

COMPLIANCE AUDIT

Buffalo Township Non-Uniformed Employees' Pension Plan

Butler County, Pennsylvania
For the Period
January 1, 2016 to December 31, 2018

July 2019



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
Buffalo Township
Butler County
Sarver, PA 16055

We have conducted a compliance audit of the Buffalo Township Non-Uniformed Employees' Pension Plan for the period January 1, 2016 to December 31, 2018. 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 conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our 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. State Aid and Employer Contributions.

- We determined that there were no employee contributions required by the plan's governing document and applicable laws and regulations for the years covered by our audit period.
- We determined whether retirement benefits calculated for all three of the 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, 2015 and January 1, 2017 actuarial valuation reports were prepared and submitted by March 31, 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.

Buffalo Township contracted with an independent certified public accounting firm for annual audits of its financial statements for the years 2016 and 2017 prepared in conformity with the accounting practices prescribed or permitted by the Department of Community and Economic Development of the Commonwealth of Pennsylvania, which are available at the township's offices. Those financial statements were not audited by us and, accordingly, we express no opinion or other form of assurance on them.

Township officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Buffalo Township Non-Uniformed Employees' 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 township's internal controls as they relate to the township'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 Buffalo Township Non-Uniformed Employees' Pension Plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies.

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. **However, we are extremely concerned about the historical trend information contained in the schedule of funding progress included in this report which indicates a continued decline of assets available to satisfy the long-term liabilities of the plan. The plan's funded ratio went from 76.7% as of January 1, 2013, to a ratio of 64.2% as of January 1, 2017, which is the most recent data available.** We encourage township officials to monitor the funding of the non-uniformed pension plan to ensure its long-term financial stability.

The contents of this report were discussed with officials of Buffalo Township and, where appropriate, their responses have been included in the report. We would like to thank township officials for the cooperation extended to us during the conduct of the audit.

June 20, 2019



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 Buffalo Township Non-Uniformed Employees' 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 Buffalo Township Non-Uniformed Employees' Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Resolution 2007-06, as amended. The plan is also affected by the provisions of collective bargaining agreements between the township and its non-uniformed employees. The plan was established January 1, 1989. Active members are not required to contribute to the plan. As of December 31, 2018, the plan had 6 active members, no terminated members eligible for vested benefits in the future, and 4 retirees receiving pension benefits from the plan.

BACKGROUND – (Continued)

As of December 31, 2018, selected plan benefit provisions are as follows:

Eligibility Requirements:

Normal Retirement	Age 65 and 10 years of service.
Early Retirement	Age 60 years 15 years of service.
Vesting	50% vesting available after 5 years of service; 75% after 6 years of service, 100% after 7 years of service.

Retirement Benefit:

A monthly benefit equal to 1.1% of average monthly compensation (compensation averaged over the final 60 months of employment) multiplied by completed years of service.

Survivor Benefit:

After Vesting but Before Retirement Eligibility: The participant's beneficiary will receive 50% of the participant's accrued benefit after reduction of the actuarial equivalent joint and 50% survivor annuity, commencing at normal retirement age.

After Retirement Eligibility: The normal form of payment is a life annuity. At retirement, the participant may elect an optional form of payment that is an actuarial equivalent of the normal form.

Disability Benefit:

None

BUFFALO TOWNSHIP NON-UNIFORMED EMPLOYEES' PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

The supplementary information contained on Pages 3 through 6 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	\$ 18,106	\$ 23,839
Interest	46,881	64,389
Change of benefit terms	-	170,706
Difference between expected and actual experience	-	9,851
Benefit payments, including refunds of member contributions	(1,167)	(1,167)
Net Change in Total Pension Liability	<u>63,820</u>	<u>267,618</u>
Total Pension Liability – Beginning	652,198	716,018
Total Pension Liability – Ending (a)	<u>\$ 716,018</u>	<u>\$ 983,636</u>
Plan Fiduciary Net Position		
Contributions – employer	\$ 51,952	\$ 51,853
Net investment income	14,354	(23,126)
Benefit payments, including refunds of member contributions	(1,167)	(1,167)
Administrative expense	(8,283)	(6,350)
Net Change in Plan Fiduciary Net Position	<u>56,856</u>	<u>21,210</u>
Plan Fiduciary Net Position – Beginning	553,046	609,902
Plan Fiduciary Net Position – Ending (b)	<u>\$ 609,902</u>	<u>\$ 631,112</u>
Net Pension Liability – Ending (a-b)	<u>\$ 106,116</u>	<u>\$ 352,524</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	85.2%	64.2%
Estimated Covered Employee Payroll	\$ 344,238	\$ 349,496
Net Pension Liability as a Percentage of Covered Employee Payroll	30.8%	100.9%

