

COMPLIANCE AUDIT

Oley Township Non-Uniformed Pension Plan Berks County, Pennsylvania

July 2023



Commonwealth of Pennsylvania
Department of the Auditor General

Timothy L. DeFoor • Auditor General



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**TIMOTHY L. DEFOOR
AUDITOR GENERAL**

Board of Township Supervisors
Oley Township
Berks County
Oley, PA 19547

We have conducted a compliance audit of the Oley Township 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 objectives. We believe that the evidence obtained provides a reasonable basis for our finding 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 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. To determine if municipal officials took appropriate corrective action to address the findings contained in our prior report, we inquired of plan officials and evaluated supporting documentation provided by officials evidencing that the suggested corrective action has been appropriately taken. 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, 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. State aid allocations that were deposited into the pension plan for the years ended December 31, 2017 to December 31, 2022, are presented on the Summary of Deposited State Aid and Employer Contributions.
- 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 that were deposited into the pension plan for the years ended December 31, 2017 to December 31, 2022, are presented on the Summary of Deposited State Aid and Employer Contributions.
- For the period January 1, 2021 to December 31, 2022, and through the completion of our fieldwork procedures, we determined that there were no employee contributions required by the plan's governing document and applicable laws and regulations.
- For the period January 1, 2021 to December 31, 2022, and through the completion of our fieldwork procedures, we determined whether retirement benefits calculated for the plan member who received a lump-sum distribution 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 pension benefits due to the retired individual and comparing these amounts to supporting documentation evidencing amounts determined and actually paid to the recipient.
- We determined whether the January 1, 2019 and January 1, 2021 actuarial valuation reports were prepared and submitted by March 31, 2020 and 2022, 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.

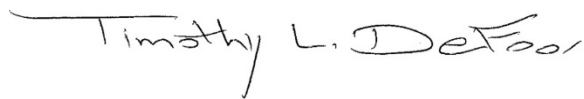
Township officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Oley Township Non-Uniformed Pension Plan is administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances 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 objectives.

The results of our procedures indicated that, in all significant respects, the Oley Township 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 – Noncompliance With Prior Recommendation – Failure To Properly Fund Member Accounts

The finding contained in this audit report repeats a condition that was cited in our previous report that has not been corrected by township officials. We are concerned by the township's failure to correct this previously reported finding and strongly encourage timely implementation of the recommendation noted in this audit report.

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

A handwritten signature in black ink that reads "Timothy L. DeFoor". The signature is written in a cursive style with a long horizontal line extending to the left of the first letter.

Timothy L. DeFoor
Auditor General
July 13, 2023

CONTENTS

	<u>Page</u>
Background.....	1
Status of Prior Findings	2
Finding and Recommendation:	
Finding – Noncompliance With Prior Recommendation – Failure To Properly Fund Member Accounts.....	3
Summary of Deposited State Aid and Employer Contributions.....	6
Report Distribution List	7

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 2 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 Oley Township 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.

The Oley Township Non-Uniformed Pension Plan is a single-employer defined contribution pension plan locally controlled by the provisions of Ordinance No. 308, as amended. The plan was established January 1, 2004. Active members are not required to contribute to the plan. The municipality is required to contribute eight (8) percent of compensation, excluding overtime, to the plan. As of December 31, 2022, the plan had four active members.

OLEY TOWNSHIP NON-UNIFORMED PENSION PLAN
STATUS OF PRIOR FINDINGS

Compliance With Prior Recommendation

Oley Township has complied with the prior recommendation concerning the following:

- Unauthorized Payment Of Administrative Expenses

Ordinance No. 308 was amended to permit the payment of authorized administrative expenses from pension plan assets.

Noncompliance With Prior Recommendation

Oley Township has not complied with the prior recommendation concerning the following as further discussed in the Finding and Recommendation section of this report:

- Failure To Properly Fund Member Accounts

OLEY TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDING AND RECOMMENDATION

Finding – Noncompliance With Prior Recommendation – Failure To Properly Fund Member Accounts

Condition: As previously disclosed in the prior report, the township paid municipal contributions based on compensation and overtime pay for three plan members in 2016 and 2017. During the current audit, it was determined that the township did not address those discrepancies and again paid excess municipal contributions to the accounts of the three members in 2018, 2019, and 2020, and of four members in 2021 and 2022. The discrepancies are as follows:

2016:

<u>Employees</u>	<u>Required Contributions</u>	<u>Actual Contributions</u>	<u>Excess Contributions</u>
1	\$ 3,432	\$ 3,581	\$ 149
2	3,809	4,072	263
3	3,468	3,609	141
Total			<u>\$ 553</u>

2017:

<u>Employees</u>	<u>Required Contributions</u>	<u>Actual Contributions</u>	<u>Excess Contributions</u>
1	\$ 3,465	\$ 3,560	\$ 95
2	3,840	4,000	160
3	3,470	3,571	101
Total			<u>\$ 356</u>

2018:

<u>Employees</u>	<u>Required Contributions</u>	<u>Actual Contributions</u>	<u>Excess Contributions</u>
1	\$ 3,507	\$ 3,576	\$ 69
2	3,914	4,172	258
3	3,581	3,663	82
Total			<u>\$ 409</u>

OLEY TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

2019:

<u>Employees</u>	<u>Required Contributions</u>	<u>Actual Contributions</u>	<u>Excess Contributions</u>
1	\$ 3,609	\$ 3,720	\$ 111
2	3,994	4,235	241
3	3,625	3,720	95
Total			<u>\$ 447</u>

2020:

<u>Employees</u>	<u>Required Contributions</u>	<u>Actual Contributions</u>	<u>Excess Contributions</u>
1	\$ 3,697	\$ 3,740	\$ 43
2	4,091	4,234	143
3	3,711	3,762	51
Total			<u>\$ 237</u>

2021:

<u>Employees</u>	<u>Required Contributions</u>	<u>Actual Contributions</u>	<u>Excess Contributions</u>
1	\$ 3,864	\$ 3,921	\$ 57
2	4,334	4,603	269
3	895	922	27
4	3,875	3,959	84
Total			<u>\$ 437</u>

2022:

<u>Employees</u>	<u>Required Contributions</u>	<u>Actual Contributions</u>	<u>Excess Contributions</u>
1	\$ 4,446	\$ 4,561	\$ 115
2	5,431	5,815	384
3	4,199	4,331	132
4	1,983	2,075	92
Total			<u>\$ 723</u>

OLEY TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

Criteria: Ordinance No. 324 established the municipal contribution rate at eight percent of annual compensation of a participant. Ordinance No. 308, Section 1 (b) defines “Compensation” as “Compensation paid by the Employer, excluding overtime, during a calendar year.”

Cause: Plan officials continued to contribute to the plan based on compensation and overtime pay.

Effect: The failure to properly fund the members’ accounts results in plan members receiving excess benefits in violation of the plan’s governing document.

Recommendation: We again recommend that the township review the applicable members’ accounts and make the adjustments deemed necessary to ensure they are funded in accordance with the provisions contained in the plan’s governing document.

We also recommend that plan officials implement adequate internal control procedures to ensure that the members’ accounts are properly funded in the future in accordance with the provisions contained in the plan’s governing document.

Management’s Response: Township officials included the following item in their July 10, 2023, Board of Township Supervisors meeting agenda:

Authorize Solicitor to amend Ordinance #308 for the Oley Township Non-Uniformed Pension Plan to change the definition of Compensation in Section 1-331 by eliminating “excluding overtime” and change Section 1-340.2 by eliminating “overtime shall be excluded”. Also, make motion to retroactively approve from 2016 – 2022 to include overtime in the compensation used to calculate a Plan member’s benefit contributions for the Oley Township Non-Uniformed Pension Plan.

Auditor’s Conclusion: Based on the management response, it appears municipal officials intend to amend the plan’s governing document to comply with the finding recommendation. Compliance will be evaluated during our next audit of the plan.

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

Year Ended December 31	State Aid	Employer Contributions
2017	\$ 13,783	\$ 991
2018	15,371	None
2019	10,430	5,467
2020	14,053	2,286
2021	14,174	4,367
2022	14,969	7,546

OLEY TOWNSHIP NON-UNIFORMED PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Joshua D. Shapiro
Governor
Commonwealth of Pennsylvania

Mr. Jeffrey A. Spatz
Chairman, Board of Township Supervisors

Ms. Shirley M. Moyer
Secretary/Treasurer

This report is a matter of public record and is available online at www.PaAuditor.gov. Media questions about the report 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.