

CITY OF ALIQUIPPA NONUNIFORMED PENSION PLAN

BEAVER COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2007, TO DECEMBER 31, 2008



CITY OF ALIQUIPPA NONUNIFORMED PENSION PLAN

BEAVER COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2007, TO DECEMBER 31, 2008

CONTENTS

	<u>Page</u>
Background.....	1
Letter from the Auditor General	3
Status of Prior Findings	5
Finding and Recommendation:	
Finding – Partial Compliance With Prior Audit Recommendation – Pension Benefits In Excess Of The Third Class City Code	6
Supplementary Information	8
Report Distribution List	13

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, 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, 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 finding and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our finding 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 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 finding further discussed later in this report:

Finding – Partial Compliance With Prior Audit Recommendation – Pension
Benefits In Excess Of The Third Class City Code

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 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 NONUNIFORMED 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:

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

The city reimbursed \$6,543 to the Commonwealth for the overpayment of state aid received:
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.

Partial Compliance With Prior Audit Recommendation

- Pension Benefits In Excess Of The Third Class City Code

The city adopted Ordinance No. 3 of 2008, effective January 1, 2007, which restated the nonuniformed pension plan in its entirety. The restated governing document eliminated the unauthorized provision for part-time service buy backs. However, the restated governing document continues to provide for a survivor benefit in excess of the Third Class City Code as discussed in the Finding and Recommendation section of this report.

CITY OF ALIQUIPPA NONUNIFORMED PENSION PLAN
FINDING AND RECOMMENDATION

Finding – Partial Compliance 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 the collective bargaining agreement between the nonuniformed employees and the city provided for pension benefits that are in excess of the Third Class City Code. During the current audit period, the city adopted Ordinance No. 3 of 2008, effective January 1, 2007, which restated the nonuniformed pension plan in its entirety. The new governing document eliminated the unauthorized provision for part-time service buy backs. However, the restated governing document continues to provide for a survivor benefit in excess of the Third Class City Code, as follows:

<u>Benefit Provision</u>	<u>Governing Document/ Collective Bargaining Agreement</u>	<u>Third Class City Code</u>
Survivor benefit	If a participant dies after retirement date (or) before retirement date but after becoming eligible for retirement from active duty, a survivor benefit shall be paid to his/her surviving spouse, if any, until death or remarriage equal to 50 percent of the pension benefit to which the participant was entitled. 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).	If council elects, by ordinance, to make such payments, the surviving spouse of an employee who retired on pension or is killed in the service on or after January 1, 1960, shall during his lifetime or so long as he does not remarry, be entitled to receive a pension calculated at the rate of fifty per centum of the pension the member was receiving or would have been entitled to had he been retired at the time of his death.

Criteria: Survivor benefits for minor children are not authorized by the Third Class City Code.

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

CITY OF ALIQUIPPA NONUNIFORMED PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

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 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 at its earliest opportunity to do so. 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 retirees 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, 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 city’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
 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	\$ 447,878	\$ 1,005,574	\$ 557,696	44.5%	\$ 326,190	171.0%
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%

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
2003	\$ 78,386	100.0%
2004	92,423	100.0%
2005	101,847	102.8%
2006	82,491	128.0%
2007	83,397	111.3%
2008	53,794	173.3%

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, 2007
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	8 years
Asset valuation method	Fair value
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 Edward G. Rendell
Governor
Commonwealth of Pennsylvania

City of Aliquippa Nonuniformed 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.