

OAKMONT 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 Oakmont 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 Oakmont Borough Nonuniformed Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 012-2002, as amended. 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
Oakmont Borough
Allegheny County
Oakmont, PA 15139

We have conducted a compliance audit of the Oakmont 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 the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our finding and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our finding 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. Oakmont 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 Oakmont 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 Oakmont 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 – Improper Early Retirement Benefit

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

November 17, 2011

JACK WAGNER
Auditor General

OAKMONT BOROUGH NONUNIFORMED PENSION PLAN
FINDING AND RECOMMENDATION

Finding – Improper Early Retirement Benefit

Condition: A member of the pension plan who terminated employment on January 31, 2011, at age 76 with 13 years of service began receiving an early retirement monthly benefit effective February 1, 2011; however, the pension plan’s governing document does not contain a provision for an early retirement benefit.

Criteria: The plan’s governing document, Ordinance No. 012-2002, at Section 1.24, states:

“Normal Retirement Age” shall mean the earliest of the date on which an Employee attains age sixty-five (65) with at least twenty (20) years of Credited Service; the date on which an Employee attains age sixty-two (62) with at least twenty-five (25) years of Credited Service; or the date on which an Employee attains age fifty-five (55) with at least thirty-five (35) years of Credited Service.

In addition, Section 7.03 states, in part:

Deferred Retirement Benefit – A Participant who shall have completed at least twelve (12) years of Aggregate Service and whose Employment shall terminate for any reason other than due to death or Total and Permanent Disability prior to attainment of Normal Retirement Age shall be entitled to elect...to receive a deferred retirement benefit in lieu of a distribution of Accumulated Contributions under Section 7.02. Such a deferred retirement benefit shall be equal to the Participant’s Accrued Benefit as of the date Employment terminates and shall commence...not earlier than the date which would be the Participant’s Normal Retirement Date under the plan if the Participant remained in Employment until such date.

Therefore, the member was only entitled to a deferred retirement benefit to commence February 1, 2018, or an immediate refund of his accumulated member contributions, as of his date of termination.

Cause: Borough officials granted the early retirement benefit pursuant to a clause contained in the collective bargaining agreement between the borough and its nonuniformed employees covering the period July 1, 2007, to June 30, 2010, which states, in part:

...the Borough of Oakmont (“Borough”), on a non-precedent setting basis, agreed to review [the member’s] opportunity to receive a reduced pension benefit from that set forth in Article XIX, Paragraph (g) hereof at the time of his retirement.

OAKMONT BOROUGH NONUNIFORMED PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

Furthermore, due to the member becoming ill and because a cost study indicated there would be no additional cost to the plan, borough officials approved the early retirement benefit.

Effect: The plan is paying a benefit to a member that is not authorized by the plan's governing document in effect at the time of the member's retirement.

Recommendation: We recommend that municipal officials consult with their solicitor to determine the municipality's obligation to continue making these benefit payments. We also recommend that all future pension benefits be paid in accordance with the provisions contained in the plan's governing document in effect at the time of a member's retirement.

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

OAKMONT 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	\$ 1,432,961	\$ 1,447,231	\$ 14,270	99.0%	\$ 313,611	4.6%
01-01-07	1,456,134	1,526,282	70,148	95.4%	312,862	22.4%
01-01-09	1,443,334	1,661,155	217,821	86.9%	302,311	72.1%

Note: The market value of the plan's assets at 01-01-09 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.

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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.

OAKMONT 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	\$ 14,686	100.0%
2006	42,246	100.0%
2007	30,615	100.0%
2008	36,651	100.0%
2009	44,082	100.0%
2010	45,108	107.9%

OAKMONT 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	14 years
Asset valuation method	Fair value, 4-year smoothing
Actuarial assumptions:	
Investment rate of return	7.0%
Projected salary increases *	4.5%
* Includes inflation at	3.0%

OAKMONT BOROUGH NONUNIFORMED PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania

Oakmont Borough Nonuniformed Pension Plan
Allegheny County
767 Fifth Street
Oakmont, PA 15139

The Honorable Robert J. Fescemyer	Mayor
Mr. Timothy J. Favo	Council President
Mr. Bruce D. Jamison	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.