

LIMITED PROCEDURES ENGAGEMENT

New Sewickley Township Non-Uniformed Management Pension Plan

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

March 2020



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
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, 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. State aid allocations that were deposited into the pension plan for the years ended December 31, 2013 to December 31, 2018, 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, 2013 to December 31, 2018, are presented on the Summary of Deposited State Aid and Employer Contributions.
- 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.

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 findings further discussed later in this report:

- Finding No. 1 - Partial Compliance With Prior Recommendation - Municipal Contributions Made In Excess Of Contributions Required To Fund The Plan
- Finding No. 2 - Incorrect Data On Certification Form AG 385 Resulting In An Underpayment Of State Aid

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.



EUGENE A. DEPASQUALE
Auditor General

February 26, 2020

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

Partial Compliance With Prior LPE Recommendation

New Sewickley Township has partially complied with the prior LPE recommendation concerning the following:

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

During the current engagement period, the township was reimbursed \$1,500 from the pension plan for the excess municipal contributions made in 2012; however, plan officials failed to determine if the excess municipal contributions made in 2013 should be withdrawn from the members' accounts and reimbursed to the township as further discussed in the Findings and Recommendations section of this report.

NEW SEWICKLEY TOWNSHIP NON-UNIFORMED MANAGEMENT PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 - Partial Compliance With Prior Recommendation - Municipal Contributions Made In Excess Of Contributions Required To Fund The Plan

Condition: As disclosed in the Status of Prior Finding section of this report, the township partially complied with the prior recommendation by reimbursing \$1,500 from the pension plan to the township for the excess municipal contributions made in 2012; however, plan officials failed to determine if the excess municipal contributions made in 2013 should be withdrawn from the members' accounts and reimbursed to the township.

The prior report disclosed that 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		<u>(7,041)</u>
Municipal contributions required to fund plan	\$	<u>6,807</u>
Actual municipal contributions made	\$	7,348
Municipal contributions required to fund plan		<u>(6,807)</u>
Excess municipal contributions	\$	<u>541</u>

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.

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 did not realize that full compliance with the prior recommendation had not been effected.

NEW SEWICKLEY TOWNSHIP NON-UNIFORMED MANAGEMENT PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 - (Continued)

Effect: Accumulated member account balances now include funds that the municipality contributed 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 reimbursed to the township.

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

Auditor’s Conclusion: We are concerned that the municipality has not fully complied with the prior recommendation and encourage compliance at the earliest opportunity to do so.

Finding No. 2 - Incorrect Data On Certification Form AG 385 Resulting In An Underpayment Of State Aid

Condition: The township failed to certify 1 eligible non-uniformed management employee (1 unit) and understated payroll by \$23,154 on the Certification Form AG 385 filed in 2018. The data contained on this certification form is based on prior calendar year information.

Criteria: Pursuant to Act 205, at Section 402(e)(2), an employee who has been employed on a full-time basis for at least six consecutive months and has been participating in a pension plan during the certification year is eligible for certification.

Cause: The township’s failure to include a new employee who was eligible for certification was attributable to an oversight.

Effect: The data submitted on this certification form is used, in part, to calculate the state aid due to the municipality for distribution to its pension plans. Because the township’s state aid allocation was based on unit value, the township received an underpayment of state aid of \$4,684 as identified below:

<u>Year</u>	<u>Units Understated</u>	<u>Unit Value</u>	<u>State Aid Underpayment</u>
2018	1	\$4,684	\$ 4,684

NEW SEWICKLEY TOWNSHIP NON-UNIFORMED MANAGEMENT PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 - (Continued)

Although the additional state aid will be allocated to the township, the full amount of the 2018 state aid allocation was not available to be deposited timely and therefore resulted in the township having to make additional municipal contributions in order to meet the plan's funding obligation.

Recommendation: We 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.

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

Auditors Conclusion: Compliance will be evaluated during our next plan engagement.

