

LIMITED PROCEDURES ENGAGEMENT

Oakland Township Non-Uniformed Pension Plan Butler County, Pennsylvania For the Period January 1, 2012 to December 31, 2014

March 2016



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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EUGENE A. DePASQUALE
AUDITOR GENERAL

Board of Township Supervisors
Oakland Township
Butler County
Butler, PA 16001

We conducted a Limited Procedures Engagement (LPE) of the Oakland Township Non-Uniformed Pension Plan for the period January 1, 2012 to December 31, 2014 to determine its compliance with certain relevant state laws, regulations, policies, and administrative procedures. We also evaluated compliance with some requirements subsequent to that period when possible. The LPE was conducted pursuant to authority derived from Section 402(j) of the Municipal Pension Plan Funding Standard and Recovery Act (P.L. 1005, No. 205, as amended, 53 P.S. § 895.101 *et seq.*) but was not conducted in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States. 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. We believe that the evidence obtained provides a reasonable basis to support our LPE results.

Our LPE was limited to determining the following:

- × Whether municipal officials took appropriate corrective action to address the findings contained in our prior audit report, by inquiring of plan officials and evaluating supporting documentation provided by officials evidencing that the suggested corrective action has been appropriately taken.
- × Whether state aid was properly determined and deposited in accordance with Act 205 requirements by verifying the annual deposit date of state aid and determining whether deposits were made within 30 days of receipt for all years within the engagement period. State aid allocations that were deposited into the pension plan for the years ended December 31, 2009 to December 31, 2014, are presented on the Summary of Deposited State Aid and Employer Contributions.

- × Whether annual employer contributions were calculated and deposited in accordance with the plan's governing document and applicable laws and regulations by examining the municipality's calculation of the plan's annual financial requirements and minimum municipal obligation (MMO) and comparing these calculated amounts to amounts actually budgeted and deposited into the pension plan as evidenced by supporting documentation. Employer contributions that were deposited into the pension plan for the years ended December 31, 2009 to December 31, 2014, are presented on the Summary of Deposited State Aid and Employer Contributions.
- × Whether retirement benefits calculated for plan members who retired during the engagement period represent payments to all (and only) those entitled to receive them and were properly determined and disbursed in accordance with the plan's governing document, applicable laws and regulations by recalculating the amount of the pension benefit due to retired individuals and comparing these amounts to supporting documentation evidencing amounts determined and actually paid to recipients.
- × Whether the January 1, 2011 and January 1, 2013 actuarial valuation reports were prepared and submitted to the Public Employee Retirement Commission (PERC) by March 31, 2012 and 2014, respectively, in accordance with Act 205 and whether selected information provided on these reports is accurate, complete, and in accordance with plan provisions to ensure compliance for participation in the state aid program by comparing selected information to supporting source documentation.
- × Whether the terms of the plan's allocated insurance contract, including ownership and any restrictions, were in compliance with plan provisions, investment policies, and state regulations by comparing the terms of the contracts with the plan's provisions, investment policies, and state regulations.

Based on the results of our procedures performed during our LPE, nothing came to our attention indicating that the Oakland Township Non-Uniformed Pension Plan was not being 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 subsequent to this letter:

Finding No. 1 – Receipt Of State Aid In Excess Of Entitlement

Finding No. 2 – Inconsistent Membership Eligibility Provision

Our determination to perform a LPE for this engagement period does not preclude the Department from conducting an audit in accordance with *Government Auditing Standards* of the pension plan in subsequent periods. The township should continue to maintain documentation related to this pension plan.

The contents of this letter were discussed with officials of Oakland Township and, where appropriate, their responses have been included in this letter. We would like to thank township officials for the cooperation extended to us during the conduct of this LPE.

A handwritten signature in black ink, appearing to read "Eugene A. DePasquale". The signature is fluid and cursive, with a long horizontal flourish extending to the right.

EUGENE A. DEPASQUALE
Auditor General

March 24, 2016

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OAKLAND TOWNSHIP NON-UNIFORMED PENSION PLAN
STATUS OF PRIOR FINDINGS

Compliance With Prior Audit Recommendations

Oakland Township has complied with the prior audit recommendations concerning the following:

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

During the current audit period, municipal officials complied with the instructions that accompany Certification Form AG 385 and accurately reported the required pension data.

- Failure To Fund Member's Account

The township deposited the contributions due to the member's account, with interest.

OAKLAND TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Receipt Of State Aid In Excess Of Entitlement

Condition: The township received state aid in excess of the non-uniformed pension plan’s defined contribution pension costs for full-time plan members in the years 2012, 2014, and 2015, as illustrated below:

	<u>2012</u>	<u>2014</u>	<u>2015</u>
State aid allocation	\$ 6,060	\$ 6,854	\$ 6,002
Actual municipal pension costs for full-time plan members	(5,776)	(6,065)	(3,138)
Excess state aid	\$ 284	\$ 789	\$ 2,864

Criteria: Section 402(f)(2) of Act 205 states:

No municipality shall be entitled to receive an allocation of general municipal pension system State aid in an amount which exceeds the aggregate actual financial requirements of any municipal pension plans for police officers, paid firefighters or employees other than police officers or paid firefighters maintained by the municipality, less the amount of any aggregate annual member or employee contributions during the next succeeding plan year, as reported in the most recent complete actuarial report filed with the commission.

