

**AMBRIDGE BOROUGH NONUNIFORMED PENSION PLAN**

**BEAVER COUNTY**

**COMPLIANCE AUDIT REPORT**

**FOR THE PERIOD**

**JANUARY 1, 2007, TO DECEMBER 31, 2009**





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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.

Pension plan aid is provided from a 2 percent foreign casualty insurance premium tax, a portion of the foreign 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 Ambridge Borough Nonuniformed 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.

The Ambridge Borough Nonuniformed Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 1204. The plan is also affected by the provisions of collective bargaining agreements between the borough and its nonuniformed employees.



The Honorable Mayor and Borough Council  
Ambridge Borough  
Beaver County  
Ambridge, PA 15003

We have conducted a compliance audit of the Ambridge Borough Nonuniformed Pension Plan for the period January 1, 2007, to December 31, 2009. The audit was conducted pursuant to authority derived from Section 402(j) of Act 205 and in accordance with *Government Auditing Standards* applicable to performance audits 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. Ambridge Borough contracted with an independent certified public accounting firm for audits of its basic financial statements for the years ending December 31, 2007 and 2008, which are available at the borough's offices. Those financial statements were not audited by us and, accordingly, we express no opinion or other form of assurance on them.

Borough officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Ambridge Borough Nonuniformed 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 borough's internal controls as they relate to the borough'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, we tested transactions, assessed official actions, performed analytical procedures and interviewed selected officials to the extent necessary to satisfy the audit objectives.

The results of our tests indicated that, in all significant respects, the Ambridge Borough Nonuniformed 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 – Inconsistent Pension Benefit
- Finding No. 2 – Noncompliance With Prior Audit Recommendation – Failure To Pay Vested Pension Benefits
- Finding No. 3 – Partial Compliance With Prior Audit Recommendation – Incorrect Data On Certification Form AG 385 Resulting In An Overpayment Of State Aid

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

The contents of this report were discussed with officials of Ambridge Borough and, where appropriate, their responses have been included in the report.

April 16, 2010

JACK WAGNER  
Auditor General

AMBRIDGE BOROUGH NONUNIFORMED PENSION PLAN  
STATUS OF PRIOR FINDINGS

Compliance With Prior Audit Recommendations

Ambridge Borough has complied with the prior audit recommendations concerning the following:

- Improper Pension Calculation

During the current audit period, no improper pension calculations resulting in excess pension benefits were granted. However, excess benefits are still being paid to an existing retiree. Since the municipality received state aid based on unit value during the audit period, it did not receive state aid attributable to the excess benefits provided. The department will continue to monitor the impact of the excess benefits being paid to the existing retiree on the plan's future state aid allocations;

- Undocumented Pension Benefits

The borough provided adequate documentation to support that the pension benefit calculations for the vested members were in accordance with the plan's governing document;

- Pension Benefit Not Authorized By The Plan's Governing Document

During the current audit period, no lump-sum payments for accumulated unused sick leave, vacation and personal leave were included in pension benefit determinations. However, excess benefits are still being paid to an existing retiree. Since the municipality received state aid based on unit value during the audit period, it did not receive state aid attributable to the excess benefits provided. The department will continue to monitor the impact of the excess benefits being paid to the existing retiree on the plan's future state aid allocations; and

- Failure To Maintain An Adequate Record-Keeping System

During the current audit period, the borough hired a plan consultant to monitor and maintain the records of the pension plan.

AMBRIDGE BOROUGH NONUNIFORMED PENSION PLAN  
STATUS OF PRIOR FINDINGS

Partial Compliance With Prior Audit Recommendation

Ambridge Borough has partially complied with the prior audit recommendation concerning the following:

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

The borough reimbursed \$3,554 to the Commonwealth for the overpayments of state aid received in 2004 and 2006; 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 2009, as further discussed in the Findings and Recommendations section of this report.

