

**FOREST HILLS BOROUGH NONUNIFORMED PENSION PLAN**

**ALLEGHENY COUNTY**

**COMPLIANCE AUDIT REPORT**

**FOR THE PERIOD**

**JANUARY 1, 2008, 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 Forest Hills 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 Forest Hills Borough Nonuniformed Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Resolution No. 1087, effective January 1, 2009. Prior to the adoption of Resolution No. 1087, the pension plan was controlled by the provisions of Resolution No. 1074, adopted January 1, 2008. 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  
Forest Hills Borough  
Allegheny County  
Pittsburgh, PA 15221

We have conducted a compliance audit of the Forest Hills Borough Nonuniformed Pension Plan for the period January 1, 2008, 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 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 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. Forest Hills Borough contracted with an independent certified public accounting firm for annual audits of its basic financial statements 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 Forest Hills 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 Forest Hills 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 finding further discussed later in this report:

Finding – Incorrect Pension Benefit Calculations

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 Forest Hills Borough and, where appropriate, their responses have been included in the report.

June 17, 2011

JACK WAGNER  
Auditor General

FOREST HILLS BOROUGH NONUNIFORMED PENSION PLAN  
STATUS OF PRIOR FINDING

Compliance With Prior Audit Recommendation

Forest Hills Borough has complied with the prior audit recommendation concerning the following:

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

Borough officials reimbursed \$775 to the Commonwealth for the overpayment of state aid received in 2007.

FOREST HILLS BOROUGH NONUNIFORMED PENSION PLAN  
FINDING AND RECOMMENDATION

Finding – Incorrect Pension Benefit Calculations

Condition: Two members of the pension plan, who retired on May 28, 2010 and August 16, 2010, respectively, had their pension benefits incorrectly determined because municipal officials failed to accurately calculate the members’ final monthly average salary in accordance with the plan’s governing document. The pension calculations included W-2 wages instead of gross wages and the final months of compensation were estimated instead of using the actual gross wages.

Criteria: Resolution No. 1087, at Section 1.12, states, in part:

“Compensation” shall mean the gross compensation paid to the Employee, whether salary or hourly wages, including overtime pay, holiday pay, longevity pay and any other form of remuneration paid by the Employer for services rendered in employment but shall exclude reimbursement for expenses and similar payments. Compensation shall be limited on an annual basis to the amount specified for government plans pursuant to Code Section 401(a)(17).

In addition, Resolution No. 1087, at Section 1.07, states, in part:

“Average Monthly Compensation” shall mean the average of the compensation received by a Participant during the final 36 months immediately preceding his termination of employment.

Cause: Municipal officials failed to establish adequate internal control procedures to ensure the pension benefits were properly determined in accordance with the plan’s governing document.

Effect: The failure to properly calculate the pension benefits resulted in the members being denied benefits to which they are entitled in accordance with the plan’s governing document.

Recommendation: We recommend that municipal officials adjust the two retirees’ pension benefits in accordance with the provisions contained in the plan’s governing document and pay the benefits due retroactively to the dates of their respective retirements. We also recommend plan officials implement adequate internal control procedures to ensure retirement benefits are determined in accordance with the provisions contained in the plan’s governing document

Management’s Response: Municipal officials agreed with the finding without exception. Subsequent to the audit period, the borough recalculated the two retirees’ pension benefits using the correct definition of compensation and adjusted the monthly benefit payments accordingly.

Auditor’s Conclusion: Based on the management response, it appears municipal officials have partially complied with the finding recommendation. Full compliance will be evaluated during our next audit of the plan.

FOREST HILLS 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. 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	\$ 2,017,167	\$ 1,825,346	\$ (191,821)	110.5%	\$ 625,253	(30.7%)
01-01-07	2,156,883	1,965,140	(191,743)	109.8%	608,947	(31.5%)
01-01-09	2,164,175	2,297,478	133,303	94.2%	686,053	19.4%

Note: The market values of the plan's assets at 01-01-05 and 01-01-07 have been adjusted to reflect the smoothing of gains and/or losses over a 5-year averaging period. The market value of the plan's assets at 01-01-09 has been adjusted to reflect the smoothing of gains and/or losses at 130% of market value. These methods 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.

FOREST HILLS 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.

FOREST HILLS 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
2005	\$ 22,223	100.0%
2006	21,400	125.7%
2007	18,510	100.0%
2008	20,816	100.0%
2009	22,050	100.0%
2010	27,896	100.0%

FOREST HILLS 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, closed
Remaining amortization period	15 years (aggregated)
Asset valuation method	Plan assets are valued using the method described in Section 210 of Act 205, as amended, subject to a ceiling of 130% of the market value of assets.
Actuarial assumptions:	
Investment rate of return	7.5%
Projected salary increases	4.5%



FOREST HILLS BOROUGH NONUNIFORMED PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett  
Governor  
Commonwealth of Pennsylvania

Forest Hills Borough Nonuniformed Pension Plan  
Allegheny County  
2071 Ardmore Boulevard  
Pittsburgh, PA 15221

The Honorable Martin O'Malley	Mayor
Mr. Frank Porco	Council President
Mr. Steven J. Morus	Borough Manager
Ms. Barbara Livingstone	Treasurer

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).