

**FRANKLIN PARK BOROUGH NONUNIFORMED PENSION PLAN**

**ALLEGHENY COUNTY**

**COMPLIANCE AUDIT REPORT**

**FOR THE PERIOD**

**JANUARY 1, 2006, TO DECEMBER 31, 2008**





**FRANKLIN PARK BOROUGH NONUNIFORMED PENSION PLAN**

**ALLEGHENY COUNTY**

**COMPLIANCE AUDIT REPORT**

**FOR THE PERIOD**

**JANUARY 1, 2006, TO DECEMBER 31, 2008**



## CONTENTS

	<u>Page</u>
Background.....	1
Letter from the Auditor General .....	3
Findings and Recommendations:	
Finding No. 1 – Incorrect Data On Certification Form AG 385 Resulting In An Underpayment Of State Aid.....	5
Finding No. 2 – Improper Ownership Of Unallocated Insurance Contracts.....	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 Franklin Park 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 Franklin Park Borough Nonuniformed Pension Plan is a single-employer defined benefit pension plan with a supplemental defined contribution provision locally controlled prior to January 1, 2008, by the provisions of Ordinance No. 512-02, as amended. Effective January 1, 2008, the pension plan is controlled by Ordinance No. 566-2008. 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  
Franklin Park Borough  
Allegheny County  
Pittsburgh, PA 15237

We have conducted a compliance audit of the Franklin Park Borough Nonuniformed Pension Plan for the period January 1, 2006, 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 the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

The objective of the audit was 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 objective identified above. Franklin Park 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 Franklin Park 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 objective, 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 objective.

The results of our tests indicated that, in all significant respects, the Franklin Park 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 – Incorrect Data On Certification Form AG 385 Resulting In An Underpayment Of State Aid

Finding No. 2 – Improper Ownership Of Unallocated Insurance Contracts

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 Franklin Park Borough and, where appropriate, their responses have been included in the report.

September 4, 2009

JACK WAGNER  
Auditor General

FRANKLIN PARK BOROUGH NONUNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Incorrect Data On Certification Form AG 385 Resulting In An Underpayment  
Of State Aid

Condition: The borough understated the police officer’s total payroll by \$580 and understated the nonuniformed employee’s total payroll by \$10,986 in 2006. The borough also failed to certify an eligible nonuniformed employee and understated payroll by \$19,554 in 2007. In addition, the borough understated the police officer’s total payroll by \$555 and understated the nonuniformed employee’s total payroll by \$8,794 in 2008 on Certification Form AG 385.

Criteria: Pursuant to Act 205, at Section 402(e)(2), an employee who has been employed on a full-time basis for at least six consecutive months and has been participating in a pension plan during the certification year is eligible for certification.

In addition, the accuracy of the data certified is a prerequisite for the borough to receive a correct state aid allocation.

Cause: Plan officials were unaware of the applicable Act 205 guidelines for the certification of eligible employees. In addition, the borough failed to establish adequate internal control procedures to ensure the accuracy of the data certified.

Effect: The data submitted on these certification forms is used, in part, to calculate the state aid due to the borough for distribution to its pension plans. Because the borough’s state aid allocations were based on pension costs, the borough received an underpayment of state aid of \$1,905 as identified below:

Year	Type Of Plan	Normal Cost	Payroll Understated	State Aid Underpayment
2006	Police	15.93%	\$ 580	\$ 92
	Nonuniformed	4.33%	\$ 10,986	<u>476</u>
	Total			<u>\$ 568</u>
2007	Nonuniformed	4.33%	\$ 19,554	<u>\$ 847</u>
2008	Police	15.68%	\$ 555	\$ 87
	Nonuniformed	4.57%	\$ 8,794	<u>402</u>
	Total			<u>\$ 489</u>
Total Underpayment Of State Aid				<u>\$ 1,904</u>

FRANKLIN PARK BOROUGH NONUNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Although the borough will be reimbursed for the underpayment of state aid due to the borough's certification errors, the full amount of the 2006, 2007 and 2008 state aid allocations were not available to be deposited timely and therefore were not available to pay operating expenses or for investment.

Recommendation: We 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 plan data.

We also recommend that plan officials implement adequate internal control procedures to ensure the accuracy of the data certified on Certification Form AG 385.

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

Finding No. 2 – Improper Ownership Of Unallocated Insurance Contracts

Condition: On October 15, 2008, the borough adopted Ordinance No. 566-2008, effective January 1, 2008, which included a defined contribution provision in addition to the existing defined benefit nonuniformed pension plan. Pursuant to this amendment, the borough began depositing borough general fund contributions for each plan member into group annuity separate accounts. However, the group annuity accounts improperly designate the individual plan members as the owner of the accounts instead of the Franklin Park Borough Nonuniformed Pension Plan.

Criteria: Since employer contributions have been deposited to the individual separate accounts, the plan should maintain ownership of the group annuity contracts to properly safeguard these assets.

Cause: Plan officials failed to establish adequate internal control procedures to ensure that the individual plan members' accounts were owned by the pension plan.

Effect: Continued improper ownership of these separate accounts could result in premature withdrawals or other improper dispositions of these assets.

In addition, since the accounts are in the name of the individual plan members, borough officials have no access to the member's account statements.

FRANKLIN PARK BOROUGH NONUNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Recommendation: If the borough intends to have the supplemental defined contribution pension plan participate in the Act 205 state aid program, we recommend that plan officials contact the Public Employee Retirement Commission for guidance on properly filing the January 1, 2009, Act 205 actuarial valuation report.

We also recommend that plan officials contact the insurance company to determine if ownership of the group annuity accounts can be changed to the Franklin Park Borough Nonuniformed Pension Plan without penalty to the plan members. If this cannot be accomplished, we recommend that the municipality implement adequate internal control procedures to ensure that the account balances are not withdrawn by the plan members prior to their eligibility to receive benefits from the pension plan.

If the borough does not intend for the defined contribution pension plan to participate in the Act 205 state aid program, borough officials should ensure that future state aid allocations received by the borough should only be allocated to the defined benefit pension plan.

Management's Response: Management officials in a written response dated September 28, 2009, declined to comment on the finding at this time. Plan officials indicated that if necessary, they will respond after receipt of the audit report.

Auditor's Conclusion: The finding and recommendation remain as stated.

FRANKLIN PARK 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, 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	\$ 1,018,384	\$ 1,194,608	\$ 176,224	85.2%	\$ 1,056,000	16.7%
01-01-05	1,432,693	1,348,633	(84,060)	106.2%	1,134,094	(7.4%)
01-01-07	1,637,276	1,479,659	(157,617)	110.7%	1,122,894	(14.0%)

Note: The market value of the plan's assets at 01-01-03 has 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.

FRANKLIN PARK 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.

FRANKLIN PARK 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
2003	\$ 39,079	139.4%
2004	64,148	132.9%
2005	64,220	100.0%
2006	66,477	100.0%
2007	37,298	115.6%
2008	37,929	133.5%



FRANKLIN PARK 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, 2007
Actuarial cost method	Entry age normal
Amortization method	N/A
Remaining amortization period	N/A
Asset valuation method	Fair value
Actuarial assumptions:	
Investment rate of return	7.0%
Projected salary increases	4.0%



FRANKLIN PARK BOROUGH NONUNIFORMED PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell  
Governor  
Commonwealth of Pennsylvania

Franklin Park Borough Nonuniformed Pension Plan  
Allegheny County  
2344 West Ingomar Road  
Pittsburgh, PA 15237

The Honorable William H. Kipp	Mayor
Ms. Martha A. Creese	Council President
Mr. Ambrose Rocca	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).