

**OAKLAND TOWNSHIP NONUNIFORMED PENSION PLAN**

**BUTLER COUNTY**

**COMPLIANCE AUDIT REPORT**

**FOR THE PERIOD**

**JANUARY 1, 2009, TO DECEMBER 31, 2011**





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## BACKGROUND

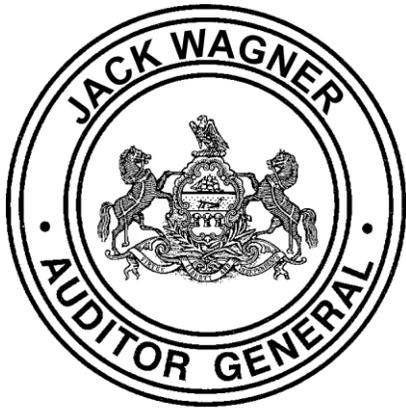
On December 18, 1984, the Pennsylvania Legislature adopted the Municipal Pension Plan Funding Standard and Recovery Act (P.L. 1005, No. 205, as amended, 53 P.S. § 895.101 et seq.). The act established mandatory actuarial reporting and funding requirements and a uniform basis for the distribution of state 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 Oakland Township 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 69 - The Second Class Township Code, Act of May 1, 1933 (P.L. 103, No. 69), as reenacted and amended, 53 P.S. § 65101 et seq.

The Oakland Township Nonuniformed Pension Plan is a single-employer defined contribution pension plan locally controlled by the provisions of Resolution No. 2010-07, effective January 1, 2010. Prior to January 1, 2010, the plan was locally controlled by the provision of Resolution No. 99-5. The plan is also affected by the provisions of collective bargaining agreements between the township and its nonuniformed union employees. Active members are not required to contribute to the plan. For the calendar year 2009, the municipality was required to contribute \$840 per year for non-union employees and 5 percent of gross wages for union employees. Beginning January 1, 2010, the municipality was required to contribute 5 percent of gross wages for all nonuniformed employees.



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

We have conducted a compliance audit of the Oakland Township Nonuniformed Pension Plan for the period January 1, 2009, to December 31, 2011. 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 township has elected to purchase allocated insurance contracts to fund the pension benefits for plan members. Under an allocated funding arrangement, the insurer receives and retains consideration in exchange for a legally enforceable obligation to pay future benefits. In accordance with Statement No. 25 of the Governmental Accounting Standards Board, allocated insurance contracts are excluded from the pension plan's assets. Consequently, the plan has no reportable assets.

Township officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Oakland Township 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 township's internal controls as they relate to the township'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 Oakland Township 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 – Failure To Fund Member's Account

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 Oakland Township and, where appropriate, their responses have been included in the report.

May 23, 2012

JACK WAGNER  
Auditor General

OAKLAND TOWNSHIP NONUNIFORMED PENSION PLAN  
STATUS OF PRIOR FINDINGS

Compliance With Prior Audit Recommendations

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

· Participation Agreement Not Adopted By Ordinance Or Resolution

Municipal officials formally adopted the plan document through Resolution No. 2010-07;  
and

· Withdrawal Of Plan Assets Prior To Retirement

During the current audit period, plan assets were not distributed to plan members prior to their retirement eligibility. Furthermore, municipal officials adopted Resolution No. 2010-07 which prohibits early withdrawals from the plan.

OAKLAND TOWNSHIP 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 township failed to certify 2 eligible nonuniformed employees and understated payroll by \$48,040 on the Certification Form AG 385 filed in 2010. In addition, the township failed to certify 1 eligible nonuniformed employee and understated payroll by \$34,812 on the Certification Form AG 385 filed in 2011. The data contained on these certification forms is based on prior calendar year information.

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.

Cause: Plan officials 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 municipality for distribution to its pension plan. Because the township’s state aid allocations were based on pension costs, the township received an underpayment of state aid of \$4,143 as identified below:

<u>Year</u>	<u>Normal Cost</u>	<u>Payroll Understated</u>	<u>State Aid Underpayment</u>
2010	5%	\$ 48,040	\$ 2,402
2011	5%	\$ 34,812	<u>\$ 1,741</u>
		Total	<u><u>\$ 4,143</u></u>

Because the township’s 2011 pension costs for full-time members totaled \$6,239, and the township received a \$6,002 state aid allocation, the township is only eligible for \$237 of additional state aid funds for 2011.

Therefore, as a result of the certification errors, the township will receive a reimbursement of \$2,639.

OAKLAND TOWNSHIP NONUNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Recommendation: We recommend that plan officials establish adequate internal control procedures to ensure compliance with the instructions that accompany Certification Form AG 385 to assist them in accurately reporting the required pension data.

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

Finding No. 2 – Failure To Fund Member's Account

Condition: In 2009 and 2010, the township did not fund the account of a member who was hired on June 22, 2009.

Criteria: The plan's governing document sets the municipal contribution rate at 5 percent of gross wages per full-time union employee.

Cause: Plan officials failed to establish adequate internal control procedures to ensure that the member's account was properly funded in accordance with the plan's governing document.

Effect: The failure to properly fund the member's account result in the plan member being denied benefits that they are entitled to in accordance with the plan's governing document.

Due to township's failure to properly fund the referenced member's account, the township must now pay interest on the delinquent contributions due.

Recommendation: We recommend that the township deposit the contributions due to the member's account for the years 2009 and 2010, with interest. A copy of the interest calculation must be maintained by the township for examination during our next audit of the plan.

We also recommend that plan officials properly fund the accounts of all eligible plan members.

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

OAKLAND TOWNSHIP NONUNIFORMED PENSION PLAN  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

SCHEDULE OF STATE AID  
AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid Deposited	Employer Contributions
2006	\$ 3,237	\$ 1,807
2007	2,509	2,114
2008	4,242	1,458
2009	4,649	1,767
2010	4,157	2,895
2011	6,002	1,233

OAKLAND TOWNSHIP NONUNIFORMED PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett  
Governor  
Commonwealth of Pennsylvania

Oakland Township Nonuniformed Pension Plan  
Butler County  
565 Chicora Road  
Butler, PA 16001

Mr. Brian G. Hans                      Chairman, Board of Township Supervisors

Ms. Nadine A. Neff                      Secretary/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).