

**CITY OF ALIQUIPPA NONUNIFORMED PENSION PLAN**

**BEAVER COUNTY**

**COMPLIANCE AUDIT REPORT**

**FOR THE PERIOD**

**JANUARY 1, 2009, TO DECEMBER 31, 2010**





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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 City of Aliquippa 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 including, but not limited to, the following:

Act 317 - The Third Class City Code, Act of June 23, 1931 (P.L. 932, No. 317), as amended, 53 P.S. § 35101 et seq.

The City of Aliquippa Nonuniformed Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 3 of 2008, as amended, effective January 1, 2007, adopted pursuant to Act 317. The plan is also affected by the provisions of collective bargaining agreements between the city and its nonuniformed employees.



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 Nonuniformed Pension Plan for the period January 1, 2009, to December 31, 2010. 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 finding 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. 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 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 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, 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 City of Aliquippa 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 – Pension Benefits In Excess Of The Third Class City Code

Finding No. 2 – Pension Benefit Not Authorized By The Third Class City Code

Finding No. 3 – Improper Disability Pension Benefit

As previously noted, one of the objectives of our audit of the City of Aliquippa Nonuniformed Pension Plan was to determine compliance with applicable state laws, contracts, administrative procedures, and local ordinances and policies. During the current audit period, Act 205 was amended on September 18, 2009, through the adoption of Act 44 of 2009. Among several provisions relating to municipal pension plans, the bill provides for the implementation of a distress recovery program. Three levels of distress have been established:

<u>Level</u>	<u>Indication</u>	<u>Funding Criteria</u>
I	Minimal distress	70-89%
II	Moderate distress	50-69%
III	Severe distress	Less than 50%

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. However, we are extremely concerned about the funded status of the plan contained in the schedule of funding progress included in this report which indicates the plan's funded ratio is 57.9% as of January 1, 2009, which is the most recent date available. Based on this information, the Public Employee Retirement Commission issued a notification that the city is currently in Level II moderate distress status. We encourage city officials to monitor the funding of the nonuniformed 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.

October 26, 2011

JACK WAGNER  
Auditor General

CITY OF ALIQUIPPA NONUNIFORMED PENSION PLAN  
STATUS OF PRIOR FINDING

Noncompliance With Prior Audit Recommendation

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

- Pension Benefits In Excess Of The Third Class City Code

CITY OF ALIQUIPPA NONUNIFORMED 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 prior audit report, the pension plan’s governing document and collective bargaining agreement between the nonuniformed employees and the city provide for a survivor benefit for minor children of retirees. Section 6.03 of Ordinance No. 3 of 2008 states, in part:

If there is no surviving spouse or if the surviving spouse becomes ineligible . . . such benefit shall be paid to the surviving children of the deceased participant who are under the age of eighteen (18).

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

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

Effect: Providing unauthorized pension benefits increases the plan’s pension costs and reduces the amount of funds available for investment purposes or for the payment of authorized benefits or administrative expenses. Since the city received state aid based on unit value during and subsequent to the current audit period, it did not receive allocations attributable to the excess pension benefits provided. However, the increased costs to the pension plan as a result of the excess pension benefits could result in the receipt of excess state aid in the future and increase the municipal contributions necessary to fund the plan in accordance with Act 205 funding standards.

Recommendation: We again recommend that the city comply with the Third Class City Code upon the renewal, extension, or renegotiation of the collective bargaining agreement. To the extent that the city is not in compliance with the Third Class City Code and/or is contractually obligated to pay benefits to existing survivors in excess of those authorized by the Third Class City Code, the excess benefits must be reflected in the Act 205 actuarial valuation reports for the plan and funded in accordance with Act 205 funding standards. Furthermore, the excess benefits will be deemed ineligible for funding with state pension aid. In such case, the plan’s actuary may be required to determine the impact, if any, of the improper survivor benefits on the plan’s future state aid allocations and submit this information to the department.

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

CITY OF ALIQUIPPA NONUNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Pension Benefit Not Authorized By The Third Class City Code

Condition: On December 1, 2010, city officials entered into an “Enhanced Retirement Benefit Package Agreement” with a member of the nonuniformed pension plan who retired on January 31, 2011. The agreement provided pension benefits in excess of those authorized by the Third Class City Code and the plan’s governing document. City officials included accumulated unused sick leave that was not earned during the pension computation period in determining the rate of monthly pay used to calculate the member’s monthly pension benefit.

Criteria: Section 4343 of the Third Class City Code states, in part:

During the lifetime of any person in the employment of any city creating such pension fund and pension board as hereinbefore provided, he or she shall be entitled to receive as a pension annually, from the fund set aside for the purpose, fifty per centum of the amount which would constitute the average annual salary or wages which he or she received during the last or any five years of his or her employment by the said city, whichever is the higher, said pension to be paid in semi-monthly payments.

