city employees' 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 firemen'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 firemen's pension plan's funding ratios. As of January 1, 2015, the firemen's pension plan's funded ratio has increased to 88.1%. 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 firemen's 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

A handwritten signature in black ink, appearing to read "Eugene A. DePasquale". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

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 Firemen's 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 Firemen's Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 4 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 firefighters. The plan was established July 1, 1964. Active members are required to contribute 5 percent of compensation to the plan, plus \$1 per month until age 65. As of December 31, 2015, the plan had 9 active members, no terminated members eligible for vested benefits in the future, and 7 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 50 and 25 years of service.

Early Retirement None

Vesting None

Retirement Benefit:

A monthly benefit equal to 50% of pay in the final month of employment or highest 60 month average pay, if greater, plus a monthly service increment equal to 1/40 of the normal retirement benefit for each year of service in excess of 20, up to a maximum increment of \$100.

Survivor Benefit:

Before Retirement Eligibility Refund of member contributions.

After Retirement Eligibility Or
For Members Killed-In-Service 100% of the amount the participant was receiving or entitled to receive excluding Act 147 benefits is payable to the participant's spouse until death. In the event of death, the participant's children will share the benefit until age 18.

Service Related Disability Benefit:

For total and permanent disability, the normal retirement benefit calculated at date of disablement.

CITY OF ALIQUIPPA FIREMEN'S 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:

- Incorrect Data On Certification Form AG 64 Resulting In An Excess Reimbursement For The Special 2002 Ad Hoc Postretirement Adjustment

The city reimbursed \$925 to the Commonwealth for the excess reimbursements received in 2010 and 2012.

- Failure To Implement Act 44 Mandatory Distressed Provisions

Municipal 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

- Failure To File Certification Form AG 64 Resulting In An Underpayment Of Reimbursement For Special 2002 Ad Hoc Postretirement Adjustment

The amortization for the Special 2002 Ad Hoc Postretirement Adjustment expired as of January 1, 2013 and the city is no longer eligible for reimbursement; consequently, the city is no longer required to file Certification Form AG 64.

Partial Compliance With Prior Audit Recommendations

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

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

During the current audit period, the city reimbursed \$8,483 to the Commonwealth for the overpayment of state aid received in 2013; however, plan officials failed to comply with the instructions that accompany Certification Form AG 385 to assist them in accurately reporting the required pension data in the year 2014, as further discussed in the Findings and Recommendations section of this report.

CITY OF ALIQUIPPA FIREMEN'S PENSION PLAN
STATUS OF PRIOR FINDINGS

Partial Compliance With Prior Audit Recommendations – (Continued)

· Custodial Account Transactions Not Adequately Monitored By The Municipality

During the current audit period, the city transferred \$33,649 from the police pension plan to the firemen's pension plan to reimburse the firemen's pension plan for the benefit overpayments made in 2012; however, during the current audit period, plan officials failed to maintain the plan's custodial account statements, as further discussed in the Findings and Recommendations section of this report.

CITY OF ALIQUIPPA FIREMEN'S PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Partial Compliance With Prior Audit Recommendation - Incorrect Data On Certification Form AG 385 Resulting In An Overpayment Of State Aid

Condition: The city certified 1 ineligible police officer (2 units) and certified 1 ineligible firefighter (2 units) on the Certification Form AG 385 filed in 2014. The data contained on this certification form is based on prior calendar year information.

Criteria: Pursuant to Act 205, at Section 402(e)(2), in order to be eligible for certification, an employee must have been employed on a full-time basis for at least six consecutive months and must have been participating in a pension plan during the certification year.

Cause: Plan officials failed to establish adequate internal control procedures to ensure the accuracy of the data certified.

Effect: The data submitted on this certification form is used, in part, to calculate the state aid due to the municipality for distribution to its pension plans. Because the city's state aid allocation was based on unit value, the incorrect certification of pension data affected the city's state aid allocation, as identified below:

<u>Year</u>	<u>Type Of Plan</u>	<u>Units Overstated</u>	<u>Unit Value</u>	<u>State Aid Overpayment</u>
2014	Police	2	\$3,873	\$ 7,746
	Firemen's	2	\$3,873	7,746
	Total			<u>\$ 15,492</u>

Recommendation: We recommend that the total excess state aid, in the amount of \$15,492, be returned to the Commonwealth. A check in this amount, with interest compounded annually from date of receipt to date of repayment, at a rate earned by the pension plan, should be made payable to: Commonwealth of Pennsylvania and mailed to: Department of the Auditor General, Municipal Pension & Fire Relief Programs Unit, 320 Finance Building, Harrisburg, PA 17120. A copy of the interest calculation must be submitted along with the check.

