

LIMITED PROCEDURES ENGAGEMENT

Oakland Township
Non-Uniformed Pension Plan
Venango County, Pennsylvania
For the Period
January 1, 2013 to December 31, 2016

September 2017



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
Venango County
Oil City, PA 16301

We conducted a Limited Procedures Engagement (LPE) of the Oakland Township Non-Uniformed Pension Plan for the period January 1, 2013 to December 31, 2016 to determine its compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies. 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 finding 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.
- 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.

- Whether annual employee contributions were required during the engagement period and, if so, 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 all years within the engagement period and examining documents evidencing the deposit of these employee contributions into the pension plan.
- Whether the January 1, 2011, January 1, 2013, and January 1, 2015 actuarial valuation reports were prepared and submitted to the former Public Employee Retirement Commission (PERC) by March 31, 2012, 2014, and 2016, 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.

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 finding further discussed later in this report:

**Finding – Partial Compliance With Prior Audit Recommendation – Failure
To Deposit The Full Amount Of State Aid Into The Pension Plan**

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 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.

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



EUGENE A. DEPASQUALE
Auditor General

August 30, 2017

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OAKLAND TOWNSHIP NON-UNIFORMED PENSION PLAN
STATUS OF PRIOR FINDING

Partial Compliance With Prior Audit Recommendation

Oakland Township has partially complied with the prior audit recommendation concerning the following:

- **Failure To Deposit The Full Amount Of State Aid Into The Pension Plan**

During the current engagement period, the township deposited \$731 into the non-uniformed pension plan representing the remaining balance of the 2011 and 2012 state aid allocations, plus applicable interest. However, plan officials failed to deposit the full amount of the 2014, 2015, and 2016 state aid allocations into the pension plan, as further discussed in the Finding and Recommendation section of this report.

OAKLAND TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDING AND RECOMMENDATION

Finding – Partial Compliance With Prior Audit Recommendation – Failure To Deposit The Full Amount Of State Aid Into The Pension Plan

Condition: As disclosed in the prior audit report, the municipality did not deposit the full amount of its 2011 and 2012 state aid allocations into the pension plan. During the current engagement period, the township deposited \$731 into the non-uniformed pension plan representing the remaining balance of the 2011 and 2012 state aid allocations, plus applicable interest; however, plan officials failed to deposit the full amount of the township's 2014, 2015, and 2016 state aid allocations into the plan.

The municipality received its 2014, 2015, and 2016 state aid allocations in the amounts of \$4,516, \$4,595, and \$4,628, respectively; however, only \$2,546, \$4,548, and \$4,571, respectively, was deposited into the pension plan.

Criteria: Section 402(g) of Act 205 states, in part:

. . . the total amount of the general municipal pension system State aid received by the municipality shall, within 30 days of receipt by the treasurer of the municipality, be deposited in the pension fund or the alternate funding mechanism applicable to the pension plan.

Cause: Municipal officials failed to establish adequate internal control procedures to ensure full compliance with the prior audit recommendation.

Effect: When state aid is not deposited into a pension plan account, the funds are not available to pay operating expenses or for investment and the risk of misapplication is increased.

Recommendation: We recommend that the municipality deposit the township's remaining state aid allocations totaling \$2,074, plus interest earned during the period beyond the 30 day grace period allowed by Act 205, into the pension plan. A copy of the interest calculation must be maintained by the township for examination during our next engagement of the plan.

We again recommend that plan officials develop and implement procedures to ensure that future state aid allocations are fully deposited into the non-uniformed pension plan in accordance with Act 205 requirements.

**OAKLAND TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDING AND RECOMMENDATION**

Finding – (Continued)

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

Auditor's Conclusion: Compliance will be subject to verification through our next engagement of the plan.

**OAKLAND TOWNSHIP NON-UNIFORMED PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)**

The supplementary information contained on Pages 4 and 5 reflects the implementation of GASB Statement No. 67, *Financial Reporting for Pension Plans*. The objective of this statement is to improve financial reporting by state and local governmental pension plans.

