

LIMITED PROCEDURES ENGAGEMENT

Buffalo Township Police 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 conducted a Limited Procedures Engagement (LPE) of the Buffalo Township Police Pension Plan for the period January 1, 2016 to December 31, 2018 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 LPE 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.
- 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.

- Whether retirement benefits calculated for the 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, 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.
- We determined whether provisions of the Deferred Retirement Option Plan (DROP) were in accordance with the provisions of Act 205 by examining provisions stated in the plan's governing documents.

Based on the results of our procedures performed during our LPE, nothing came to our attention indicating that the Buffalo Township Police 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 – Partial Compliance With Prior Recommendation – Incorrect Data
On Certification Form AG 385 Resulting In An Overpayment Of
State Aid

The finding contained in this LPE report repeats a condition that was cited in our previous report that has not been corrected by township officials. We are concerned by the township's failure to fully 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 Buffalo 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.



EUGENE A. DEPASQUALE
Auditor General

June 19, 2019

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BUFFALO TOWNSHIP POLICE PENSION PLAN
STATUS OF PRIOR FINDING

Partial Compliance With Prior LPE Report Recommendation

Buffalo Township has partially complied with the prior LPE report recommendation concerning the following:

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

During the current engagement period, the township reimbursed \$8,748 to the Commonwealth for the overpayment of state aid in 2016; however, plan officials again failed to comply with the instructions that accompany Certification Form AG 385 to assist them in accurately reporting the required pension data as further discussed in the Finding and Recommendation section of this report.

BUFFALO TOWNSHIP POLICE PENSION PLAN
FINDING AND RECOMMENDATION

Finding – Partial Compliance With Prior Recommendation – Incorrect Data On Certification Form AG 385 Resulting In An Overpayment Of State Aid

Condition: As disclosed in the Status of Prior Finding section of this report, the township partially complied with the prior recommendation by reimbursing the Commonwealth for the overpayment of state aid received in 2016; however, a similar condition occurred during the current engagement period. Plan officials again failed to comply with the instructions that accompanied Certification Form AG 385 to assist them in accurately reporting the required pension data for the years 2017 and 2018. In 2017, the township certified an ineligible police officer who did not work full-time and in 2018, the township certified an ineligible police officer who retired March 1, 2016, and entered the township’s Deferred Retirement Option Program (DROP).

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.

In addition, pursuant to the instructions that accompany Certification Form AG 385, each officer must be an active, full-time police officer employed by the municipality, employed for any six (6) consecutive months during the calendar year and work not less than 35 hours per week.

Furthermore, Act 205 at Section 402(e)(2) states, in part:

For the purpose of computing and reporting the applicable number of units, a DROP participant shall not be reported to the Auditor General as an active employee.

Cause: Plan officials again failed to implement adequate internal control procedures to ensure the accuracy of the data certified and full compliance with the prior recommendation. In addition, plan officials were unaware that part-time employees and DROP participants and their respective compensation are not eligible for certification purposes.

Effect: The data submitted on these certification forms is used, in part, to calculate the state aid due to the township for distribution to its pension plan. Because the township’s state aid allocations for 2017 and 2018 were based on unit value, the incorrect certification of pension data affected the township’s state aid allocations, as identified below:

| <u>Year</u> | <u>Units Overstated</u> | <u>Unit Value</u> | <u>State Aid Overpayment</u> |
|--------------------------------|-------------------------|-------------------|------------------------------|
| 2017 | 2 | \$ 4,588 | \$ 9,176 |
| 2018 | 2 | 4,684 | <u>9,368</u> |
| Total Overpayment of State Aid | | | <u>\$ 18,544</u> |

BUFFALO TOWNSHIP POLICE PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

In addition, the township used the overpayment of state aid received in 2017 and 2018 to pay the minimum municipal obligation (MMO) due to the township's non-uniformed pension plan; therefore, if the reimbursement to the Commonwealth is made from the non-uniformed pension plan, the plan's MMO will not be fully paid.

Recommendation: We recommend that the total overpayment of state aid, in the amount of \$18,544, be reimbursed 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, 320 Finance Building, Harrisburg, PA 17120. A copy of the interest calculation must be submitted along with the check.

In addition, we again recommend that, in the future, plan officials establish adequate internal control procedures, such as having at least two 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.

Furthermore, if the reimbursement to the Commonwealth is made from the 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. On May 31, 2019, the township reimbursed \$20,205, which includes applicable interest, to the Commonwealth for the overpayment of state aid received in 2017 and 2018.

Auditor's Conclusion: As evidenced by the management response, the township has partially complied with the finding recommendation. Compliance with the remainder of the recommendation will be evaluated during the next plan engagement.

