

# LIMITED PROCEDURES ENGAGEMENT

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## New Sewickley Township Non-Uniformed Management Pension Plan

Beaver County, Pennsylvania  
For the Period  
January 1, 2013 to December 31, 2015

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February 2017



Commonwealth of Pennsylvania  
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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AUDITOR GENERAL

Board of Township Supervisors  
New Sewickley Township  
Beaver County  
Rochester, PA 15074

We conducted a Limited Procedures Engagement (LPE) of the New Sewickley Township Non-Uniformed Management Pension Plan for the period January 1, 2013 to December 31, 2015 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 municipal officials took appropriate corrective action to address the finding contained in our prior audit report, by inquiring of plan officials and evaluating supporting documentation provided by officials evidencing that the suggested corrective action has been appropriately taken.
- 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, 2010 to December 31, 2015, 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, 2010 to December 31, 2015, 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 monthly 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, 2011, 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, 2012, 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 New Sewickley Township Non-Uniformed Management 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 – Noncompliance With Prior Audit Recommendation – Municipal  
Contributions Made In Excess Of Contributions Required To Fund  
The Plan

The finding contained in this report repeats a condition that was cited in our previous audit report that has not been corrected by township officials. We are concerned by the township's failure to correct this previously reported finding and strongly encourage timely implementation of the recommendation noted in this report.

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 New Sewickley 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 9, 2017

A handwritten signature in black ink, appearing to read "Eugene A. DePasquale". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

EUGENE A. DEPASQUALE  
Auditor General

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NEW SEWICKLEY TOWNSHIP NON-UNIFORMED MANAGEMENT PENSION PLAN  
STATUS OF PRIOR FINDING

Noncompliance With Prior Audit Recommendation

New Sewickley Township has not complied with the prior audit recommendation concerning the following as further discussed in the Finding and Recommendation section of this report:

- Municipal Contributions Made In Excess Of Contributions Required To Fund The Plan

NEW SEWICKLEY TOWNSHIP NON-UNIFORMED MANAGEMENT PENSION PLAN  
FINDING AND RECOMMENDATION

**Finding – Noncompliance With Prior Audit Recommendation – Municipal Contributions Made In Excess Of Contributions Required To Fund The Plan**

Condition: As disclosed in our prior audit report, the township made contributions to the non-uniformed management pension plan in excess of contributions required to fund the pension plan in the year 2012, as illustrated below:

Actual municipal pension costs	\$	13,549
State aid allocated		(6,818)
Municipal contributions required to fund plan	\$	6,731
Actual municipal contributions made	\$	8,231
Municipal contributions required to fund plan		(6,731)
Excess municipal contributions	\$	1,500

Additionally, during the current engagement period, the township made contributions to the non-uniformed management pension plan in excess of contributions required to fund the pension plan in the year 2013, as illustrated below:

Actual municipal pension costs	\$	13,848
State aid allocated		(7,041)
Municipal contributions required to fund plan	\$	6,807
Actual municipal contributions made	\$	7,348
Municipal contributions required to fund plan		(6,807)
Excess municipal contributions	\$	541

Criteria: Section 13 of the Municipal Employee Pension Plan Agreement states in part:

The township will contribute quarterly ten percent (10%) of each member’s compensation to the system....

NEW SEWICKLEY TOWNSHIP NON-UNIFORMED MANAGEMENT PENSION PLAN  
FINDING AND RECOMMENDATION

**Finding – (Continued)**

Since state aid allocated to a pension plan must be expended on pension costs, it is the opinion of this department that where municipal contributions and state aid are both deposited into a pension plan, the state aid is expended first to fund pension costs.

Cause: Plan officials have failed to adopt adequate internal control procedures to ensure compliance with this department's prior audit recommendation.

Effect: The municipality allocated funds to members' accounts in excess of the contribution percentage rate contained in the plan's governing document. By making excess municipal contributions, plan members could receive additional benefits beyond those outlined in the plan's governing document.

Recommendation: We again recommend that plan officials, with the assistance of the township's solicitor, determine whether the excess municipal contributions should be withdrawn from the members' accounts and be reimbursed to the township.

We also recommend that in the future, plan officials reconcile the amount of state aid allocated to the non-uniformed pension plan and municipal contributions made to the pension plan with the pension plan's annual pension costs.

Management's Response: Municipal officials agreed with the finding without exception. The township supervisors have determined that the excess municipal contributions for 2012 should be withdrawn from the member's account and have contacted the Pennsylvania Municipal Retirement System to correct this situation.

Auditor's Conclusion: Full compliance with the finding recommendation will be evaluated during our next engagement of the plan.



NEW SEWICKLEY TOWNSHIP NON-UNIFORMED MANAGEMENT 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 YEAR ENDED DECEMBER 31, 2014

Total Pension Liability	
Service cost	\$ 14,646
Interest	18,806
Difference between expected and actual experience	(587)
Benefit payments, including refunds of member contributions	<u>(14,608)</u>
Net Change in Total Pension Liability	18,257
Total Pension Liability - Beginning	<u>343,824</u>
Total Pension Liability - Ending (a)	<u><u>\$ 362,081</u></u>
Plan Fiduciary Net Position	
Contributions – employer *	\$ 14,793
PMRS investment income	18,602
Market value investment income	(1,870)
Benefit payments, including refunds of member contributions	(14,608)
PMRS administrative expense	(100)
Administrative expense	<u>(713)</u>
Net Change in Plan Fiduciary Net Position	16,104
Plan Fiduciary Net Position – Beginning	<u>337,211</u>
Plan Fiduciary Net Position - Ending (b)	<u><u>\$ 353,315</u></u>
Net Pension Liability - Ending (a-b)	<u><u>\$ 8,766</u></u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	97.6%
Estimated Covered Employee Payroll	\$ 146,465
Net Pension Liability as a Percentage of Covered Employee Payroll	6.0%

\* The Statutorily Required Contribution and the actual Contribution were provided by PMRS. Deviation between these amounts may be due to contributions to or transfers from the Municipal account.

NEW SEWICKLEY TOWNSHIP NON-UNIFORMED MANAGEMENT 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, 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:

	1% Decrease (4.5%)	Current Discount Rate (5.5%)	1% Increase (6.5%)
Net Pension Liability	\$ 61,394	\$ 8,766	\$ (41,937)

NEW SEWICKLEY TOWNSHIP NON-UNIFORMED MANAGEMENT PENSION PLAN  
SUMMARY OF DEPOSITED STATE AID AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid	Employer Contributions
2010	\$ 3,405	\$ 10,025
2011	12,929	68
2012	6,818	8,231
2013	7,041	7,348
2014	1,379	13,368
2015	None	15,064

NEW SEWICKLEY TOWNSHIP NON-UNIFORMED MANAGEMENT PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

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Pennsylvania Municipal Retirement System

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