

**OAKLAND TOWNSHIP NONUNIFORMED PENSION PLAN**

**BUTLER COUNTY**

**COMPLIANCE AUDIT REPORT**

**FOR THE PERIOD**

**JANUARY 1, 2006, TO DECEMBER 31, 2008**





**OAKLAND TOWNSHIP NONUNIFORMED PENSION PLAN**

**BUTLER COUNTY**

**COMPLIANCE AUDIT REPORT**

**FOR THE PERIOD**

**JANUARY 1, 2006, TO DECEMBER 31, 2008**



## CONTENTS

	<u>Page</u>
Background .....	1
Letter from the Auditor General .....	3
Status of Prior Findings .....	5
Findings and Recommendations:	
Finding No. 1 – Participation Agreement Not Adopted By Ordinance Or Resolution.....	6
Finding No. 2 – Withdrawal Of Plan Assets Prior To Retirement.....	6
Supplementary Information .....	8
Report Distribution List .....	9



## 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 Oakland Township 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 Oakland Township Nonuniformed Pension Plan is a single-employer defined contribution pension plan locally controlled by the provisions of Resolution No. 99-5. The plan is also affected by the provisions of collective bargaining agreements between the township and its nonuniformed employees. Active members are not required to contribute to the plan. The municipality is required to contribute \$840 per year for non-union employees and 5 percent of gross wages for union employees.





Board of Township Supervisors  
Oakland Township  
Butler County  
Butler, PA 16001

We have conducted a compliance audit of the Oakland Township Nonuniformed Pension Plan for the period January 1, 2006, to December 31, 2008. 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 our audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings 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 audit 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. The township has elected to purchase allocated insurance contracts to fund the pension benefits for plan members. Under an allocated funding arrangement, the insurer receives and retains consideration in exchange for a legally enforceable obligation to pay future benefits. In accordance with Statement No. 25 of the Governmental Accounting Standards Board, allocated insurance contracts are excluded from the pension plan's assets. Consequently, the plan has no reportable assets.

Township officials are responsible for establishing and maintaining an internal control structure to provide reasonable assurance that the Oakland Township Nonuniformed Pension Plan is administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies. To assist us in planning and performing our audit, we obtained an understanding of the township's internal control structure as it relates to the township's compliance with those requirements. Additionally, we tested transactions, assessed official actions, performed analytical procedures and interviewed selected officials to the extent necessary to satisfy the audit objectives.

The results of our tests indicated that, in all significant respects, the Oakland Township 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 findings further discussed later in this report:

Finding No. 1 – Participation Agreement Not Adopted By Ordinance Or Resolution

Finding No. 2 – Withdrawal Of Plan Assets Prior To Retirement

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 Oakland Township and, where appropriate, their responses have been included in the report.

May 7, 2009

JACK WAGNER  
Auditor General

OAKLAND TOWNSHIP NONUNIFORMED PENSION PLAN  
STATUS OF PRIOR FINDINGS

Compliance With Prior Audit Recommendations

Oakland Township has complied with the prior audit recommendations concerning the following:

- Incorrect Normal Cost Percentage Determination Resulting In An Overpayment of State Aid

Municipal officials reimbursed \$539 to the Commonwealth for the overpayment of state aid;  
and

- Receipt Of State Aid In Excess Of Entitlement

Municipal officials reimbursed \$111 to the Commonwealth for the excess state aid received.

OAKLAND TOWNSHIP NONUNIFORMED PENSION PLAN  
STATUS OF PRIOR FINDINGS

Finding No. 1 – Participation Agreement Not Adopted By Ordinance Or Resolution

Condition: The terms, provisions and conditions of the nonuniformed pension plan for union employees were adopted in a separately executed plan agreement with the United Mine Workers of America District 2 dated January 26, 2006, effective January 1, 2006. However, the plan agreement has not been formally adopted by an ordinance or resolution.

Criteria: Proper internal control procedures dictate that the provisions of the pension plan be formally adopted by a municipal ordinance or resolution.

Cause: Plan officials were unaware that the township should formally adopt the provisions of the plan agreement through a properly executed ordinance or resolution.

Effect: The failure to amend the existing governing resolution could result in inconsistent or improper benefit payments to plan members or their beneficiaries.

Recommendation: We recommend that municipal officials take appropriate action to formally adopt the plan document through a properly executed ordinance or resolution.

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

Finding No. 2 – Withdrawal Of Plan Assets Prior To Retirement

Condition: Two active members of the nonuniformed pension plan improperly received distributions totaling \$9,933 from two allocated insurance contracts.

Criteria: Section 102 of Act 205 contains the following definitions:

“Pension plan or system.” The various aspects of the relationship between a municipality and its employees with respect to the retirement coverage provided by a municipality to the employees.

“Defined contribution pension plan.” A type of pension benefit plan which provides for a fixed contribution rate or amount and which provides for periodic benefit payments calculable at retirement dependent on the accumulated contributions, investment income, experience gains and losses credited to the member and the expected mortality of the member.

OAKLAND TOWNSHIP NONUNIFORMED PENSION PLAN  
STATUS OF PRIOR FINDINGS

Finding No. 2 – (Continued)

Therefore, Act 205 funding (state aid) is intended to provide periodic benefit payments at retirement, not withdrawals prior to retirement.

Cause: The members' annuity contracts include provisions for withdrawals prior to retirement and municipal officials were unaware that these provisions were not in compliance with Act 205.

Effect: Allowing withdrawals of contract amounts prior to retirement violates the purpose for which state aid was allocated to the municipality, adversely affects the retirement income of an annuitant and undermines the integrity of the pension plan.

Recommendation: We recommend that, in the future, plan assets not be distributed to plan members prior to their retirement and that the members' annuity contracts be amended to prohibit these early withdrawals.

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

OAKLAND TOWNSHIP NONUNIFORMED PENSION PLAN  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

SCHEDULE OF STATE AID  
AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid Deposited	Employer Contributions
2003	\$ 2,520	\$ 840
2004	2,520	840
2005	1,965	2,235
2006	3,237	1,807
2007	2,509	2,114
2008	4,242	1,458

OAKLAND TOWNSHIP NONUNIFORMED PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell  
Governor  
Commonwealth of Pennsylvania

Oakland Township Nonuniformed Pension Plan  
Butler County  
565 Chicora Road  
Butler, PA 16001

Mr. Donald Hays	Chairman, Board of Township Supervisors
Mr. Regis V. Thoma	Township Supervisor
Ms. Nadine A. Neff	Secretary/Treasurer

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](http://www.auditorgen.state.pa.us).