

COMPLIANCE AUDIT

North Sewickley Township Non-Uniformed Pension Plan Beaver County, Pennsylvania For the Period January 1, 2018 to December 31, 2022

January 2024



Commonwealth of Pennsylvania
Department of the Auditor General

Timothy L. DeFoor • Auditor General



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**TIMOTHY L. DEFOOR
AUDITOR GENERAL**

Board of Township Supervisors
North Sewickley Township
Beaver County
Beaver Falls, PA 15010

We have conducted a compliance audit of the North Sewickley Township Non-Uniformed Pension Plan for the period January 1, 2018 to December 31, 2022. We also evaluated compliance with some requirements subsequent to that period when possible. The audit was conducted pursuant to authority derived from the Municipal Pension Plan Funding Standard and Recovery Act (Act 205 of 1984, as amended, 53 P.S. § 895.402(j)), which requires the Auditor General, as deemed necessary, to audit every municipality which receives general municipal pension system state aid and every municipal pension plan and fund in which general municipal pension system state aid is deposited. The audit was not conducted, nor was it required to be, in accordance with Government Auditing Standards issued by the Comptroller General of the United States. We planned and performed the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and 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.
- 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 that there were no benefit calculations prepared for the years covered by our audit period.
- We determined whether the January 1, 2017, January 1, 2019, and January 1, 2021 actuarial valuation reports were prepared and submitted by March 31, 2018, 2020, and 2022, 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.

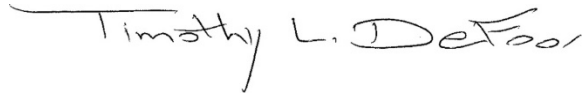
The North Sewickley Township Non-Uniformed Pension Plan participates in the Pennsylvania Municipal Retirement System (PMRS), which is an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for participating municipal pension plans. PMRS issues a separate Annual Comprehensive Financial Report, copies of which are available from the PMRS accounting office. PMRS's 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 North Sewickley Township Non-Uniformed Pension Plan is administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies. As previously described, we tested transactions, interviewed selected officials, and performed procedures to the extent necessary 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 North Sewickley Township Non-Uniformed Pension Plan was 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 – Municipal Contributions Made In Excess Of Contributions Required To Fund The Plan
- Finding No. 2 – Failure to Deposit State Aid Into An Eligible Pension Plan

The contents of this report were discussed with officials of North Sewickley 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.

A handwritten signature in black ink that reads "Timothy L. DeFoor". The signature is written in a cursive style with a long horizontal line extending to the left of the first letter.

Timothy L. DeFoor
Auditor General
January 3, 2024

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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.

Annual state aid allocations are provided from a two 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 North Sewickley Township Non-Uniformed Pension Plan is also governed by implementing regulations published at Title 16, Part IV of the Pennsylvania Code and applicable provisions of various other state statutes including, but not limited to, the following:

Act 15 - Pennsylvania Municipal Retirement Law, Act of February 1, 1974
(P.L. 34, No. 15), as amended, 53 P.S. § 881.101 et seq.

The North Sewickley Township Non-Uniformed Pension Plan is a single-employer cash balance pension plan locally controlled by the provisions of Ordinance No. 06082021-1, as amended, effective April 1, 2020, and a separately executed adoption agreement with the plan custodian, adopted pursuant to Act 15. Prior to April 1, 2020, the plan was locally controlled by the provisions of Ordinance No. 05122015 and an agreement with the plan custodian also adopted pursuant to Act 15. The plan was established January 1, 2015. Active members are not required to contribute; however, they may optionally contribute up to 20 percent of compensation to the plan. The municipality was required to contribute the following amounts per quarter per employee: \$870 in 2018, \$930 in 2019, \$990 in 2020, and \$1,050 in 2021 and 2022. As of December 31, 2022, the plan had one active member and one terminated member eligible for vested benefits.

NORTH SEWICKLEY TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Municipal Contributions Made In Excess Of Contributions Required To Fund The Plan

Condition: The township made contributions to the non-uniformed pension plan in excess of contributions required to fund the plan, as illustrated below:

	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
Actual municipal pension costs	\$ 3,500	\$ 3,740	\$ 3,980	\$ 4,240
State aid allocated	<u>(3,547)</u>	<u>(3,678)</u>	<u>(3,773)</u>	<u>(3,281)</u>
Municipal contributions required to fund plan	<u>\$ -</u>	<u>\$ 62</u>	<u>\$ 207</u>	<u>\$ 959</u>
Actual municipal contributions made	\$ 2,900	\$ 2,810	\$ 2,000	\$ 3,190
Municipal contributions required to fund plan	<u>-</u>	<u>(62)</u>	<u>(207)</u>	<u>(959)</u>
Excess municipal contributions	<u>\$ 2,900</u>	<u>\$ 2,748</u>	<u>\$ 1,793</u>	<u>\$ 2,231</u>

Criteria: Section 9.1 of Ordinance No. 05122015, states, in part:

The municipality shall contribute six hundred and ninety dollars (\$690) to each Member's Account per quarter....

Effective January 2, 2018, the township increased the municipal contribution rate to \$870 per quarter.

Effective January 1, 2019, the township increased the municipal contribution rate to \$930 per quarter.