Noncompliance With Prior Audit Recommendations

Ambridge Borough has not complied with the prior audit recommendations concerning the following as further discussed in the Findings and Recommendations section of this report:

- Inconsistent Pension Benefit
- Failure To Pay Vested Pension Benefits

AMBRIDGE BOROUGH NONUNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Noncompliance With Prior Audit Recommendation – Inconsistent Pension Benefit

Condition: As disclosed in the prior audit report, a plan member who retired on February 17, 2000, had his pension benefit calculated using the 1 percent multiplier contained in Ordinance No. 943 (subsequently amended and restated by Ordinance No. 1204), while another member who retired on October 31, 2004, had his benefit calculated using the 1.1 percent multiplier contained in the 2000-2004 collective bargaining agreement. It was recommended that for the member who retired on February 17, 2000, the borough recalculate his benefit using the 1.1 percent multiplier; however, the borough has failed to adjust the member’s pension benefit.

Furthermore, the current collective bargaining agreement (CBA) continues to contain a benefit provision that is in conflict with Ordinance No. 1204, as noted below:

<u>Benefit Provision</u>	<u>Governing Document</u>	<u>Collective Bargaining Agreement</u>
Monthly pension or retirement benefit	For members who were eligible to retire after the enactment of this Ordinance - a monthly pension equal to one and one tenth per centum (1.1%) of the member’s average annual salary multiplied by the number of full years of service completed and divided by twelve.	The benefits of this plan shall have a multiplier of 1.5% as of January 1, 2008.

Criteria: The plan’s governing document and the collective bargaining agreement should contain consistent benefit provisions to ensure the sound administration of retirement benefits.

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

Effect: Inconsistent plan documents could result in inconsistent or improper benefit calculations and incorrect benefit payments from the pension plan.

AMBRIDGE BOROUGH NONUNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Recommendation: We again recommend that municipal officials recalculate the pension benefit for the member who retired on February 17, 2000, retroactively, to the date of the member's retirement, pursuant to the provisions contained in the 2000-2004 CBA. Furthermore, we again recommend that municipal officials, after consulting with their solicitor, update the plan's governing document, as necessary, to reflect benefits awarded through collective bargaining.

Management's Response: Municipal officials agreed with the finding without exception. Subsequent to the audit period, the borough provided a pension recalculation for the member who retired on February 17, 2000, using the 1.1% multiplier contained in the 2000-2004 CBA. In addition, the documentation provided included a determination of the retroactive amount due to the retired member.

Auditor's Conclusion: Full compliance with the finding recommendation will be evaluated during our next audit of the plan.

Finding No. 2 – Noncompliance With Prior Audit Recommendation – Failure To Pay Vested Pension Benefits

Condition: As disclosed in the prior audit report, 3 vested members of the nonuniformed pension plan became eligible to begin receiving their vested benefits during 2006. However, plan officials have failed to begin paying the benefits to which the retirees are entitled.

Criteria: Ordinance No. 1204 at Section 5.03 states, in part:

A participant who shall be terminated for any reason as an employee prior to age 62, shall be vested in his accrued benefit... The benefit shall begin to be paid when the deferred vested participant reaches age 62.

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

Effect: Three retirees are not receiving the monthly pension benefits to which they are entitled.

Recommendation: We again recommend that plan officials pay the pension benefits due to the vested members, retroactively, in accordance with the pension plan's governing document.

AMBRIDGE BOROUGH NONUNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Management’s Response: Municipal officials agreed with the finding without exception. Subsequent to the audit period, the borough provided documentation sent to the plan’s custodian that would initiate monthly benefit payments for 2 of the 3 retirees in question, including retroactive amounts due as of their dates of benefit eligibility.

Auditor’s Conclusion: Full compliance with the finding recommendation will be evaluated during our next audit of the plan.

