

# COMPLIANCE AUDIT

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## Oakmont Borough Non-Uniformed Pension Plan Allegheny County, Pennsylvania For the Period January 1, 2014 to December 31, 2017

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August 2018



Commonwealth of Pennsylvania  
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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EUGENE A. DePASQUALE  
AUDITOR GENERAL

The Honorable Mayor and Borough Council  
Oakmont Borough  
Allegheny County  
Oakmont, PA 15139

We have conducted a compliance audit of the Oakmont Borough Non-Uniformed Pension Plan for the period January 1, 2014 to December 31, 2017. We also evaluated compliance with some requirements subsequent to that period when possible. The audit was conducted pursuant to authority derived from Section 402(j) of Act 205 and in accordance with the standards applicable to performance audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform 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 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 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:

- 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.
- 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.

- 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 determined whether retirement benefits calculated for the 2 plan members who retired during the current audit period 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 benefit due to retired individuals and comparing these amounts to supporting documentation evidencing amounts determined and actually paid to recipients.
- We determined whether the January 1, 2013, January 1, 2015, and January 1, 2017 actuarial valuation reports were prepared and submitted by March 31, 2014, 2016, and 2018, 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.

Oakmont Borough contracted with an independent certified public accounting firm for annual audits of its basic financial statements, for the years ended December 31, 2014, 2015, and 2016, 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 Oakmont Borough Non-Uniformed Pension Plan is administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies. In conducting our audit, we obtained an understanding of the borough's internal controls as they relate to the borough's compliance with those requirements and that we considered to be significant within the context of our audit objective, and assessed whether those significant controls were properly designed and implemented. Additionally and as previously described, we tested transactions, assessed official actions, performed analytical procedures, and interviewed selected officials 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 Oakmont 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 – Incorrect Data On Certification Form AG 385 Resulting In An Overpayment Of State Aid

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 Oakmont 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.

July 25, 2018



EUGENE A. DEPASQUALE  
Auditor General

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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. 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.

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 Oakmont Borough Non-Uniformed Pension Plan is also governed by implementing regulations adopted by the former Public Employee Retirement Commission published at Title 16, Part IV of the Pennsylvania Code and applicable provisions of various other state statutes.

The Oakmont Borough Non-Uniformed Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. O35-2014, effective January 1, 2014. The plan is also affected by the provisions of collective bargaining agreements between the borough and its non-uniformed employees. The plan was established July 12, 1949. Active members are required to contribute 3.5 percent of the participant's compensation to the plan. As of December 31, 2017, the plan had 6 active members, no terminated members eligible for vested benefits in the future, and 7 retirees receiving pension benefits from the plan.

**BACKGROUND – (Continued)**

As of December 31, 2017, selected plan benefit provisions are as follows:

Eligibility Requirements:

Normal Retirement	Earliest of age 65 and 20 years of service, age 62 and 25 years of service, or age 55 and 35 years of service.
Early Retirement	N/A
Vesting	A member is 100% vested after 12 years of service.

Retirement Benefit:

A monthly benefit equal to 50% of Average Monthly Compensation (averaged over the final 36 months of employment) plus a service increment of \$100 per month for 41 years of credited service.

Survivor Benefit:

Before Retirement Eligibility	Refund of member contributions plus interest.
After Retirement Eligibility	The normal form of benefit payment is a life annuity with 10 years guaranteed. At retirement, a married participant may elect a joint and 50% survivor annuity that is an actuarial equivalent of the normal form.

Disability Benefit:

None

OAKMONT BOROUGH NON-UNIFORMED PENSION PLAN  
STATUS OF PRIOR FINDING

Status Of Prior Audit Recommendation

· Improper Early Retirement Benefit

The audit report for the period January 1, 2008, to December 31, 2010 contained a finding for an improper early retirement benefit not provided for in the pension plan's governing document. As a result, the plan is paying a benefit to a member that is not authorized by the plan's governing document in effect at the time of the member's retirement; however, borough officials have determined that Oakmont Borough is contractually obligated to pay this excess benefit. Since the borough received state aid based on unit value during the audit period, it did not receive state aid attributable to the excess benefits provided. The Department will continue to monitor the impact of the excess benefits being paid to the existing retiree on the borough's future state aid allocations.



