

# COMPLIANCE AUDIT

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## Oxford Borough Non-Uniformed Pension Plan Chester County, Pennsylvania For the Period January 1, 2018 to December 31, 2021

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October 2022



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  
Oxford Borough  
Chester County  
Oxford, PA 19363

We have conducted a compliance audit of the Oxford Borough Non-Uniformed Pension Plan for the period January 1, 2018 to December 31, 2021. We also evaluated compliance with some requirements subsequent to that period when possible. The audit was conducted 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 finding 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 finding 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:

- 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 all years within the period under audit. State aid allocations that were deposited into the pension plan for the years ended December 31, 2016 to December 31, 2021, are presented on the Summary of Deposited State Aid and Employer Contributions.
- 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, 2016 to December 31, 2021, are presented on the Summary of Deposited State Aid and Employer Contributions.
- 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 all years within the period under audit and examining documents evidencing the deposit of these employee contributions into the pension plan. We also tested individual employee contributions for all 11 active employees employed during the audit period amounting to \$13,052, \$13,337, \$14,512, and \$13,678, for the years 2018, 2019, 2020, and 2021, respectively, made during the audit period.
- We determined whether retirement benefits calculated for plan members who retired and the plan member who separated employment and received a lump-sum distribution during and subsequent to the current audit period, and through the completion of our fieldwork procedures, 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 individuals and comparing these amounts to supporting documentation evidencing amounts determined and actually paid to the recipients.
- 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.

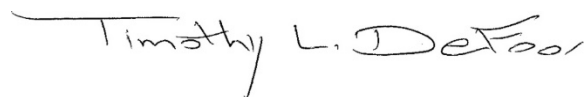
Oxford Borough contracted with an independent certified public accounting firm for annual audits of its financial statements prepared in conformity with the accounting practices prescribed or permitted by the Department of Community and Economic Development of the Commonwealth of Pennsylvania, which 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 Oxford 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 objectives.

The results of our procedures indicated that, in all significant respects, the Oxford Borough Non-Uniformed 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 – Failure To Correctly Allocate Forfeiture To Members' Accounts

The contents of this report were discussed with officials of Oxford 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  
September 15, 2022

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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 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 Oxford 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.

The Oxford Borough Non-Uniformed Pension Plan is a single-employer defined contribution pension plan locally controlled by the provisions of Ordinance No. 949-2022. The plan is also affected by the provisions of collective bargaining agreements between the borough and its non-uniformed employees. The plan was established January 1, 1976. Active members are required to contribute 2 percent of compensation to the plan. The municipality is required to contribute 6 percent of compensation to the plan. As of December 31, 2021, the plan had 11 active members.

OXFORD BOROUGH NON-UNIFORMED PENSION PLAN  
STATUS OF PRIOR FINDING

Compliance With Prior Recommendation

Oxford Borough has complied with the prior recommendation concerning the following:

- Restated Plan Document Not Adopted By Ordinance

The borough passed Ordinance No. 949-2022 on February 14, 2022 adopting the pension plan document effective January 1, 2014.

OXFORD BOROUGH NON-UNIFORMED PENSION PLAN  
FINDING AND RECOMMENDATION

**Finding – Failure To Correctly Allocate Forfeiture To Members’ Accounts**

Condition: In 2019, the borough incorrectly applied the provision for allocating the forfeited amount of a terminated member’s account balance for a plan member who terminated employment in 2016 but was not fully vested in the pension plan. Instead of allocating the forfeiture to remaining plan members after paying administrative expenses, as required by the current plan document, the borough used the forfeiture to reduce the required municipal contribution.

Criteria: Section 3.04 of the plan’s governing document, effective January 1, 2014, states:

The Nonvested Account of a Participant shall be forfeited as of the Participant’s Forfeiture Date. Forfeitures shall be determined at least once during each Plan Year. Forfeitures may first be used to pay administrative expenses. Forfeitures that have not been used to pay administrative expenses shall be allocated to each person eligible for Employer Contributions as of the last Contribution Date in the Plan Year. The amount allocated to each eligible person shall be equal to such Forfeitures for the Plan Year multiplied by the ratio of such person’s Annual Compensation as of such date to the total Annual Compensation of all such persons. Upon their allocation to Accounts, Forfeitures shall be deemed to be Employer Contributions. (Emphasis added.)