**SCHEDULE OF CHANGES IN THE NET PENSION
LIABILITY AND RELATED RATIOS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2015**

	<u>2014</u>	<u>2015</u>
Total Pension Liability		
Service cost (beginning of year)	\$ 2,712	\$ 4,591
Interest (includes interest on service cost)	10,512	11,057
Difference between expected and actual experience	4,038	-
Changes of assumptions	-	(1,520)
Benefit payments, including refunds of member contributions	(9,244)	(9,244)
Net Change in Total Pension Liability	8,018	4,884
Total Pension Liability - Beginning	192,980	200,998
Total Pension Liability - Ending (a)	<u>\$ 200,998</u>	<u>\$ 205,882</u>
 Plan Fiduciary Net Position		
Contributions - employer*	\$ 2,546	\$ 4,488
Contributions - PMRS assessment	-	60
Contributions - employee	2,105	2,144
PMRS investment income	9,762	10,189
Market value investment income	1,573	(7,857)
Benefit payments, including refunds of member contributions	(9,244)	(9,244)
PMRS administrative expense	(60)	(60)
Additional administrative expense	(374)	(425)
Net Change in Plan Fiduciary Net Position	6,308	(705)
Plan Fiduciary Net Position - Beginning	178,055	184,363
Plan Fiduciary Net Position - Ending (b)	<u>\$ 184,363</u>	<u>\$ 183,658</u>
 Net Pension Liability - Ending (a-b)	<u>\$ 16,635</u>	<u>\$ 22,224</u>
 Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	 91.72%	 89.21%
 Estimated Covered Employee Payroll	 \$ 42,916	 \$ 71,495
 Net Pension Liability as a Percentage of Covered Employee Payroll	 38.76%	 31.08%

* 2015 Employer Contributions is net of \$60 Administrative Expense

**OAKLAND TOWNSHIP NON-UNIFORMED PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)**

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the township as of December 31, 2014 and 2015, calculated using the discount rate of 5.5%, as well as what the township's net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower or 1 percentage-point higher than the current rate:

	1% Decrease (4.5%)	Current Discount Rate (5.5%)	1% Increase (6.5%)
Net Pension Liability - 12/31/14	\$ 35,337	\$ 16,635	\$ (12)
Net Pension Liability - 12/31/15	\$ 41,751	\$ 22,224	\$ 4,884

**OAKLAND TOWNSHIP NON-UNIFORMED 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, 2011, is as follows:

	(1) Actuarial Valuation Date	(2) Actuarial Value of Assets (a)	(2) Actuarial Accrued Liability (AAL) - Entry Age (b)	(3) Unfunded (Assets in Excess of) Actuarial Accrued Liability (b) - (a)	(4) Funded Ratio (a)/(b)
01-01-11	\$ 162,577	\$ 169,125	\$ 6,548	96.1%	
01-01-13	173,698	189,316	15,618	91.8%	
01-01-15	188,493	200,998	12,505	93.8%	

**OAKLAND TOWNSHIP NON-UNIFORMED 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.

**OAKLAND TOWNSHIP NON-UNIFORMED PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)**

**SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER
AND OTHER CONTRIBUTING ENTITIES**

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2011	\$ 1,621	100.0%
2012	1,974	100.0%
2013	2,572	100.8%
2014	2,546	100.0%
2015	4,548	100.0%
2016	4,571	100.0%

OAKLAND TOWNSHIP NON-UNIFORMED PENSION PLAN
SUPPLEMENTARY INFORMATION
NOTES TO SUPPLEMENTARY SCHEDULES
(UNAUDITED)

Actuarial valuation date	January 1, 2015
Actuarial cost method	Entry age normal
Amortization method	Level dollar, closed
Remaining amortization period	7 years
Asset valuation method	Fair value
Actuarial assumptions:	
Investment rate of return	5.5%, net of expenses
Projected salary increases *	Age-related scale for merit/ seniority (e.g. age 30 - 6.4%; age 40 - 5.0%; age 50 - 4.1%; age 60 - 3.7%)
Cost-of-living adjustments	3.0%, where applicable

* Includes inflation at 3.0%

OAKLAND TOWNSHIP NON-UNIFORMED PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

Mr. George W. Flockerzi, Jr.
Chairman, Board of Township Supervisors

Ms. Barbara J. Thomas
Secretary

Ms. Charity Rosenberry, CPA
Pennsylvania Municipal Retirement System

Ms. Kristine M. Cline
Pennsylvania Municipal Retirement System

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