

LIMITED PROCEDURES ENGAGEMENT

Oley Township Non-Uniformed Pension Plan Berks County, Pennsylvania For the Period January 1, 2014 to December 31, 2017

November 2018



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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AUDITOR GENERAL

Board of Township Supervisors
Oley Township
Berks County
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We conducted a Limited Procedures Engagement (LPE) of the Oley Township Non-Uniformed Pension Plan for the period January 1, 2014 to December 31, 2017 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 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. State aid allocations that were deposited into the pension plan for the years ended December 31, 2012 to December 31, 2017, are presented on the Summary of Deposited State Aid and Employer Contributions.
- 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, 2012 to December 31, 2017, are presented on the Summary of Deposited State Aid and Employer Contributions.

- 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.

Based on the results of our procedures performed during our LPE, nothing came to our attention indicating that the Oley 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 findings further discussed later in this report:

Finding No. 1 – Unauthorized Payment Of Administrative Expenses

Finding No. 2 – Failure To Properly Fund Member Accounts

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 contents of this report were discussed with officials of Oley 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.

October 15, 2018



EUGENE A. DEPASQUALE
Auditor General

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OLEY TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Unauthorized Payment Of Administrative Expenses

Condition: Administrative expenses totaling \$2,667 were improperly paid from the pension plan for management fees and administrative expenses during 2014 and 2015.

Section 3 (c) of the non-uniformed pension plan’s governing document, Ordinance No. 308, effective January 1, 2004, states:

Any administrative expenses which is an allowable administrative expense under Act 205 of 1984 of the Commonwealth of Pennsylvania shall be paid by Oley Township, and not from the Fund.

Section 1 (f) of Ordinance No. 308 defines “Fund” as “Oley Township Non-Uniformed Employee Pension Plan Fund.”

Criteria: Auditor General Municipal Pension Bulletin No. 1-88, effective January 1, 1985, provides that, contrary to any prior laws, all municipal pension plans may pay for authorized administrative expenses. However, municipalities which have prohibited the payment of administrative expenses through local ordinance, resolution or contract must continue to abide by such prohibitions, unless the governing document is amended.

Cause: Prior to October 28, 2014, the plan assets were in a deposit account and had no discernable management or administrative fees. However, upon the conversion to a trust account, the custodian and consultant began drawing directly from the plan assets with no repayment made by the municipality to refund the account. Municipal officials were unaware that the plan’s governing document needed to be amended to provide for the payment of administrative expenses from the plan.

Effect: The unauthorized payment of administrative expenses from the pension plan reduces the amount of funds available for investment purposes.

Recommendation: We recommend that either Ordinance No. 308 be amended to permit the payment of authorized administrative expenses from pension plan assets, or that the plan be reimbursed \$2,667, with interest compounded annually at a rate earned by the plan, and the practice of paying administrative expenses with plan assets be discontinued.

OLEY TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

If Ordinance No. 308 is amended to permit the payment of administrative expenses from pension plan assets, the following must be considered when determining what is authorized:

- The allowable cost must be directly associated with the pension plan from which the expenses are paid;
- Municipal officials in their fiduciary role must monitor the service provided to ensure the expenses are necessary, reasonable and benefit the pension plan; and
- All administrative expenses must be detailed item by item.

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

Auditor’s Conclusion: Compliance will be evaluated during our next engagement.

Finding No. 2 – Failure To Properly Fund Member Accounts

Condition: The township paid excess municipal contributions to the accounts of 3 plan members in 2016 and 3 members in 2017, as illustrated below:

<u>2016</u> <u>Employees</u>	<u>Required</u> <u>Contributions</u>	<u>Actual</u> <u>Contributions</u>	<u>Excess</u> <u>Contributions</u>
1	\$ 3,432	\$ 3,581	\$ 149
2	3,809	4,072	263
3	3,468	3,609	141
		Total	<u>\$ 553</u>
<u>2017</u> <u>Employees</u>	<u>Required</u> <u>Contributions</u>	<u>Actual</u> <u>Contributions</u>	<u>Excess</u> <u>Contributions</u>
1	\$ 3,465	\$ 3,560	\$ 95
2	3,840	4,000	160
3	3,470	3,571	101
		Total	<u>\$ 356</u>

Criteria: Ordinance No. 324 established the municipal contribution rate at 8 percent of annual compensation of a participant.

OLEY TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Ordinance No. 308, Section 1 (b) defines “Compensation” as “Compensation paid by the Employer, excluding overtime, during a calendar year.”

Cause: Plan officials failed to establish adequate internal control procedures to ensure that contributions were based on compensation excluding overtime.

Effect: The failure to properly fund the members’ accounts has resulted in plan members receiving benefits in excess of those to which they are entitled.

Recommendation: We 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 accordance with the provisions contained in the plan’s governing document.

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

Auditor’s Conclusion: Compliance will be evaluated during our next engagement.

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

Year Ended December 31	State Aid	Employer Contributions
2012	\$ 10,303	None
2013	11,156	None
2014	13,024	None
2015	12,747	None
2016	13,739	\$ 2,668
2017	13,783	991

Note: In 2013, the township met the plan's \$12,404 funding requirement through the deposit of \$11,156 in state aid and \$1,248 in terminated employee forfeitures.

OLEY TOWNSHIP NON-UNIFORMED PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
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Mr. Mark Hoch
Chairman, Board of Township Supervisors

Mr. Jeffrey Spatz
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