COMPLIANCE AUDIT

City of Aliquippa
Police Pension Plan

Beaver County, Pennsylvania

For the Period
January 1, 2020 to December 31, 2022

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 Police 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 whether retirement benefits calculated for plan members who retired and the plan member who elected to vest 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 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, 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 Police Pension Plan is administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies. As previously described, we tested transactions, interviewed selected officials, and performed procedures to the extent necessary to provide reasonable assurance of detecting instances of noncompliance with legal and regulatory requirements or noncompliance with provisions of contracts, administrative procedures, and local ordinances and policies that are significant within the context of the audit objectives.

The results of our procedures indicated that, in all significant respects, the City of Aliquippa Police Pension Plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies, except as noted in the following findings further discussed later in this report:

Finding No. 1 – Noncompliance With Prior Audit Recommendation – Pension Benefit Payment Made To Deceased Individual

Finding No. 2 – Noncompliance With Prior Audit Recommendation – Incorrect Pension Benefit Paid

Finding No. 3 – Incorrect Data On Certification Form AG 385 Resulting In An Overpayment Of State Aid

Finding No. 4 – Failure To Maintain Vested Benefit Calculation

Finding No. 5 – Failure To Determine Impact On State Aid Allocations Attributable To Excess Benefits Provided

Finding Nos. 1 and 2 contained in this audit report repeat conditions that were cited in our previous reports that have not been 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 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.

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

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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 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 Police Pension Plan is also governed by implementing regulations published at Title 16, Part IV of the Pennsylvania Code and applicable provisions of various other state statutes including, but not limited to, the following:

Act 67 - The Third Class City Code, Act of November 24, 2015 (P.L. 242, No. 67), as amended, 11 Pa. C.S. § 10101 et seq.

The City of Aliquippa Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 1 of 2018, which consolidates and restates the police pension plan in its entirety, adopted pursuant to Act 67 (formerly Act 317). The plan is also affected by the provisions of collective bargaining agreements between the city and its police officers. The plan was established December 1, 1957. Active members are required to contribute five percent of monthly pay to the plan plus $1 per month until age 65. As of December 31, 2022, the plan had 12 active members, one terminated member eligible for vested benefits in the future, and 24 retirees receiving pension benefits from the plan.

CITY OF ALIQUIPPA POLICE 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 determination of 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.

Noncompliance With Prior Audit Recommendations

The City of Aliquippa has not complied with the prior recommendations concerning the following as further discussed in the Findings and Recommendations section of this report:

- Pension Benefit Payments Made To Deceased Individual; and

- Incorrect Pension Benefit Paid

Status Of Prior Audit Recommendation

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

  As disclosed in the prior audit report, the city recently enacted Ordinance No. 1 of 2018 which brought the plan's benefit structure into compliance with Act 67 for police officers hired after October 30, 2015. Although the city did not previously receive state aid attributable to the excess benefits provided to retirees during prior audit periods *(i.e., the city received its prior annual state aid allocations based on unit value)*, as part of the Department's on-going efforts to monitor the impact of these benefits on subsequent state aid allocations to the city, it was determined during the current audit period, that the city failed to consult with the plan's actuary to determine the impact on the state aid received during 2022 and 2023attributable to the excess benefits provided, as further discussed in Finding No. 5 in the Findings and Recommendations section of this report.

Finding No. 1 – Noncompliance With Prior Audit Recommendation – Pension Benefit Payments Made To Deceased Individual

Condition: As disclosed in the prior audit report, although the city ceased payments to the ineligible individual and implemented procedures to monitor the continued eligibility of its pension recipients, the city again failed to address recovery of the overpayments, amounting to $21,011, previously distributed from the plan between 2013 to 2016 to the individual. In addition, a similar condition occurred during the current audit period. The city distributed pension payments to an individual who passed away during September 2020, but payments continued to the account of the recipient through February 2021, in the total amount of $3,184.

Criteria: As disclosed in the prior report, 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: The City again failed to adequately monitor the continued eligibility of its pension recipients and ensure compliance with the department's prior recommendations.

Effect: The plan experienced a loss totaling $21,011 for the overpayments made to the deceased recipient during 2013 through 2016 and incurred an additional loss amounting to $3,184 for overpayments made to another deceased recipient during 2020 through 2021, totaling $24,195 in the aggregate.

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

Management’s Response: During the prior audit, the city indicated that they were aware of the overpayments and intended to work with city council and the solicitor to get the issue resolved. During the current audit, the city acknowledged the finding and agreed without exception.

