

# COMPLIANCE AUDIT

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## Oakdale Borough Non-Uniformed Pension Plan Allegheny County, Pennsylvania

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February 2024



Commonwealth of Pennsylvania  
Department of the Auditor General

Timothy L. DeFoor • Auditor General



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**TIMOTHY L. DEFOOR  
AUDITOR GENERAL**

The Honorable Mayor and Borough Council  
Oakdale Borough  
Allegheny County  
Oakdale, PA 15071

We have conducted a compliance audit of the Oakdale Borough Non-Uniformed Pension Plan pursuant to authority derived from the Municipal Pension Plan Funding Standard and Recovery Act (Act 205 of 1984, as amended, 53 P.S. § 895.402(j)), which requires the Auditor General, as deemed necessary, to audit every municipality which receives general municipal pension system state aid and every municipal pension plan and fund in which general municipal pension system state aid is deposited. The audit was not conducted, nor was it required to be, in accordance with Government Auditing Standards issued by the Comptroller General of the United States. We planned and performed 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 whether 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 area related to the objective identified above. To determine whether the pension plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies, our methodology included the following:

- For the period January 1, 2018 to December 31, 2022, and through the completion of our fieldwork procedures, we determined 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 the period January 1, 2018 to December 31, 2022, and through the completion of our fieldwork procedures, we determined 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 deposited towards the defined contribution features of the pension plan for the years ended December 31, 2019 to December 31, 2022, are presented on the Summary of Deposited State Aid and Employer Contributions.
- For the period January 1, 2022 to December 31, 2022, we determined whether annual employee contributions were calculated, deducted, and deposited into the pension plan in accordance with the plan's governing document and applicable laws and regulations by testing total members' contributions on an annual basis using the rates obtained from the plan's governing document in effect for the years in the period noted and examining documents evidencing the deposit of these employee contributions into the pension plan. We also tested individual employee contributions for all three active employees employed during the period noted amounting to \$3,861, for the year 2022.
- For the period January 1, 2021 to December 31, 2022, we determined whether retirement benefits calculated for the plan member who retired during the period noted 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 monthly pension benefits due to the retired individual and comparing these amounts to supporting documentation evidencing amounts determined and actually paid to the recipients.
- We determined whether the January 1, 2021 actuarial valuation reports were prepared and submitted by March 31, 2022 in accordance with Act 205 and whether selected information provided on this report 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.
- For the period January 1, 2022 to December 31, 2022, we determined whether the terms of the plan's unallocated insurance contract, including ownership and any restrictions, were in compliance with plan provisions, investment policies, and state regulations by comparing the terms of the contract with the plan's provisions, investment policies, and state regulations.

Borough officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Oakdale Borough Non-Uniformed Pension Plan is administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies. As previously described, we tested transactions,

interviewed selected officials and performed procedures to the extent necessary to provide reasonable assurance of detecting instances of noncompliance with legal and regulatory requirements or noncompliance with provisions of contracts, administrative procedures, and local ordinances and policies that are significant within the context of the audit objective.

The results of our procedures indicated that, in all significant respects, the Oakdale Borough Non-Uniformed Pension Plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies for the periods noted above, except as noted in the following finding further discussed later in this report:

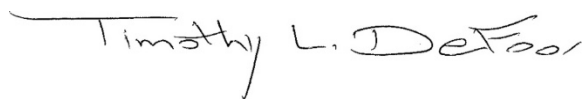
Finding – Incorrect Data On Certification Form AG 385 Resulting In An Underpayment Of State Aid

As previously noted, the objective of our audit of the Oakdale Borough Non-Uniformed Pension Plan was to determine compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies. Among several provisions relating to municipal pension plans, Act 205, which was amended on September 18, 2009, through the adoption of Act 44 of 2009, provides for the implementation of a distress recovery program. Three levels of distress have been established:

<u>Level</u>	<u>Indication</u>	<u>Funding Criteria</u>
I	Minimal distress	70-89%
II	Moderate distress	50-69%
III	Severe distress	Less than 50%

The accompanying supplementary information is presented for purposes of additional analysis. We did not audit the information or conclude on it and, accordingly, express no form of assurance on it. **However, we are extremely concerned about the historical trend information contained in the schedule of funding progress included in this report which indicates a continued decline of assets available to satisfy the long-term liabilities of the plan. The plan’s funded ratio went from 76.1% as of January 1, 2019, to a ratio of 59.9% as of January 1, 2021, which is the most recent data available. Based on this information, the Municipal Pension Reporting Program issued a notification that the borough is currently in Level II moderate distress status.** We encourage borough officials to monitor the funding of the non-uniformed pension plan to ensure its long-term financial stability.

The contents of this report were discussed with officials of Oakdale Borough and, where appropriate, their responses have been included in the report. We would like to thank borough officials for the cooperation extended to us during the conduct of the audit.



Timothy L. DeFoor  
Auditor General  
January 30, 2024

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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.

Annual state aid allocations are provided from a two percent foreign (out-of-state) casualty insurance premium tax, a portion of the foreign (out-of-state) 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 Oakdale Borough Non-Uniformed Pension Plan is also governed by implementing regulations 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:

The Oakdale Borough Non-Uniformed Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 494, as amended. Effective January 1, 2019, the borough enacted defined contribution features for its pension plan for all employees hired on or after January 1, 2019, through the adoption of Ordinance No. 2021-1, as amended. The plan was established December 1, 1984. Active members of the defined contribution plan features are required to contribute three percent of salary to the plan. The municipality is required to contribute three percent of salary to the plan. As of December 31, 2022, the plan had three active members, one terminated member eligible for vested benefits in the future, and five retirees receiving pension benefits from the plan.

