

# COMPLIANCE AUDIT

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## City of Aliquippa City Employees' Pension Plan Beaver County, Pennsylvania For the Period January 1, 2020 to December 31, 2022

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January 2024



Commonwealth of Pennsylvania  
Department of the Auditor General

Timothy L. DeFoor • Auditor General



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**TIMOTHY L. DEFOOR  
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, 2020 to December 31, 2022. 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, 2021, actuarial valuation report was prepared and submitted by March 31, 2022, in accordance with Act 205 and whether selected information provided on this 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 and through the completion of our fieldwork procedures.

The 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 City 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 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:

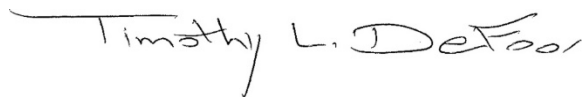
Finding No. 1 – Noncompliance With Prior Audit Recommendation – Pension Benefits In Excess Of The Third Class City Code

Finding No. 2 – Partial Compliance With Prior Audit Recommendation – Pension Payment Made To Deceased Individuals

The findings contained in this audit report repeat conditions that were cited in our previous report that have not been fully corrected by city officials. We are concerned by the city's failure to correct those previously reported findings 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.

The contents of this report were discussed with officials of 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.



Timothy L. DeFoor  
Auditor General  
January 11, 2024

## CONTENTS

	<u>Page</u>
Background.....	1
Status of Prior Findings .....	2
Findings and Recommendations:	
Finding No. 1 – Noncompliance With Prior Audit Recommendation – Pension Benefits In Excess Of The Third Class City Code .....	3
Finding No. 2 – Partial Compliance With Prior Audit Recommendation – Pension Benefits Payments Made To Deceased Individuals.....	4
Supplementary Information .....	6
Report Distribution List .....	10

## 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 two 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 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 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 67. 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 five percent of compensation to the plan. As of December 31, 2022, the plan had 12 active members, no terminated members eligible for vested benefits in the future, and 8 retirees receiving pension benefits from the plan.

CITY OF ALIQUIPPA CITY EMPLOYEES' PENSION PLAN  
STATUS OF PRIOR FINDINGS

Compliance With Prior Audit Recommendation

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

- Failure To Maintain Required Documentation And Evidence Of Required Annual Funding Of The City's Pension Plans In Accordance With Special Tax Provisions Of Act 205

The city adequately calculated its required level of annual contributions which included the average payment as a percentage of payroll of 14.02%, appropriately maintained a copy of the calculation and administered the application of the special tax collected in accordance with Section 607(f) of Act 205.

Partial Compliance With Prior Audit Recommendation

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

- Pension Benefits Payments Made To Deceased Individuals

The excess pension payments paid to a retiree who died on November 10, 2018, amounting to \$1,361, were recovered and deposited into the pension plan during the audit period. However, the improper payments made to two other deceased members totaling \$23,044 for years prior to 2016 have not been resolved, as further discussed in Finding No. 2 of this report.

Noncompliance With Prior Audit Recommendation

The City of Aliquippa has not complied with the prior recommendation concerning the following as further discussed in the Finding and Recommendation section of this report:

- Pension Benefits In The Excess Of The Third Class City Code

CITY OF ALIQUIPPA CITY EMPLOYEES' PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – Noncompliance With Prior Audit Recommendation - Pension Benefits In Excess Of The Third Class City Code**

Condition: As disclosed in the ten most recent audit reports, the pension plan's governing document and collective bargaining agreement (CBA) between the non-uniformed employees and the city provide for a survivor benefit for minor children of retirees, which is not authorized in accordance with the Third Class City Code.

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).

Article XVIII of the Collective Bargaining Agreement effective for the period January 1, 2020, through December 31, 2023, states, in part:

If there is no surviving spouse, or if the surviving spouse should be ineligible to receive or to continue to receive the Survivor Benefit by reasons of his/her death or remarriage, such Survivor Benefit shall be paid to the then children of the deceased Participant who are under the age of eighteen (18).

Criteria: The Third Class City Code does not specifically authorize a survivor benefit for minor children of retired non-uniformed employees.

Cause: City officials again failed to ensure compliance with this department's prior recommendation as evidenced by the collective bargaining agreement covering the period January 1, 2020, through December 31, 2023, which did not correct this issue.

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 for the year 2020, it did not receive allocations attributable to the excess 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 years 2022 and 2023 because the city received its state aid based on pension costs.



CITY OF ALIQUIPPA CITY EMPLOYEES' PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – (Continued)**

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 plan's future state aid allocations and submit this information to the Department. If it is determined the excess benefits had an impact on the city's state aid allocations received for the years 2022 and 2023, the form AG-MP-1 should be submitted to the department. Furthermore, after the submission of the form, the plan's actuary should contact the department to verify the overpayment of state aid received and the city should reimburse the overpayment to the Commonwealth.

Management's Response: Municipal officials agreed with the finding without exception.

Auditor's Conclusion: We are concerned that the municipality has not complied with the prior audit recommendation and encourage compliance at the earliest opportunity to do so.

**Finding No. 2 – Partial Compliance With Prior Audit Recommendation – Pension Benefits Payments Made To Deceased Individuals**

Condition: As disclosed in the Status of Prior Findings section of this report, the city partially complied with the prior recommendation by recovering and depositing the improper pension payments made to a deceased individual who died during 2018 into the pension plan during the audit period. However, the city again failed to address recovery of the improper pension payments made to two other deceased former members totaling \$23,044, distributed prior to 2016.

Criteria: As previously 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: Plan officials failed to ensure full compliance with the department's prior recommendations.

CITY OF ALIQUIPPA CITY EMPLOYEES' PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 2 – (Continued)**

Effect: The plan experienced a loss totaling \$23,044 for the overpayments made to deceased recipients prior to 2016.

Recommendation: We again recommend 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: Municipal officials agreed with the finding without exception.

Auditor's Conclusion: We are concerned the city has not fully complied with the prior audit recommendation and encourage compliance at the earliest opportunity to do so.

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, 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	\$1,422,814	\$ 1,642,253	\$ 219,439	86.6%
01-01-19	1,760,992	1,484,289	(276,703)	118.6%
01-01-21	2,099,606	1,607,841	(491,765)	130.6%

Note: The market values of the plan's assets at 01-01-17, 01-01-19, and 01-01-21 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 CITY EMPLOYEES' 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 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
2017	\$ 95,235	175.8%
2018	99,819	188.0%
2019	56,576	164.3%
2020	54,315	186.9%
2021	874	1143.5%
2022	8,488	232.5%

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, 2021
Actuarial cost method	Entry age normal
Amortization method	N/A
Remaining amortization period	N/A
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	6.75%
Projected salary increases *	4.50%

\* Includes inflation at 2.5%

CITY OF ALIQUIPPA CITY EMPLOYEES' PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

**The Honorable Joshua D. Shapiro**  
Governor  
Commonwealth of Pennsylvania

**The Honorable Dwan Walker**  
Mayor

**Mr. Samuel L. Gill**  
City Administrator

**Ms. Cheryl McFarland**  
Finance Administrator

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