Effective January 1, 2020, the township increased the municipal contribution rate to \$990 per quarter.

Effective January 2, 2021, the township increased the municipal contribution rate to \$1,050 per quarter.

NORTH SEWICKLEY TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (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: The township did not have adequate internal control procedures in place to ensure that municipal contributions would not exceed the required contributions outlined in the plan’s governing document.

Effect: As a result of the township making contributions to the non-uniformed pension plan in excess of contributions required to fund the pension plan, an unallocated reserve fund in the amount of \$10,429 was generated, as illustrated by the following:

	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>
Unallocated reserve fund at January 1	\$ 9	\$ 3,020	\$ 5,983	\$ 8,125	\$ 10,858
Excess municipal contributions	2,900	2,748	1,793	2,231	-
Interest earned on reserve funds*	111	215	349	502	621
Transfer to member account	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,050)</u>
Unallocated reserve fund at December 31	<u>\$ 3,020</u>	<u>\$ 5,983</u>	<u>\$ 8,125</u>	<u>\$ 10,858</u>	<u>\$ 10,429</u>

* In 2018, the township received an insignificant amount of excess state aid, \$66, which was deposited into the reserve fund and contributed to the ending balance. It is included along with the \$45 of interest earned in 2018.

The unallocated reserve fund maintained by the non-uniformed pension plan resulted because no reduction of municipal contributions occurred to reconcile the amount of state aid with the plan’s defined contribution pension costs. It is appropriate to use state aid to reimburse a municipality for contributions made to the pension plan to fund the pension costs in that same fiscal year, as long as annual pension costs for that pension plan are equal to or greater than the state aid allocated to that pension plan.

NORTH SEWICKLEY TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

It is the opinion of this department that the township's failure to withdraw excess municipal contributions made in prior years does not preclude the township from withdrawing the municipal contributions maintained in the pension account at this time.

Recommendation: We recommend that the township liquidate the unallocated reserve fund maintained by the non-uniformed pension plan by transferring the assets which represent nonstate aid funds, to the township's general fund. In addition, any interest earned on assets held in the reserve fund to the date of transfer should also be transferred to the general fund.

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.

Auditor's Conclusion: Compliance will be evaluated during our next audit of the plan.

Finding No. 2 – Failure To Deposit State Aid Into An Eligible Pension Plan

Condition: The municipality deposited its 2022 state aid allocation in the amount of \$2,707 into the police pension plan instead of the non-uniformed pension plan. Since the police pension plan's actuarial value of assets exceeded the actuarial present value of future benefits, the police pension plan did not have costs, and therefore the township was only permitted to deposit state aid into the non-uniformed pension plan.

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.

NORTH SEWICKLEY TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

In addition, Section 402(g) of Act 205 states, in part:

. . . the total amount of the general municipal pension system State aid received by the municipality shall, within 30 days of receipt by the treasurer of the municipality, be deposited in the pension funds or the alternate funding mechanisms applicable to the respective pension plans.

Cause: Internal control procedures were not in effect to ensure the deposit of state aid into the correct account.

Effect: When state aid is not deposited into a pension plan account, the funds are not available to pay operating expenses or for investment and the risk of misapplication is increased.

Recommendation: The township made municipal contributions to the non-uniformed pension plan from the township’s general fund for the year 2022, therefore, we recommend that municipal officials transfer the 2022 state aid allocation of \$2,707 from the police pension plan to the township’s general fund to reimburse the general fund for the contributions made to the non-uniformed pension plan.

We also recommend that plan officials develop and implement procedures to ensure that future state aid is deposited into an eligible pension plan within 30 days of receipt by the municipal treasurer.

In addition, we recommend that, in the future, plan officials reconcile the amount of state aid allocated to the non-uniformed pension plan with the pension plan’s annual pension costs and determine whether any excess state aid may be utilized to pay plan administrative expenses or must be returned to the Commonwealth.

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

Auditor’s Conclusion: Compliance will be evaluated during our next audit of the plan.

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

SCHEDULE OF CONTRIBUTIONS

Year Ended December 31	Statutorily Required Contribution (SRC)	Contributions in Relation to the SRC	Contribution Deficiency (Excess)	Covered- Employee Payroll	Contributions as a Percentage of Covered- Employee Payroll
2015	\$ 2,780	\$ 2,780	\$ -	\$ 37,778	7.36%
2016	3,020	3,020	-	42,877	7.04%
2017	3,260	3,320	(60)	46,934	7.07%
2018	3,500	6,467	(2,967)	48,710	13.28%
2019	3,740	7,418	(3,678)	52,810	14.05%
2020	3,980	5,773	(1,793)	45,922	12.57%
2021	4,240	6,471	(2,231)	38,349	16.87%
2022	4,240	4,240	-	*	

* Due to the timing of this audit, covered-employee payroll for 2022 was not provided in this schedule.

NORTH SEWICKLEY TOWNSHIP NON-UNIFORMED PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Joshua D. Shapiro
Governor
Commonwealth of Pennsylvania

Mr. Emmett Santillo
Chairman, Board of Township Supervisors

Mr. John Axtell
Township Supervisor

Mr. Tom Roush
Township Supervisor

Ms. Lisa A. Crespo
Clerk

Mr. Richard Cardamone, CPA, CGMA
Pennsylvania Municipal Retirement System

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