OAKDALE BOROUGH NON-UNIFORMED PENSION PLAN  
FINDING AND RECOMMENDATION

**Finding – Incorrect Data On Certification Form AG 385 Resulting In An Underpayment Of State Aid**

Condition: The borough failed to certify an eligible non-uniformed employee and understated payroll by \$29,625 and \$36,000 on the Certification Form AG 385s filed in 2018 and 2019, respectively. In addition, the borough failed to certify two eligible non-uniformed employees and understated payroll by \$61,729 and \$80,642 on the Certification Form AG 385s filed in 2020 and 2021, respectively. Further, the borough failed to certify three eligible non-uniformed employees and understated payroll by \$121,072 and \$131,858 on the Certification Form AG 385s filed during 2022 and 2023, respectively. 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: The borough recently experienced turnover and a change in pension plan benefit structure when defined contribution features were added to the pension plan in 2019. Former officials responsible for administration of the pension plan failed to timely identify and enroll certain eligible employees into the pension plan and the borough lacked adequate procedures such as having another individual review the data certified, to timely identify and correct the omissions prior to submission of the annual forms.

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 plans. Because the borough’s state aid allocations were based on unit value, the borough received a total underpayment of state aid as identified below:

<u>Year</u>	<u>Units Understated</u>	<u>Unit Value</u>	<u>State Aid Underpayment</u>
2018	1	\$ 4,685	\$ 4,685
2019	1	5,121	5,121
2020	2	4,924	9,848
2021	2	4,797	9,594
2022	3	5,180	15,540
2023	3	5,828	17,484
Total underpayment of state aid			<u><u>\$ 62,272</u></u>

OAKDALE BOROUGH NON-UNIFORMED PENSION PLAN  
FINDING AND RECOMMENDATION

**Finding – (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 2018, 2019, 2020, 2021, 2022 and 2023 state aid allocations were not available to be deposited timely and therefore resulted in the borough having to make additional municipal contributions in order to meet the plan's funding obligations.

Recommendation: We recommend that in the future, plan officials establish adequate internal control procedures, such as having at least two people review the data certified, 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.

Auditor's Conclusion: Compliance will be evaluated during our next audit of the plan.



OAKDALE BOROUGH NON-UNIFORMED PENSION PLAN  
 SUPPLEMENTARY INFORMATION  
 DEFINED BENEFIT FEATURES  
 (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, 2017, is as follows:

	(1)	(2)	(3)	(4)
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)
01-01-17	\$ 130,537	\$ 204,630	\$ 74,093	63.8%
01-01-19	163,525	214,904	51,379	76.1%
01-01-21	182,412	304,693	122,281	59.9%

Note: The market value of the plan’s assets at 01-01-17 has been adjusted to reflect the smoothing of gains and/or losses over a 3-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.

OAKDALE BOROUGH NON-UNIFORMED PENSION PLAN  
SUPPLEMENTARY INFORMATION  
DEFINED BENEFIT FEATURES  
(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.

OAKDALE BOROUGH NON-UNIFORMED PENSION PLAN  
 SUPPLEMENTARY INFORMATION  
 DEFINED BENEFIT FEATURES  
 (UNAUDITED)

SCHEDULE OF CONTRIBUTIONS

Year Ended December 31	Actuarially Determined Contribution	Contributions in Relation to the Actuarially Determined Contribution	Contribution Deficiency (Excess)	Covered- Employee Payroll	Contributions as a Percentage of Covered- Employee Payroll
2013	\$ 15,412	\$ 15,412	\$ -	\$ 29,900	51.5%
2014	22,169	22,169	-	30,888	71.8%
2015	22,332	47,332	(25,000)	31,824	148.7%
2016	25,565	25,565	-	31,824	80.3%
2017	25,730	50,730	(25,000)	32,760	154.9%
2018	25,486	25,486	-	32,760	77.8%
2019	25,658	25,658	-	33,696	76.1%
2020	25,225	25,225	-	33,696	74.9%
2021	19,042	19,042	-	None	N/A
2022	106,942	106,942	-	None	N/A

OAKDALE BOROUGH NON-UNIFORMED PENSION PLAN  
SUPPLEMENTARY INFORMATION  
NOTES TO SUPPLEMENTARY SCHEDULES  
DEFINED BENEFIT FEATURES  
(UNAUDITED)

The information presented in the 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, 2021
Actuarial cost method	Entry age normal
Amortization method	Level dollar, closed
Remaining amortization period	2 years
Asset valuation method	Contract value
Actuarial assumptions:	
Investment rate of return	7.5%
Projected salary increases	5.0%

OAKDALE BOROUGH NON-UNIFORMED PENSION PLAN  
SUMMARY OF DEPOSITED STATE AID AND EMPLOYER CONTRIBUTIONS  
DEFINED CONTRIBUTION FEATURES  
(UNAUDITED)

Year Ended December 31	State Aid	Employer Contributions
2019	None	None
2020	None	None
2021	None	\$ 1,116
2022	None	5,774

The Department typically presents this data for the past six consecutive fiscal years. Since six years of data was not yet available, this will be done prospectively.

OAKDALE BOROUGH NON-UNIFORMED PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

**The Honorable Joshua D. Shapiro**  
Governor  
Commonwealth of Pennsylvania

**The Honorable Stephen Trusnovic**  
Mayor

**Mr. Mark Maximovich**  
Council President

**Ms. Vicki Kaine**  
Borough Manager

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