OAKMONT BOROUGH NON-UNIFORMED PENSION PLAN  
FINDING AND RECOMMENDATION

**Finding - Incorrect Data On Certification Form AG 385 Resulting In An Overpayment Of State Aid**

Condition: The borough certified an ineligible non-uniformed employee (1 unit) and overstated payroll by \$15,234 on the Certification Form AG 385 filed in 2016. The data contained on this certification form is based on prior calendar year information.

Criteria: Pursuant to Act 205, at Section 402(e)(2), in order to be eligible for certification, an employee must have been employed on a full-time basis for at least six consecutive months and must have been participating in a pension plan during the certification year.

Cause: Plan officials failed to establish adequate internal control procedures to ensure the accuracy of the data certified.

Effect: The data submitted on this certification form 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 allocation was based unit value, the incorrect certification of pension data affected the borough’s state aid allocation, as identified below:

<u>Units Overstated</u>	<u>Unit Value</u>	<u>State Aid Overpayment</u>
1	\$ 4,375	\$ 4,375

In addition, the borough used the overpayment of state aid to pay the minimum municipal obligation (MMO) due to the non-uniformed pension plan; therefore, if the reimbursement to the Commonwealth is made from the pension plan, the plan’s MMO will not be fully paid.

Recommendation: We recommend that the total excess state aid, in the amount of \$4,375, plus interest, be returned to the Commonwealth. A check in this amount, with interest compounded annually from date of receipt to date of repayment, at a rate earned by the pension plan, should be made payable to: Commonwealth of Pennsylvania and mailed to: Department of the Auditor General, Municipal Pension & Fire Relief Programs Unit, 321 Finance Building, Harrisburg, PA 17120. A copy of the interest calculation must be submitted along with the check.

We also recommend that in the future, plan officials establish adequate internal control procedures, such as having at least 2 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.

OAKMONT BOROUGH NON-UNIFORMED PENSION PLAN  
FINDING AND RECOMMENDATION

**Finding - (Continued)**

In addition, if the reimbursement to the Commonwealth is made from non-uniformed pension plan funds, we recommend that any resulting MMO deficiency be paid to the pension plan with interest, at a rate earned by the pension plan.

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

Auditor's Conclusion: Compliance will be monitored subsequent to the release of the audit report and through our next audit of the pension plan.

OAKMONT BOROUGH NON-UNIFORMED PENSION PLAN  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

The supplementary information contained on Pages 6 through 8 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	\$ 43,599	\$ 48,531
Interest	122,762	126,854
Difference between expected and actual experience	-	19,603
Benefit payments, including refunds of member contributions	(117,380)	(138,835)
Net Change in Total Pension Liability	<u>48,981</u>	<u>56,153</u>
Total Pension Liability - Beginning*	<u>1,891,826</u>	<u>1,951,795</u>
Total Pension Liability - Ending (a)	<u>\$ 1,940,807</u>	<u>\$ 2,007,948</u>
 Plan Fiduciary Net Position		
Contributions – employer	\$ 82,381	\$ 94,947
Contributions – member	13,790	12,636
Net investment income	62,050	(15,811)
Benefit payments, including refunds of member contributions	(117,380)	(138,835)
Administrative expense	(8,393)	(15,038)
Net Change in Plan Fiduciary Net Position	<u>32,448</u>	<u>(62,101)</u>
Plan Fiduciary Net Position - Beginning*	<u>1,541,156</u>	<u>1,584,592</u>
Plan Fiduciary Net Position - Ending (b)	<u>\$ 1,573,604</u>	<u>\$ 1,522,491</u>
 Net Pension Liability - Ending (a-b)	<u>\$ 367,203</u>	<u>\$ 485,457</u>
 Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	81.08%	75.82%
 Estimated Covered Employee Payroll	\$ 394,005	\$ 415,888
 Net Pension Liability as a Percentage of Covered Employee Payroll	93.20%	116.73%

\* The Total Pension Liability and Plan Fiduciary Net Position 2015 beginning amounts were adjusted to include accrued interest.