In addition, the plan’s governing document, Ordinance No. 3 of 2008, Section 1.14 states, in part:

Cause: City officials failed to establish adequate internal control procedures to ensure the member’s pension benefit was determined in accordance with the provisions contained in the Third Class City Code and the plan’s governing document.

Effect: The plan is paying pension benefits in excess of those authorized by the Third Class City Code and the plan’s governing document. The retiree is receiving excess benefits of \$52 per month, which totaled approximately \$468 from the date of retirement through the date of this audit report.

CITY OF ALIQUIPPA NONUNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Providing unauthorized pension benefits increases the plan's pension costs and reduces the amount of funds available for investment purposes or for the payment of authorized benefits or administrative expenses. Since the city received state aid based on unit value during and subsequent to the current audit period, it did not receive allocations attributable to the excess pension benefits provided. However, the increased costs to the pension plan as a result of the excess pension benefits could result in the receipt of excess state aid in the future and increase the municipal contributions necessary to fund the plan in accordance with Act 205 funding standards.

Recommendation: We recommend that future pension benefits be calculated and paid in accordance with the applicable provisions of the Third Class City Code and the plan's governing document in effect at the time of retirement. To the extent that the city has already obligated itself to pay benefits to the retiree in excess of those authorized by the Third Class City Code and the plan's governing document, 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 unauthorized portion of such 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 excess benefits on the plan's future state aid allocations and submit this information to the department.

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

Finding No. 3 – Improper Disability Pension Benefit

Condition: On December 31, 2009, the city granted an improper disability pension benefit to a plan member who was only employed by the city for six years.

Criteria: Section 4343 of the Third Class City Code states, in part:

Should any employee, however, become totally and permanently disabled, after ten years of service and before attaining the age of sixty years, he or she shall be entitled to the said pension. . . .

Furthermore, Ordinance No. 3 of 2008 at Section 5.01 states, as follows:

A Participant who has completed at least ten (10) Years of Credited Service and who incurs a Total and Permanent Disability before attaining Normal Retirement Age shall be entitled to a Disability Retirement Benefit determined as of the Disability Retirement Date.

CITY OF ALIQUIPPA NONUNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

Cause: The city granted 4 years of service credit for time the member was inactive on long-term disability that was not service related.

Effect: The plan is paying pension benefits that are not authorized by the Third Class City Code or the plan's governing document. The retiree is receiving unauthorized pension benefits of \$1,194 per month, which totaled approximately \$26,268 from the date of retirement through the date of this audit report.

Providing unauthorized pension benefits increases the plan's pension costs and reduces the amount of funds available for investment purposes or for the payment of authorized benefits or administrative expenses. Since the city received state aid based on unit value during and subsequent to the current audit period, it did not receive allocations attributable to the improper pension benefit provided. However, the increased costs to the pension plan as a result of the improper pension benefit could result in the receipt of excess state aid in the future and increase the municipal contributions necessary to fund the plan in accordance with Act 205 funding standards.

Recommendation: We recommend that city officials consult with their solicitor to determine if the improper pension benefit should continue to be paid. We further recommend that future pension benefits be determined in accordance with the Third Class City Code and the applicable provisions contained in the plan's governing document in effect at the time of the plan member's retirement.

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

CITY OF ALIQUIPPA 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. 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	\$ 613,884	\$ 1,019,270	\$ 405,386	60.2%	\$ 325,137	124.7%
01-01-07	712,204	960,453	248,249	74.2%	325,344	76.3%
01-01-09	601,930	1,038,921	436,991	57.9%	304,021	143.7%

Note: The market value of the plan's assets at 01-01-09 has 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 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.

CITY OF ALIQUIPPA NONUNIFORMED PENSION PLAN  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

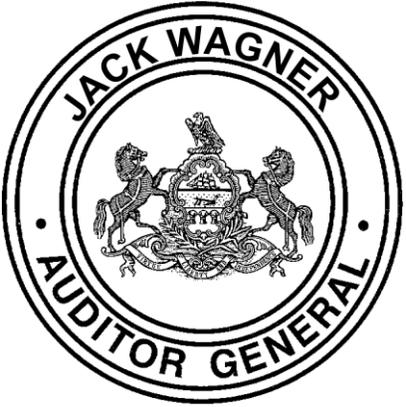
SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER  
AND OTHER CONTRIBUTING ENTITIES

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2005	\$ 101,847	102.8%
2006	82,491	128.9%
2007	83,397	111.3%
2008	53,794	173.3%
2009	56,101	155.8%
2010	66,944	139.4%

CITY OF ALIQUIPPA 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, closed
Remaining amortization period	6 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	8.0%
Projected salary increases	5.0%



CITY OF ALIQUIPPA NONUNIFORMED PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett  
Governor  
Commonwealth of Pennsylvania

City of Aliquippa Nonuniformed Pension Plan  
Beaver County  
581 Franklin Avenue  
Aliquippa, PA 15001

The Honorable Anthony Battalini	Mayor
Mr. Samuel L. Gill	City Administrator
Mr. Pasquale Formoso	Finance Director

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).