NEW SEWICKLEY TOWNSHIP NON-UNIFORMED MANAGEMENT PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

The supplementary information contained on Pages 5 and 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, 2015, 2016, 2017, AND 2018

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Total Pension Liability					
Service cost	\$ 14,646	\$ 14,964	\$ 15,467	\$ 18,002	\$ 18,700
Interest	18,806	19,811	21,120	21,575	22,930
Change of benefit terms	-	-	-	-	4,714
Difference between expected and actual experience	(587)	1,086	1,137	-	1,195
Changes of assumptions	-	2,192	3,272	-	-
Benefit payments, including refunds of member contributions	(14,608)	(14,608)	(14,608)	(14,608)	(14,608)
Net Change in Total Pension Liability	18,257	23,445	26,388	24,969	32,931
Total Pension Liability - Beginning	343,824	362,081	385,526	411,914	436,883
Total Pension Liability - Ending (a)	<u>\$ 362,081</u>	<u>\$ 385,526</u>	<u>\$ 411,914</u>	<u>\$ 436,883</u>	<u>\$ 469,814</u>
Plan Fiduciary Net Position					
Contributions - employer	\$ 14,793	\$ 14,992	\$ 15,467	\$ 18,002	\$ 18,773
Contributions - PMRS assessment	-	100	100	120	120
PMRS investment income	18,602	19,586	20,814	21,135	22,508
Market value investment income	(1,870)	(19,445)	10,164	46,962	(44,283)
Benefit payments, including refunds of member contributions	(14,608)	(14,608)	(14,608)	(14,608)	(14,608)
PMRS Administrative expense	(100)	(100)	(100)	(100)	(120)
Additional administrative expense	(713)	(817)	(1,020)	(972)	(1,004)
Net Change in Plan Fiduciary Net Position	16,104	(292)	30,817	70,539	(18,614)
Plan Fiduciary Net Position - Beginning	337,211	353,315	353,023	383,840	454,379
Plan Fiduciary Net Position - Ending (b)	<u>\$ 353,315</u>	<u>\$ 353,023</u>	<u>\$ 383,840</u>	<u>\$ 454,379</u>	<u>\$ 435,765</u>
Net Pension Liability - Ending (a-b)	<u>\$ 8,766</u>	<u>\$ 32,503</u>	<u>\$ 28,074</u>	<u>\$ (17,496)</u>	<u>\$ 34,049</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	97.58%	91.57%	93.18%	104.00%	92.75%
Estimated Covered Employee Payroll	\$ 146,465	\$ 149,640	\$ 154,673	\$ 180,021	\$ 186,999
Net Pension Liability as a Percentage of Covered Employee Payroll	5.99%	21.72%	18.15%	(9.72)%	18.21%

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 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:

	1% Decrease (4.5%)	Current Discount Rate (5.5%)	1% Increase (6.5%)
Net Pension Liability - 12/31/14	\$ 61,394	\$ 8,766	\$ (41,937)
Net Pension Liability - 12/31/15	\$ 89,798	\$ 32,503	\$ (22,954)

In addition, the following presents the net pension liability of the township as of December 31, 2016, 2017, and 2018, calculated using the discount rate of 5.25%, 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 (4.25%)	Current Discount Rate (5.25%)	1% Increase (6.25%)
Net Pension Liability - 12/31/16	\$ 90,504	\$ 28,074	\$ (32,598)
Net Pension Liability - 12/31/17	\$ 50,451	\$ (17,496)	\$ (83,731)
Net Pension Liability - 12/31/18	\$ 106,471	\$ 34,049	\$ (39,820)

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

Year Ended December 31	State Aid	Employer Contributions
2013	\$ 7,041	\$ 7,348
2014	1,379	13,368
2015	None	15,064
2016	None	15,567
2017	None	18,122
2018	2,092	16,801

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

This report was initially distributed to the following:

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