We also recommend that in the future, plan officials establish adequate internal control procedures, such as having at least 2 people review the data certified, to ensure compliance with the instructions that accompany Certification Form AG 385 to assist them in accurately reporting the required pension data.

CITY OF ALIQUIPPA FIREMEN'S PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Management's Response: The city reimbursed \$8,145 to the Commonwealth for the overpayment of state aid received by the city for the ineligible firefighter certified in 2014.

Auditor's Conclusion: Based on the management response, the city has partially complied with the finding recommendation. Full compliance will be subject to verification through our next audit.

Finding No. 2 – Partial Compliance With Prior Audit Commendation - Failure To Maintain Custodial Account Statements

Condition: As disclosed in the prior audit report, a net \$33,649 was disbursed from the police pension plan to pay firemen's pension plan benefits. It was recommended that the firemen's plan be reimbursed for the benefit overpayments and the city adopt procedures to monitor the activity of the plan's custodial account to ensure the propriety of the plan's account transactions. During the current audit period, the city transferred \$33,649 from the police pension plan to the firemen's pension plan to reimburse the firemen's pension plan for the benefit overpayments made; however, the city failed to maintain the plan's custodial account statements during the current audit period, which required the Department to obtain copies of the statements from the plan custodian.

Criteria: Section 4320(d) of the Third Class City Code states:

(d) All pension funds established under the provisions of this section shall be under the direction and control of a board of managers, which shall consist of the following:

- (1) Ex officio members as follows:
 - (i) the mayor;
 - (ii) the director of accounts and finance;
 - (iii) the director of the department having charge of the fire department, or in cities where the mayor is also the director of the department having charge of the fire department, then the director of public safety;
 - (iv) the city controller; and
 - (v) the chief of the bureau of fire.
- (2) Two members of the fire department to be chosen by the members of the fire department. [Emphasis added]

CITY OF ALIQUIPPA FIREMEN'S PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Furthermore, assets held in a custodial account for the purpose of plan management are to be governed by the terms and provisions of the account contract, provided that the terms and provisions of the contract are within the parameters of all prevailing pension legislation. Although the municipality may contract with a trustee to administer the financial management of the plan, the fiduciary responsibility for the plan remains with the municipality.

Cause: Plan officials failed to establish adequate internal control procedures to ensure full compliance with the prior audit recommendation.

Effect: The failure to monitor the plan's custodial account could again lead to undetected errors or improprieties in account transactions as well as deficiencies in authorizing and implementing pension plan policies and procedures.

Recommendation: We again recommend that plan officials implement adequate internal control procedures to maintain and review the plan's custodial account transaction statements to effectively monitor the plan's account activity and ensure the accuracy and propriety of the transactions.

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 FIREMEN'S 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 Liability (AAL) - Entry Age (b)	Unfunded (Assets in Excess of) Actuarial Liability (b) - (a)	Funded Ratio (a)/(b)
01-01-11	\$ 2,268,588	3,256,212	987,624	69.7%
01-01-13	2,892,397	3,571,770	679,373	81.0%
01-01-15	3,857,519	4,376,750	519,231	88.1%

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.

CITY OF ALIQUIPPA FIREMEN'S 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 FIREMEN'S PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER
AND OTHER CONTRIBUTING ENTITIES

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2010	\$ 244,955	137.5%
2011	188,804	171.2%
2012	257,193	127.9%
2013	265,576	152.8%
2014	265,463	141.6%
2015	202,220	140.5%

CITY OF ALIQUIPPA FIREMEN'S 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	5 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	5.0%

CITY OF ALIQUIPPA FIREMEN'S PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

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Commonwealth of Pennsylvania

The Honorable Dwan B. Walker
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Mr. Samuel L. Gill
City Administrator

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