

**CITY OF ALIQUIPPA FIREMEN'S PENSION PLAN**

**BEAVER COUNTY**

**COMPLIANCE AUDIT REPORT**

**FOR THE PERIOD**

**JANUARY 1, 2007, TO DECEMBER 31, 2008**





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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 Firemen's Pension Plan is also governed by implementing regulations adopted by the Public Employee Retirement Commission published at Title 16, Part IV of the Pennsylvania Code and applicable provisions of various other state statutes including, but not limited to, the following:

Act 147 - Special Ad Hoc Municipal Police and Firefighter Postretirement Adjustment Act, Act of December 14, 1988 (P.L. 1192, No. 147), as amended, 53 P.S. § 896.101 et seq.

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 Firemen's Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 4 of 2008, 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 firefighters.





The Honorable Mayor and City Council  
City of Aliquippa  
Beaver County  
Aliquippa, PA 15001

We have conducted a compliance audit of the City of Aliquippa Firemen's Pension Plan for the period January 1, 2007, to December 31, 2008. 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. 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 Firemen's Pension Plan is administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies. In conducting our audit, we obtained an understanding of the city's internal controls as they relate to the city's compliance with those requirements and that we considered to be significant within the context of our audit objectives, and assessed whether those significant controls were properly designed and implemented. Additionally, 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 Firemen's Pension Plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies, except as noted in the following findings further discussed later in this report:

Finding No. 1 – Noncompliance With Prior Audit Recommendation – Benefit Provision Not In Accordance With The Third Class City Code

Finding No. 2 – 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. 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 ratio of its actuarial value of assets to its actuarial accrued liability is 49.3% as of January 1, 2007, which is the most recent date available. We encourage city officials to monitor the funding of the firemen's pension plan to ensure its long-term financial stability.

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

October 19, 2009

JACK WAGNER  
Auditor General

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

Compliance With Prior Audit Recommendations

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

- Pension Benefit Not Authorized By The Third Class City Code

The city adopted Ordinance No. 4 of 2008, which complies with the Third Class City Code regarding the prohibition of lump-sum payments earned outside the averaging period being included in pension calculations. While excess benefits are still being paid to existing retirees, the city is funding the pension plan in accordance with Act 205 funding standards and did not receive state aid attributable to the excess benefits provided; and

- Unauthorized Use Of Special Municipal Tax Revenues

During the audit period, \$157,703 was deposited into the city's pension plans to provide a reimbursement for special municipal tax revenues that were collected during the years 2004 and 2005 that were deposited into the city's general fund.

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:

- Benefit Provision Not In Accordance With The Third Class City Code

CITY OF ALIQUIPPA FIREMEN'S PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

Finding No. 1 - Noncompliance With Prior Audit Recommendation – Benefit Provision Not In Accordance With The Third Class City Code

Condition: As disclosed in the prior audit report, the city has failed to amend the pension plan's governing document to comply with the Third Class City Code in regards to the normal retirement eligibility age requirement. Ordinance No. 4-2008 at Section 1.24, states, in part:

“Normal Retirement Age” shall mean the date on which the Employee has attained age fifty-five (55) and completed at least twenty-five (25) Years of Credited Service. (Emphasis added)

Criteria: Regarding eligibility for normal retirement, Section 4321 of the Third Class City Code states, in part:

Such regulations shall prescribe a minimum period of continuous service, not less than twenty years and, when any minimum age is prescribed, a minimum age of fifty years, after which members of the department may retire on pension from active duty....(Emphasis added)

Commonwealth Court, in *City of Reading v. Reading Lodge Fraternal Order of Police No. 9*, 325 A.2d 675 (Pa. Commw. 1974), pointed out that Section 4302 of the Third Class City Code “affords a third class city the option of prescribing a minimum age but requires the age to be that of fifty years if the option is exercised...” 325 A.2d at 676. This interpretation would apply as well to Section 4321, since the language on minimum age mirrors that in Section 4302.

Furthermore, both the Public Employee Retirement Commission (PERC), in its June 2004 edition of *Public Employee Retirement Laws for Pennsylvania Local Government*, and the Department of Community and Economic Development, in its April 2007 *Pension Manual for Pennsylvania Local Government*, advise third class cities that if they prescribe a minimum superannuation retirement age for police officers or firefighters, that the age must be 50.

Cause: Municipal officials have failed to adopt adequate internal control procedures to ensure compliance with the prior audit recommendation.

Effect: Plan members may be denied benefits to which they are statutorily entitled.

Recommendation: We again recommend that municipal officials amend the normal retirement eligibility age requirement currently contained in the plan's governing document to comply with the Third Class City Code.

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

CITY OF ALIQUIPPA FIREMEN'S PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Incorrect Data On Certification Form AG 385 Resulting In An Overpayment Of State Aid

Condition: The city certified one ineligible firefighter (2 units) and overstated payroll by \$9,126 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 were unaware of the applicable Act 205 guidelines for the certification of eligible employees.

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

<u>Units Overstated</u>	<u>Unit Value</u>	<u>State Aid Overpayment</u>
2	\$ 3,128	\$ 6,256

Recommendation: We recommend that the total excess state aid, in the amount of \$6,256, 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, 1205 Pittsburgh State Office Building, 300 Liberty Avenue, Pittsburgh, PA 15222. A copy of the interest calculation must be submitted along with the check.

We also 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: City officials agreed with the finding without exception.

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

SCHEDULE OF FUNDING PROGRESS

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

The actuarial information is required by Act 205 biennially, except for distressed pension plans, for which annual reporting was required through January 1, 2003. The historical information, beginning as of January 1, 2003, 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)]
01-01-03	\$ 1,076,904	\$ 2,889,641	\$ 1,812,737	37.3%	\$ 383,478	472.7%
01-01-05	1,362,762	2,980,420	1,617,658	45.7%	432,990	373.6%
01-01-07	1,532,153	3,110,629	1,578,476	49.3%	471,414	334.8%

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

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

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

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 FIREMEN'S PENSION PLAN  
 SUPPLEMENTARY INFORMATION  
 (UNAUDITED)

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER  
 AND OTHER CONTRIBUTING ENTITIES

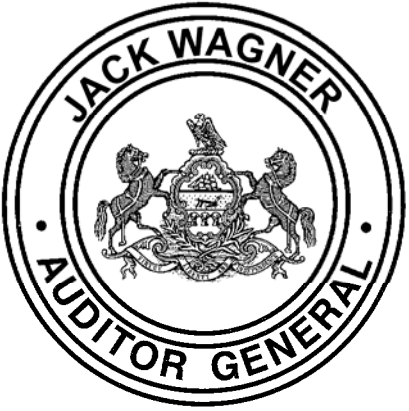
Year Ended December 31	Annual Required Contribution	Percentage Contributed
2003	\$ 198,504	100.0%
2004	204,772	100.0%
2005	246,440	100.0%
2006	224,207	100.0%
2007	226,334	151.1%
2008	223,304	196.1%



CITY OF ALIQUIPPA FIREMEN'S 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, 2007
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	14 years
Asset valuation method	Fair value
Actuarial assumptions:	
Investment rate of return	8.0%
Projected salary increases	5.0%



CITY OF ALIQUIPPA FIREMEN'S PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell  
Governor  
Commonwealth of Pennsylvania

City of Aliquippa Firemen's Pension Plan  
Beaver County  
581 Franklin Avenue  
Aliquippa, PA 15001

The Honorable Anthony Battalini	Mayor
Mr. Thomas A. Stoner	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).