

# LIMITED PROCEDURES ENGAGEMENT

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## Sugar Grove Township Non-Uniformed Pension Plan Warren County, Pennsylvania For the Period January 1, 2014 to December 31, 2016

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March 2018



Commonwealth of Pennsylvania  
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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EUGENE A. DePASQUALE  
AUDITOR GENERAL

Board of Township Supervisors  
Sugar Grove Township  
Warren County  
Sugar Grove, PA 16350

We conducted a Limited Procedures Engagement (LPE) of the Sugar Grove Township Non-Uniformed Pension Plan for the period January 1, 2014 to December 31, 2016 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, 2011 to December 31, 2016, 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, 2011 to December 31, 2016, are presented on the Summary of Deposited State Aid and Employer Contributions.

- Whether retirement benefits calculated for plan members who retired during the engagement 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 pension benefit due to retired individuals and comparing these amounts to supporting documentation evidencing amounts determined and actually paid to recipients.
- Whether the January 1, 2013 and January 1, 2015 actuarial valuation reports were prepared and submitted to the former Public Employee Retirement Commission (PERC) by March 31, 2014 and 2016, 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 Sugar Grove 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 finding further discussed later in this report:

Finding – Receipt Of State Aid In Excess Of Entitlement.

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 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 Sugar Grove 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.

February 23, 2018



EUGENE A. DEPASQUALE  
Auditor General

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SUGAR GROVE TOWNSHIP NON-UNIFORMED PENSION PLAN  
FINDING AND RECOMMENDATION

**Finding – Receipt Of State Aid In Excess Of Entitlement**

Condition: The township received state aid in excess of the plan's annual pension costs for the years 2015 and 2016 due to the failure to apply a terminated member's forfeiture, as illustrated below:

	<u>2015</u>	<u>2016</u>
State aid allocation	\$ 7,552	\$ 6,942
Forfeiture available to be applied to pension costs of full time plan members	4,082	8,880
Less: Municipal pension costs for full-time plan members	<u>(7,612)</u>	<u>(8,880)</u>
Excess state aid	<u>\$ 4,022</u>	<u>\$ 6,942</u>

Criteria: Section 402(f)(2) of Act 205 states:

No municipality shall be entitled to receive an allocation of general municipal pension system State aid in an amount which exceeds the aggregate actual financial requirements of any municipal pension plans for police officers, paid firefighters or employees other than police officers or paid firefighters maintained by the municipality, less the amount of any aggregate annual member or employee contributions during the next succeeding plan year, as reported in the most recent complete actuarial report filed with the commission.

Cause: The forfeiture must be used to satisfy the employer contribution due to the plan in the year it becomes available before any state aid is applied.

Effect: It is this department's opinion that because the entire proceeds of the insurance premium tax on foreign casualty insurance companies are distributed annually to each eligible recipient municipality, it is inappropriate to use state aid in one year to offset pension costs in other years. Consequently, the overpayment of state aid in the years 2015 and 2016 must be returned to the Commonwealth for redistribution.

Furthermore, the township's future state aid allocations may be withheld until the finding recommendation is complied with.

SUGAR GROVE TOWNSHIP NON-UNIFORMED PENSION PLAN  
FINDING AND RECOMMENDATION

**Finding – (Continued)**

Recommendation: We recommend that the municipality return the \$10,964 of excess state aid received in the years 2015 and 2016 to the Commonwealth from the non-uniformed pension plan. A check in this amount, with interest compounded annually from date of receipt to date of repayment, at a rate earned by the 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 evidence of payment.

Furthermore, we recommend that, in the future, plan officials reconcile the township's annual state aid allocation and any available employee forfeitures with the plan's annual pension costs and reimburse any excess state aid received to the Commonwealth.

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

Auditor's Conclusion: The township's compliance with the finding recommendation will be monitored subsequent to the release of the report and through our next engagement of the pension plan.