OAKMONT BOROUGH NON-UNIFORMED PENSION PLAN  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

SCHEDULE OF CHANGES IN THE NET PENSION  
LIABILITY AND RELATED RATIOS  
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2017

	<u>2016</u>	<u>2017</u>
Total Pension Liability		
Service cost	\$ 50,715	\$ 67,070
Interest	129,310	137,468
Difference between expected and actual experience	-	5,720
Changes of assumptions	-	241,347
Benefit payments, including refunds of member contributions	<u>(140,785)</u>	<u>(142,443)</u>
Net Change in Total Pension Liability	39,240	309,162
Total Pension Liability - Beginning	<u>2,007,948</u>	<u>2,047,188</u>
Total Pension Liability - Ending (a)	<u>\$ 2,047,188</u>	<u>\$ 2,356,350</u>
Plan Fiduciary Net Position		
Contributions – employer	\$ 94,017	\$ 108,800
Contributions – member	14,168	15,658
Net investment income	54,303	183,529
Benefit payments, including refunds of member contributions	(140,785)	(142,443)
Administrative expense	<u>(19,741)</u>	<u>(19,319)</u>
Net Change in Plan Fiduciary Net Position	1,962	146,225
Plan Fiduciary Net Position - Beginning	<u>1,522,491</u>	<u>1,524,453</u>
Plan Fiduciary Net Position - Ending (b)	<u>\$ 1,524,453</u>	<u>\$ 1,670,678</u>
Net Pension Liability - Ending (a-b)	<u>\$ 522,735</u>	<u>\$ 685,672</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	74.47%	70.90%
Estimated Covered Employee Payroll**	\$ 413,569	
Net Pension Liability as a Percentage of Covered Employee Payroll	126.40%	

\*\* Due to the timing of this audit, estimated covered-employee payroll for 2017 was not provided in this schedule.

OAKMONT BOROUGH 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 borough as of December 31, 2014, 2015, and 2016, calculated using the discount rate of 6.5%, as well as what the borough'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 (5.5%)	Current Discount Rate (6.5%)	1% Increase (7.5%)
Net Pension Liability - 12/31/14	\$ 535,586	\$ 367,203	\$ 220,721
Net Pension Liability – 12/31/15	\$ 666,870	\$ 485,457	\$ 327,286
Net Pension Liability - 12/31/16	\$ 705,845	\$ 522,735	\$ 362,976

The following presents the net pension liability of the borough as of December 31, 2017, calculated using the discount rate of 6.0%, as well as what the borough'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 (5.0%)	Current Discount Rate (6.0%)	1% Increase (7.0%)
Net Pension Liability - 12/31/17	\$ 918,428	\$ 685,672	\$ 484,820

OAKMONT BOROUGH 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, 2013, 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)
01-01-13	\$ 1,501,007	\$ 1,853,363	\$ 352,356	81.0%
01-01-15	1,598,162	1,971,398	373,236	81.1%
01-01-17	1,619,143	2,294,255	675,112	70.6%

Note: The market values of the plan’s assets at 01-01-13, 01-01-15, and 01-01-17 have been adjusted to reflect the smoothing of gains and/or losses over a 4-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.

OAKMONT BOROUGH 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.

OAKMONT BOROUGH 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
2012	\$ 61,108	100.0%
2013	80,208	103.2%
2014	82,381	100.0%
2015	94,947	100.0%
2016	94,017	100.0%
2017	108,800	100.0%



OAKMONT BOROUGH NON-UNIFORMED PENSION PLAN  
SUPPLEMENTARY INFORMATION  
NOTES TO SUPPLEMENTARY SCHEDULES  
(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, 2017
Actuarial cost method	Entry age normal
Amortization method	Level dollar, closed
Remaining amortization period	9 years
Asset valuation method	Fair value, 4-year smoothing
Actuarial assumptions:	
Investment rate of return	6.0%
Projected salary increases*	4.0%

\* Includes inflation at 2.75%

OAKMONT BOROUGH NON-UNIFORMED PENSION PLAN  
REPORT DISTRIBUTION LIST

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