BUFFALO TOWNSHIP NON-UNIFORMED EMPLOYEES' 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	\$ 25,031	\$ 32,029
Interest	70,567	79,048
Difference between expected and actual experience	-	(14,084)
Change of Assumptions	-	83,885
Net investment income	-	
Benefit payments	(1,167)	(17,936)
Net Change in Total Pension Liability	<u>94,431</u>	<u>162,942</u>
Total Pension Liability – Beginning	983,636	1,078,067
Total Pension Liability – Ending (a)	<u>\$ 1,078,067</u>	<u>\$ 1,241,009</u>
Plan Fiduciary Net Position		
Contributions – employer	\$ 66,632	\$ 89,283
Net investment income	52,963	107,110
Benefit payments	(1,167)	(17,936)
Administrative expense	(12,872)	(8,934)
Net Change in Plan Fiduciary Net Position	<u>105,556</u>	<u>169,523</u>
Plan Fiduciary Net Position – Beginning	631,112	736,668
Plan Fiduciary Net Position – Ending (b)	<u>\$ 736,668</u>	<u>\$ 906,191</u>
Net Pension Liability – Ending (a-b)	<u>\$ 341,399</u>	<u>\$ 334,818</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	68.3%	73.0%
Estimated Covered Employee Payroll	\$ 428,565	\$ 387,533
Net Pension Liability as a Percentage of Covered Employee Payroll	79.7%	86.4%

BUFFALO TOWNSHIP NON-UNIFORMED EMPLOYEES' 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, 2015 and 2016 calculated using the discount rate of 7.0%, 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 (6.0%)</u>	<u>Current Discount Rate (7.0%)</u>	<u>1% Increase (8.0%)</u>
Net Pension Liability – 12-31-14	\$ 179,258	\$ 106,116	\$ 41,700
Net Pension Liability – 12-31-15	447,119	352,524	269,231
Net Pension Liability – 12-31-16	438,717	341,398	255,829

In addition the following presents the net pension liability of the township as of December 31, 2017 calculated using the discount rate of 6.75%, 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 (5.75%)</u>	<u>Current Discount Rate (6.75%)</u>	<u>1% Increase (7.75%)</u>
Net Pension Liability – 12-31-17	\$ 452,064	\$ 334,818	\$ 233,325

BUFFALO TOWNSHIP NON-UNIFORMED EMPLOYEES' PENSION PLAN
 SUPPLEMENTARY INFORMATION
 (UNAUDITED)

SCHEDULE OF CONTRIBUTIONS

Year Ended December 31	Actuarially Determined Contribution	Actual Contributions	Contribution Deficiency (Excess)	Covered- Employee Payroll*	Contributions as a Percentage of Covered- Employee Payroll
2009	\$ 21,834	\$ 32,576	\$ (10,742)		
2010	40,176	40,176	-	\$ 300,281	13.4%
2011	39,738	39,738	-	-	
2012	40,481	40,481	-	311,705	13.0%
2013	28,492	28,492	-	-	
2014	51,052	51,952	(900)	344,238	15.1%
2015	51,853	51,853	-	349,496	14.8%
2016	52,544	66,632	(14,088)	428,565	15.5%
2017	89,283	89,283	-	387,533	23.0%
2018	86,218	89,003	(2,785)		

* Due to GASB Statement No. 67, *Financial Reporting for Pension Plans*, being implemented only recently, the amount of Covered-Employee Payroll was not provided for odd years prior to 2014. In addition, due to the timing of this engagement, covered-employee payroll for 2018 was not provided in this schedule.

SCHEDULE OF INVESTMENT RETURNS

Annual Money-Weighted Rate of Return, Net of Investment Expense:

2017	14.47%
2016	8.33%
2015	(3.76%)
2014	2.58%

BUFFALO TOWNSHIP NON-UNIFORMED EMPLOYEES' 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	\$ 455,438	\$ 593,415	\$ 137,977	76.7%
01-01-15	609,902	896,575	286,673	68.0%
01-01-17	736,668	1,147,868	411,200	64.2%

BUFFALO TOWNSHIP NON-UNIFORMED EMPLOYEES' 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.

BUFFALO TOWNSHIP NON-UNIFORMED EMPLOYEES' 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	7 years
Asset valuation method	Fair value
Actuarial assumptions:	
Investment rate of return *	6.75%
Projected salary increases *	4.5%

* Includes inflation at 2.75%

BUFFALO TOWNSHIP NON-UNIFORMED EMPLOYEES' PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
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