SUGAR GROVE TOWNSHIP NON-UNIFORMED PENSION PLAN  
POTENTIAL WITHHOLD OF STATE AID

The finding contained in this report cites an overpayment of state aid to the township in the amount of \$10,964, plus interest. A condition of this nature may lead to a total withholding of state aid in the future unless that finding is corrected. A check in this amount with interest, 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.

SUGAR GROVE TOWNSHIP NON-UNIFORMED PENSION PLAN  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

The supplementary information contained on Pages 4 and 5 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	\$ 17,070	\$ 19,553
Interest	16,090	16,992
Difference between expected and actual experience	111	(16,163)
Changes of assumptions	-	394
Benefit payments, including refunds of member contributions	(3,093)	(8,523)
Net Change in Total Pension Liability	<u>30,178</u>	<u>12,253</u>
Total Pension Liability - Beginning	<u>287,865</u>	<u>318,043</u>
Total Pension Liability - Ending (a)	<u><u>\$ 318,043</u></u>	<u><u>\$ 330,296</u></u>
Plan Fiduciary Net Position		
Contributions – employer	\$ 9,380	\$ 4,856*
Contributions – PMRS assessment	-	140
Contributions – employee	7,830	10,337
PMRS investment income	16,103	17,553
Market value investment income	(1,017)	(19,105)
Benefit payments, including refunds of member contributions	(3,093)	(8,523)
PMRS administrative expense	(140)	(140)
Additional administrative expense	(618)	(732)
Net Change in Plan Fiduciary Net Position	<u>28,445</u>	<u>4,386</u>
Plan Fiduciary Net Position - Beginning	<u>284,329</u>	<u>312,774</u>
Plan Fiduciary Net Position - Ending (b)	<u><u>\$ 312,774</u></u>	<u><u>\$ 317,160</u></u>
Net Pension Liability - Ending (a-b)	<u><u>\$ 5,269</u></u>	<u><u>\$ 13,136</u></u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	98.34%	96.02%
Estimated Covered Employee Payroll	\$ 123,196	\$ 122,878
Net Pension Liability as a Percentage of Covered Employee Payroll	4.28%	10.69%

\* 2015 Employer contributions do not include \$4,919 of plan forfeitures and \$140 administrative expense and do include \$559 contribution from municipal reserve.



SUGAR GROVE TOWNSHIP 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 township as of December 31, 2014 and 2015, calculated using the discount rate of 5.5%, as well as what the township'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:

	<u>1% Decrease (4.5%)</u>	<u>Current Discount Rate (5.5%)</u>	<u>1% Increase (6.5%)</u>
Net Pension Liability - 12/31/14	\$ 64,786	\$ 5,269	\$ (53,654)
Net Pension Liability - 12/31/15	\$ 75,087	\$ 13,136	\$ (48,241)

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

Year Ended December 31	State Aid	Employer Contributions
2011	\$ 7,507	\$ 1,666
2012	7,316	1,685
2013	7,201	1,921
2014	7,309	2,071
2015	7,552	907
2016	6,942	None

Note: In 2015, the township met the plan's \$9,356 total funding requirement through the deposit of \$3,530 in state aid and \$907 of employer contributions, and through the utilization of \$4,919 in terminated employee forfeitures. The township also deposited excess state aid of \$4,022 into the plan in 2015 (see Finding.) In 2016, the township met the plan's \$10,424 total funding requirement through the utilization of \$10,424 in terminated employee forfeitures and deposited excess state aid of \$6,942 into the plan (see Finding.)

SUGAR GROVE TOWNSHIP NON-UNIFORMED PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

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

**Mr. Carl Black**  
Chairman, Board of Township Supervisors

**Mr. Richard Sanders**  
Vice-Chairman, Board of Township Supervisors

**Mr. David Flasher**  
Township Supervisor

**Ms. Katherine C. Liffner**  
Secretary

**Ms. Charity Rosenberry, CPA**  
Pennsylvania Municipal Retirement System

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