Cause: In applying the forfeiture, plan officials followed the provision contained in the previous plan document and did not have adequate internal control procedures in effect to realize that the current provision was not being followed. Prior to the execution of the current plan document, the previous plan document, effective March 1, 2004, contained the following provision:

The Nonvested Account of a Participant shall be forfeited as of the Participant’s Forfeiture Date. Forfeitures shall be determined at least once during each Plan Year. Forfeitures may first be used to pay administrative expenses. Forfeitures which have not been used to pay administrative expenses shall be applied to reduce the earliest Employer Contributions made after the Forfeitures are determined. Upon their application to reduce Employer Contributions, Forfeitures shall be deemed to be Employer Contributions.

Effect: The failure to properly allocate forfeitures could result in plan members being denied benefits to which they are entitled in accordance with the plan’s governing document.



OXFORD BOROUGH NON-UNIFORMED PENSION PLAN  
FINDING AND RECOMMENDATION

**Finding – (Continued)**

Due to the borough's failure to properly allocate the \$7,298 forfeiture to the remaining members' accounts, the borough must now allocate \$7,298, plus interest, to the eligible members' accounts. In addition, if this allocation is made from the pension plan, the borough's 2019 required contribution will then not be fully paid, since the borough used the forfeiture to reduce the 2019 required contribution to the plan.

Recommendation: We recommend that the borough allocate the forfeiture of \$7,298 to the 12 eligible members' accounts with interest from the date the forfeiture was known and available for distribution. A copy of the interest calculation must be maintained by the borough for examination during our next audit of the plan. In addition, if this allocation to the members' accounts is made from the pension plan, we recommend that the borough ensure the 2019 required contribution to the plan is fully paid.

We also recommend that, in the future, borough officials properly allocate forfeitures in accordance with the plan document.

Management Response: Municipal officials provided the following response:

The Borough has always intended to acknowledge and use Forfeitures to offset administrative expenses and reduce employer contributions. In 2019, this practice [was] employed with regards to members' accounts. Accounts were properly funded using the Forfeiture available, with the balance of the 6 percent owed being covered by employer contributions.

To avoid confusion on this issue in the future the Borough has advertised an Ordinance (which the Auditor General was given a copy) cleaning up the definition of a Forfeiture to ensure this opinion of how it is to be used is not questioned moving forward.

In closing, the Borough asks that this finding be rescinded because all members' accounts were properly funded during the audit period at the 6 percent contribution rate as required by the plan.

Auditor's Conclusion: Although the borough may amend the governing document, the forfeiture resulting from the employee who terminated in 2016 was subject to the governing document then in effect. The finding and recommendation remain as stated, and the borough's compliance will be evaluated during our next audit of the plan.

OXFORD BOROUGH NON-UNIFORMED PENSION PLAN  
SUMMARY OF DEPOSITED STATE AID AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid	Employer Contributions
2016	None	\$ 33,772
2017	None	35,539
2018	None	39,751
2019	\$ 11,907	20,751
2020	38,624	5,146
2021	38,109	None

Note: In 2019, the borough met the plan's \$39,956 funding requirement through the deposit of \$11,907 in state aid, \$20,751 in employer contributions, and the allocation of \$7,298 in terminated employee forfeitures (see Finding).

OXFORD BOROUGH NON-UNIFORMED PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

**The Honorable Tom W. Wolf**  
Governor  
Commonwealth of Pennsylvania

**The Honorable Philip Harris**  
Mayor

**Ms. Kathryn Cloyd**  
Council President

**Ms. Pauline Garcia-Allen**  
Borough Manager

**Ms. Arlene Harrison**  
Treasurer

This report is a matter of public record and is available online at [www.PaAuditor.gov](http://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](mailto:news@PaAuditor.gov).