Finding No. 3 – Partial Compliance With Prior Audit Recommendation – Incorrect Data On Certification Form AG 385 Resulting In An Overpayment Of State Aid

Condition: The borough reimbursed \$3,554 to the Commonwealth for the overpayments of state aid received in 2004 and 2006 due to incorrect data on Certification Form AG 385; however, the borough certified one ineligible nonuniformed employee (1 unit) and overstated payroll by \$58,967 in 2009 on Certification Form AG 385.

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 full compliance with the prior audit recommendation.

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

<u>Units Overstated</u>	<u>Unit Value</u>	<u>State Aid Overpayment</u>
1	\$ 3,128	\$ 3,128

AMBRIDGE BOROUGH NONUNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

Recommendation: We recommend that the total excess state aid, in the amount of \$3,128, 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, 11 Stanwix Street, Suite 1450, Pittsburgh, PA 15222. A copy of the interest calculation must be submitted along with the check.

Furthermore, we again recommend that, in the future, plan officials comply with the instructions that accompany Certification Form AG 385 to assist them in accurately reporting the required pension data.

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

AMBRIDGE BOROUGH NONUNIFORMED 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, except for distressed pension plans, for which annual reporting was required through January 1, 2003. The historical information, beginning as of January 1, 2005, is as follows:

	(1)	(2)	(3)	(4)	(5)	(6)
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)	Covered Payroll (c)	Unfunded (Assets in Excess of) Actuarial Accrued Liability as a % of Payroll [(b-a)/(c)]
01-01-05	\$ 653,533	\$ 866,112	\$ 212,579	75.5%	\$ 170,086	125.0%
01-01-07	874,088	893,778	19,690	97.8%	174,895	11.3%
01-01-09	738,800	1,068,365	329,565	69.2%	195,747	168.4%

Note: The market values of the plan's assets at 01-01-05, 01-01-07 and 01-01-09 have been adjusted to reflect the smoothing of gains and/or losses over a 4-year averaging period. 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.

AMBRIDGE BOROUGH NONUNIFORMED 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.

Trends in unfunded (assets in excess of) actuarial accrued liability and annual covered payroll are both affected by inflation. Expressing the unfunded (assets in excess of) actuarial accrued liability as a percentage of annual covered payroll (Column 6) approximately adjusts for the effects of inflation and aids analysis of the plan's progress made in accumulating sufficient assets to pay benefits when due. Generally, where there is an unfunded actuarial accrued liability, the smaller this percentage, the stronger the plan. However, when assets are in excess of the actuarial accrued liability, the higher the bracketed percentage, the stronger the plan.

AMBRIDGE BOROUGH NONUNIFORMED PENSION PLAN  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER  
AND OTHER CONTRIBUTING ENTITIES

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2004	\$ 15,854	100.0%
2005	19,059	100.0%
2006	11,616	100.0%
2007	13,561	119.0%
2008	13,649	100.0%
2009	19,641	146.6%

AMBRIDGE BOROUGH NONUNIFORMED PENSION PLAN  
SUPPLEMENTARY INFORMATION  
NOTES TO SUPPLEMENTARY SCHEDULES  
(UNAUDITED)

The information presented in the required 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, 2009
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	15 years
Asset valuation method	Fair value, 4-year smoothing
Actuarial assumptions:	
Investment rate of return	7.5%
Projected salary increases	4.5%

AMBRIDGE BOROUGH NONUNIFORMED PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell  
Governor  
Commonwealth of Pennsylvania

Ambridge Borough Nonuniformed Pension Plan  
Beaver County  
600 Eleventh Street  
Ambridge, PA 15003

The Honorable Richard D'Ambrusio	Mayor
Mr. Gerald C. McCoy	Council President
Ms. Marilyn Sheleheda	Acting Borough Manager

This report is a matter of public record. Copies of this report may be obtained from the Pennsylvania Department of the Auditor General, Office of Communications, Room 318 Finance Building, Harrisburg, PA 17120. If you have any questions regarding this report or any other matter, you may contact the Department of the Auditor General by accessing our website at [www.auditorgen.state.pa.us](http://www.auditorgen.state.pa.us).