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

Finding No. 2 – Noncompliance With Prior Audit Recommendation – Incorrect Pension Benefit Paid

Condition: As disclosed in the prior audit report, the pension plan is paying $131 per month to a retiree, who retired July 30, 2015, in excess of the amount calculated in accordance with the plan document *(It was noted the city inadvertently included the non-taxable portion of the benefit as an addition to the authorized monthly benefit)*. Plan officials correctly calculated the monthly pension benefit of $4,168 per month due the individual; however, the plan continues to pay the retiree $4,299 per month *(totaling approximately $13,200 in excess monthly payments through the date of this report*). It was previously recommended that the city adjusts the recipient's pension benefit, accordingly; however, the recipient's monthly pension benefit remains unadjusted.

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

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

Cause: Plan officials failed to correct the monthly pension benefit paid to the retiree and ensure compliance with the prior recommendation.

Effect: The city continues to pay monthly pension benefits in excess of authorized amounts from the plan *(refer to impact of excess benefits in Finding No. 5)*. Providing unauthorized pension benefits increases the plan's pension costs and reduces the amount of funds available for investment purposes or for the payment of authorized benefits or administrative expenses.

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

Management's Response: During the prior audit, management indicated that they were aware of the incorrect pension payment and that the issue was in litigation. Although the litigation was settled effective March 2022, the litigation did not pertain to this error in the calculation. However, the city administrator indicated that they will not pursue the matter further unless forced to do so.

Auditor's Conclusion: To the extent that the city has determined to pay the additional pension benefit *($131 per month)* to the retiree in excess of that authorized by the plan document, the excess must be reflected in the Act 205 actuarial valuation reports for the plan and funded in accordance with Act 205 funding standards. However, the excess benefit is deemed ineligible for funding with state pension aid and as such, the city is required to consult with the plan's actuary and include this benefit when determining whether to prepare Form AG-MP-1 as disclosed in Finding No. 5 of this report.

Finding No. 3 – Incorrect Data On Certification Form AG 385 Resulting In An Overpayment Of State Aid

Condition: The city certified an ineligible police officer and overstated payroll by $34,590 on the Certification Form AG 385 filed in 2023. 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, such as having another individual review the data certified, to ensure the accuracy of the reported data prior to submission

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 plan. Because the city's state aid allocation was based on pension costs, the incorrect certification of pension data affected the city's state aid allocation, as identified below:

Year	Normal Cost	Payroll Overstated	State Aid Overpayment
2023	21.1115%	$ 34,590	$ 7,302

In addition, the city used the overpayment of state aid to pay the minimum municipal obligation (MMO) due to the police pension plan; therefore, if the reimbursement to the Commonwealth is made from the pension plan, the plan's MMO will not be fully paid.

Recommendation: We recommend that the overpayment of state aid, in the amount of $7,302, plus interest, 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, 321 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 two 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.

Finding No. 3 – (Continued)

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

Auditor's Conclusion: The city's compliance with the finding recommendation will be monitored subsequent to the release of the audit report and through our next audit of the pension plan.

Finding No. 4 – Failure To Maintain Vested Pension Benefit Calculation

Condition**:** The city failed to calculate and maintain a vested pension benefit calculation for a plan member who terminated employment with the city during the audit period.

Criteria: Sound internal control procedures dictate that vested pension benefits should be determined in a timely manner following a plan member's termination of employment and that the city should maintain adequate supporting documentation to substantiate the accuracy of vested pension benefit determinations to avoid discrepancies occurring in the future when the former employees are eligible to begin to receive their pension benefits.

Cause: Plan officials have not authorized its pension consultant to prepare a benefit calculation for the plan member.

Effect: The failure of plan officials to maintain vested pension benefit calculations could result in inconsistent or improper benefit calculations and incorrect benefit payments from the pension plan

Recommendation: We recommend that plan officials prepare the vested benefit calculation for the plan member. We also recommend that municipal officials establish adequate internal control procedures to ensure that all pension benefit calculations are properly determined and maintained by the city to substantiate the accuracy of the pension benefit payments occurring in the future when these members are eligible to begin receiving benefits.

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

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

Finding No. 5 – Failure To Determine Impact On State Aid Allocations Attributable To Excess Benefits Provided

Condition: As disclosed in the Status of Prior Findings section of this report, although the city brought the plan's benefit structure into compliance with Act 67 for police officers hired after October 30, 2015, since the city received its state aid allocations based on pension costs during 2022 and 2023, the city failed to determine the impact of the reported excess benefits paid *(Form AG-MP-1)*, on the city's state aid received during these years.

Criteria: To the extent that a municipality is not in compliance with Act 67 and/or is contractually obligated to pay benefits to existing retirees in excess of those authorized by Act 67, the excess benefits must be reflected in the Act 205 actuarial valuation reports for the plan and funded in accordance with Act 205 funding standards. However, these excess benefits are deemed ineligible for funding with state pension aid and as such, municipal officials are required to consult with the plan's actuary and determine whether to prepare Form AG-MP-1 and submit the completed form to the Department to determine the impact of the excess benefits on the municipality's annual state aid allocation. If it is determined the excess benefits had an impact on the municipality's state aid after the submission of this information, the plan's actuary would then be required to contact the Municipal Pension & Fire Relief Programs Unit to verify any overpayment of state aid received and the city would be required to reimburse the overpayment to the Commonwealth.