BUFFALO TOWNSHIP POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

The supplementary information contained on Pages 4 through 7 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 | \$ 36,647 | \$ 36,739 |
| Interest | 117,710 | 117,633 |
| Difference between expected and actual experience | - | (155,543) |
| Net Change in Total Pension Liability | <u>154,357</u> | <u>(1,171)</u> |
| Total Pension Liability – Beginning | 1,644,925 | 1,799,282 |
| Total Pension Liability – Ending (a) | <u>\$ 1,799,282</u> | <u>\$ 1,798,111</u> |
| Plan Fiduciary Net Position | | |
| Contributions – employer | \$ 10,011 | \$ 15,321 |
| Net investment income | 59,429 | (87,983) |
| Administrative expense | (25,126) | (23,537) |
| Net Change in Plan Fiduciary Net Position | <u>44,314</u> | <u>(96,199)</u> |
| Plan Fiduciary Net Position – Beginning | 2,283,467 | 2,327,781 |
| Plan Fiduciary Net Position – Ending (b) | <u>\$ 2,327,781</u> | <u>\$ 2,231,582</u> |
| Net Pension Liability – Ending (a-b) | <u>\$ (528,499)</u> | <u>\$ (433,471)</u> |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | 129.4% | 124.1% |
| Estimated Covered Employee Payroll | \$ 327,252 | \$ 335,315 |
| Net Pension Liability as a Percentage of Covered Employee Payroll | (161.5%) | (129.3%) |

BUFFALO TOWNSHIP POLICE 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 | \$ 38,576 | \$ 48,551 |
| Change of benefit terms | 126,730 | 89,248 |
| Difference between expected and actual experience | - | (643,296) |
| Change of Assumptions | - | 51,588 |
| Benefit payments | (53,431) | (90,742) |
| Net Change in Total Pension Liability | <u>111,875</u> | <u>(544,651)</u> |
| Total Pension Liability – Beginning | <u>1,798,111</u> | <u>1,909,986</u> |
| Total Pension Liability – Ending (a) | <u>\$ 1,909,986</u> | <u>\$ 1,365,335</u> |
| | | |
| Plan Fiduciary Net Position | | |
| Contributions – employer | \$ 3,362 | \$ - |
| Net investment income | 180,177 | 338,193 |
| Benefit payments | (53,431) | (90,742) |
| Administrative expense | (30,211) | (26,122) |
| Net Change in Plan Fiduciary Net Position | <u>99,897</u> | <u>221,329</u> |
| Plan Fiduciary Net Position – Beginning | <u>2,231,582</u> | <u>2,331,479</u> |
| Plan Fiduciary Net Position – Ending (b) | <u>\$ 2,331,479</u> | <u>\$ 2,552,808</u> |
| | | |
| Net Pension Liability – Ending (a-b) | <u>\$ (421,493)</u> | <u>\$ (1,187,473)</u> |
| | | |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | 122.1% | 187.0% |
| | | |
| Estimated Covered Employee Payroll | \$ 236,158 | \$ 296,599 |
| | | |
| Net Pension Liability as a Percentage of Covered Employee Payroll | (178.5%) | (400.4%) |

BUFFALO TOWNSHIP POLICE 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:

| | 1% Decrease (6.0%) | Current Discount Rate (7.0%) | 1% Increase (8.0%) |
|----------------------------------|-----------------------|------------------------------------|-----------------------|
| Net Pension Liability – 12-31-14 | \$ (295,851) | \$ (528,499) | \$ (721,263) |
| Net Pension Liability – 12-31-15 | (192,922) | (433,471) | (633,524) |
| Net Pension Liability – 12-31-16 | (172,728) | (421,493) | (628,680) |

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:

| | 1% Decrease (5.75%) | Current Discount Rate (6.75%) | 1% Increase (7.75%) |
|----------------------------------|------------------------|-------------------------------------|------------------------|
| Net Pension Liability – 12-31-17 | \$ (990,467) | \$ (1,187,473) | \$ (1,350,358) |

BUFFALO TOWNSHIP POLICE 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 | \$ - | \$ - | \$ - | | |
| 2010 | 73,812 | 73,812 | - | \$ 294,403 | 25.1% |
| 2011 | 71,934 | 71,934 | - | - | - |
| 2012 | 77,226 | 77,226 | - | 314,207 | 24.6% |
| 2013 | 20,337 | 20,337 | - | - | - |
| 2014 | 10,011 | 10,011 | - | 327,252 | 3.1% |
| 2015 | 15,321 | 15,321 | - | 335,315 | 4.6% |
| 2016 | 3,362 | 3,362 | - | 236,158 | 1.4% |
| 2017** | - | - | - | 296,599 | N/A |
| 2018** | - | - | - | | |

* 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.

** The plan's actuarial value of assets exceeded the present value of benefits as of January 1, 2015 valuation date; therefore, according to Section 302(b)(1) of Act 205, no contributions were required for 2017 and 2018.

SCHEDULE OF INVESTMENT RETURNS

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

| | |
|------|---------|
| 2017 | 14.68% |
| 2016 | 8.14% |
| 2015 | (3.80%) |
| 2014 | 2.62% |

BUFFALO TOWNSHIP POLICE 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 | \$ 1,947,125 | \$ 1,502,411 | \$ (444,714) | 129.6% |
| 01-01-15 | 2,327,781 | 1,643,739 | (684,042) | 141.6% |
| 01-01-17 | 2,331,479 | 1,318,278 | (1,013,201) | 176.9% |

BUFFALO TOWNSHIP POLICE 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 POLICE 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 | N/A |
| Remaining amortization period | N/A |
| Asset valuation method | Fair value |
| Actuarial assumptions: | |
| Investment rate of return * | 6.75% |
| Projected salary increases * | 4.5% |
| Cost-of-living adjustments | 2.75% |

* Includes inflation at 2.75%

BUFFALO TOWNSHIP POLICE PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

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