In addition, Section 402(d) of Act 205 states, in part:

Eligible recipients of general municipal pension system State aid. Any county of the second class which, prior to the effective date of this chapter, received allocations for its police pension fund pursuant to the act of May 12, 1943 (P.L. 259, No. 120), or any city, borough, incorporated town or township or any home rule municipality formerly classified as a city, borough, incorporated town or township which employs one or more full-time municipal employees. . . .

Furthermore, Section 402(e)(2) of Act 205 states, in part:

The applicable number of units shall be attributable to each active employee who was employed on a full-time basis for a minimum of six consecutive months. . . .

Therefore, Act 205 state aid funding may only be used to fund the pension costs attributable to full-time employees.

OAKLAND TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Cause: Plan officials failed to reconcile the township’s state aid allocations to the plan’s annual defined contribution pension costs attributable to full-time plan members.

Effect: It is this department’s opinion that because the entire proceeds of the insurance premium tax on foreign casualty insurance companies are distributed annually to each eligible recipient municipality, it is inappropriate to use state aid received in one year to offset pension costs received in other years. Consequently, the overpayments of state aid received in the years 2012, 2014, and 2015 must be returned to the Commonwealth for redistribution

Furthermore, the township’s future state aid allocations may be withheld until the finding recommendation is complied with.

Recommendation: We recommend that the municipality return \$3,937 of excess state aid received in the years 2012, 2014 and 2015 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 plan, should be made payable to: Commonwealth of Pennsylvania and mailed to: Department of the Auditor General, Municipal Pension & Fire Relief Programs Unit, 320 Finance Building, Harrisburg, PA 17120. A copy of the interest calculation must be submitted along with evidence of payment.

Furthermore, we recommend that in the future, plan officials reconcile the amount of state aid allocated to the township with the plan’s annual defined contribution pension costs attributable to full-time members and reimburse any excess state aid received to the Commonwealth.

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

Auditor Conclusion: Due to the potential withhold of state aid, the township’s compliance with the finding recommendation will be monitored subsequent to the release of the audit report and through our next audit of the plan.

OAKLAND TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Inconsistent Membership Eligibility Provision

Condition: The plan’s governing document contains a membership eligibility provision that is inconsistent with the collective bargaining agreement between the non-uniformed union employees and the township, as illustrated below:

<u>Benefit Provision</u>	<u>Resolution No. 2010-07</u>	<u>Collective Bargaining Agreement</u>
Probationary Period	An employee will be considered eligible for participation in the pension January 1 following one full year of employment.	Newly hired employees will be considered probationary employees for a period of (180) calendar days. During which time the employee will have no contractual rights under this agreement except wage and hours. At the completion of the (180) day period the employee will automatically be considered a regular full time employee with all rights and benefits due under this agreement.

Criteria: The plan’s governing document and the collective bargaining agreement should contain a consistent membership eligibility provision to ensure the sound administration of retirement benefits.

Cause: Plan officials failed to establish adequate internal control procedures to ensure the membership eligibility provision contained in the plan’s governing document was consistent with the collective bargaining agreement.

Effect: Inconsistent plan documents could result in inconsistent or improper benefit calculations and incorrect benefit payments from the pension plan.

Recommendation: We recommend that municipal officials take appropriate action to ensure the plan’s governing document and the collective bargaining agreement contain a consistent membership eligibility provision at their earliest opportunity to do so.

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

Auditor’s Conclusion: Compliance will monitored through our next audit of the pension plan.

OAKLAND TOWNSHIP NON-UNIFORMED PENSION PLAN
POTENTIAL WITHHOLD OF STATE AID

Finding No. 1 contained in this letter cites an overpayment of state aid to the township in the amount of \$3,937. A condition of this nature may lead to a total withholding of state aid in the future unless that finding is corrected. A check in this amount with interest, 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, 320 Finance Building, Harrisburg, PA 17120.

OAKLAND TOWNSHIP NON-UNIFORMED PENSION PLAN
SUMMARY OF DEPOSITED STATE AID AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid	Employer Contributions
2009	\$ 4,649	\$ 1,767
2010	6,559	2,238
2011	6,239	996
2012	6,060	755
2013	5,716	2,439
2014	6,854	1,100

OAKLAND TOWNSHIP NON-UNIFORMED PENSION PLAN
DISTRIBUTION LIST

This letter was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

Mr. Paul McEachin
Chairman, Board of Township Supervisors

Ms. Kelly Livermore
Secretary

This letter is a matter of public record and is available online at www.PaAuditor.gov. Media questions about the letter can be directed to the Pennsylvania Department of the Auditor General, Office of Communications, 229 Finance Building, Harrisburg, PA 17120; via email to: news@PaAuditor.gov.