Cause: Prior to the current audit period, the city received its annual state aid allocation based on unit value and therefore, did not receive state aid attributable to the excess benefits provided. However, during the current audit period, the city received its 2022 and 2023 state aid allocations based on pension costs. The city did not consult with the plan's actuary to determine whether Form AG-MP-1 was required to be prepared and submitted to the Department to determine the impact of the excess benefits on the municipality's state aid allocations for the years 2022 and 2023.

Effect: Because the city's state aid allocation is determined, in part, by the information contained in the plan's actuarial valuation report, the correct inclusion of excess benefits in the actuarial valuation report, valued as of January 1, 2021, through the timely preparation of Form AG-MP-1 *(also for valuation as of January 1, 2021)*, by the plan's actuary may have resulted in excess state aid allocated to the city during the years 2022 and 2023. However, the impact was not known as of the date of this report since the AG-MP-1 was not prepared and submitted to the department.

Finding No. 5 – (Continued)

In addition, the city used state aid towards funding the minimum municipal obligations (MMOs) due to the police pension plan; therefore, if the reimbursement to the Commonwealth is required and made from the police pension plan, the plan's MMOs may not be fully paid.

Recommendation: We recommend that plan officials, with assistance from the pension plan's actuary, determine the impact of the excess benefit payments on the city's state aid allocations received during the years 2022 and 2023 and submit this information to the Department. After the submission of this information, the plan's actuary should contact the Municipal Pension & Fire Relief Programs Unit to verify any overpayment of state aid received and the city should reimburse the overpayment to the Commonwealth, accordingly. A check in the determined amount, with interest compounded annually from the date of receipt to the 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, 321 Finance Building, Harrisburg, PA 17120. A copy of the interest calculation must be submitted along with the check.

If the reimbursement to the Commonwealth is required and made from police pension plan funds, we recommend that any resulting MMO deficiency be paid to the pension plan with interest, at a rate earned by the pension plan.

Furthermore, to the extent that the city remains contractually obligated to pay benefits to retirees in excess of those authorized by Act 67 and the excess benefit reflected in the Act 205 actuarial valuation report for the plan and funded in accordance with Act 205 funding standards, these excess benefits will be deemed ineligible for funding with state pension aid and we again recommend that municipal officials timely consult the plan's actuary and determine whether to prepare future Form AG-MP-1 and submit the completed forms to the Department in a timely manner. If it is determined the excess benefits had an impact on the city's future state aid allocations after the submission of this information, the plan's actuary should contact the Department to verify the overpayments of state aid received and the city should reimburse such overpayments to the Commonwealth, accordingly.

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

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

CITY OF ALIQUIPPA POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF FUNDING PROGRESS

Historical trend information about the plan is presented herewith as supplementary information. It is intended to help users assess the plan's funding status on a going-concern basis, assess progress made in accumulating assets to pay benefits when due, and make comparisons with other state and local government retirement systems.

The actuarial information is required by Act 205 biennially. The historical information, beginning as of January 1, 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	$ 7,913,339	$10,957,722	$ 3,044,383	72.2%
01-01-19	9,155,435	11,402,259	2,246,824	80.3%
01-01-21	11,510,018	10,829,008	(681,010)	106.3%

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 POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

The comparability of trend information is affected by changes in actuarial assumptions, benefit provisions, actuarial funding methods, accounting policies, and other changes. Those changes usually affect trends in contribution requirements and in ratios that use the actuarial accrued liability as a factor.

Analysis of the dollar amount of the actuarial value of assets, actuarial accrued liability, and unfunded (assets in excess of) actuarial accrued liability in isolation can be misleading. Expressing the actuarial value of assets as a percentage of the actuarial accrued liability (Column 4) provides one indication of the plan's funding status on a going-concern basis. Analysis of this percentage, over time, indicates whether the system is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the plan.

CITY OF ALIQUIPPA POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER
AND OTHER CONTRIBUTING ENTITIES

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2017	$ 603,326	149.5%
2018	483,180	185.2%
2019	529,711	175.4%
2020	572,737	182.3%
2021	476,452	169.9%
2022	435,179	195.0%

CITY OF ALIQUIPPA POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
NOTES TO SUPPLEMENTARY SCHEDULES
(UNAUDITED)

The information presented in the supplementary schedules was determined as part of the actuarial valuation at the date indicated. Additional information as of the latest actuarial valuation date follows:

Actuarial valuation date	January 1, 2021
Actuarial cost method	Entry age normal
Amortization method	Level dollar, closed
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 2.50%

CITY OF ALIQUIPPA POLICE 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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