

LIMITED PROCEDURES ENGAGEMENT

Sheffield Township Non-Uniformed Pension Plan Warren County, Pennsylvania For the Period January 1, 2015 to December 31, 2017

January 2019



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



Commonwealth of Pennsylvania
Department of the Auditor General
Harrisburg, PA 17120-0018
Facebook: Pennsylvania Auditor General
Twitter: @PAAuditorGen
www.PaAuditor.gov

EUGENE A. DePASQUALE
AUDITOR GENERAL

Board of Township Supervisors
Sheffield Township
Warren County
Sheffield, PA 16347

We conducted a Limited Procedures Engagement (LPE) of the Sheffield Township Non-Uniformed Pension Plan for the period January 1, 2015 to December 31, 2017 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 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, 2012 to December 31, 2017, 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, 2012 to December 31, 2017, 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, 2013, January 1, 2015 and January 1, 2017 actuarial valuation reports were prepared and submitted by March 31, 2014, 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 Sheffield Township Non-Uniformed 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 – Allocation Of State Aid In Excess Of Entitlement

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 Sheffield 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.

December 19, 2018



EUGENE A. DEPASQUALE
Auditor General

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SHEFFIELD TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDING AND RECOMMENDATION

Finding – Allocation Of State Aid In Excess Of Entitlement

Condition: In 2015, the township allocated state aid to the non-uniformed pension plan in excess of the plan’s pension costs under Act 205, as illustrated below:

State aid allocation	\$ 6,516
Less: Actual municipal pension costs	<u>(6,272)</u>
Excess state aid	<u>\$ 244</u>

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 plan 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.

Cause: Plan officials were unaware of the need to annually reconcile the amount of state aid allocated to the pension plan with the plan’s actual pension costs.

Effect: It is this department’s opinion that, since the entire proceeds of the insurance premium tax on foreign casualty insurance companies are distributed annually to each eligible recipient municipality, it is inappropriate to use state aid in one year to offset pension costs in other years; however, the township does have the option to allocate the excess state aid to its defined benefit pension plan.

Recommendation: We recommend that municipal officials allocate the \$244 of excess state aid to the township’s defined benefit pension plan.

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 pension costs.

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

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

SHEFFIELD TOWNSHIP NON-UNIFORMED PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

The supplementary information contained on Pages 2 and 3 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, AND 2016

	<u>2014</u>	<u>2015</u>	<u>2016</u>
Total Pension Liability			
Service cost	\$ 9,313	\$ 8,993	\$ 9,422
Interest	13,259	12,047	14,177
Difference between expected and actual experience	3,213	1,468	4,246
Changes of assumptions	-	2,429	2,820
Benefit payments, including refunds of member contributions	(10,285)	(18,473)	(20,935)
Net Change in Total Pension Liability	15,500	6,464	9,730
Total Pension Liability – Beginning	242,688	258,188	264,652
Total Pension Liability - Ending (a)	<u>\$ 258,188</u>	<u>\$ 264,652</u>	<u>\$ 274,382</u>
Plan Fiduciary Net Position			
Contributions – employer*	\$ 6,727	\$ 6,973	\$ 6,882
Contributions – PMRS assessment	-	200	200
Contributions – employee	1,647	2,020	2,540
PMRS investment income	13,194	11,955	13,905
Market value investment income	2,386	(14,602)	10,610
Benefit payments, including refunds of member contributions	(10,285)	(18,473)	(20,935)
PMRS administrative expense	(180)	(200)	(200)
Additional administrative expense	(506)	(498)	(681)
Net Change in Plan Fiduciary Net Position	12,983	(12,625)	12,321
Plan Fiduciary Net Position – Beginning	240,154	253,137	240,512
Plan Fiduciary Net Position – Ending (b)	<u>\$ 253,137</u>	<u>\$ 240,512</u>	<u>\$ 252,833</u>
Net Pension Liability – Ending (a-b)	<u>\$ 5,051</u>	<u>\$ 24,140</u>	<u>\$ 21,549</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	98.04%	90.88%	92.15%
Estimated Covered Employee Payroll	\$ 127,760	\$ 116,216	\$ 114,705
Net Pension Liability as a Percentage of Covered Employee Payroll	3.95%	20.77%	18.79%

* 2014 employer contributions do not include \$1,119 surplus municipal reserve funds.

SHEFFIELD TOWNSHIP NON-UNIFORMED 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:

	<u>1% Decrease (4.5%)</u>	<u>Current Discount Rate (5.5%)</u>	<u>1% Increase (6.5%)</u>
Net Pension Liability – 12/31/2014	\$ 46,624	\$ 5,051	\$ (36,224)
Net Pension Liability – 12/31/2015	\$ 52,919	\$ 24,140	\$ (3,204)

In addition, the following presents the net pension liability of the township as of December 31, 2016, 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:

	<u>1% Decrease (4.25%)</u>	<u>Current Discount Rate (5.25%)</u>	<u>1% Increase (6.25%)</u>
Net Pension Liability– 12/31/2016	\$ 52,573	\$ 21,549	\$ (8,125)

SHEFFIELD TOWNSHIP NON-UNIFORMED PENSION PLAN
SUMMARY OF DEPOSITED STATE AID AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid	Employer Contributions
2012	\$ 6,619	\$ 881
2013	6,456	1,302
2014	6,888	958
2015	6,516	657
2016	5,111	1,971
2017	5,953	952

SHEFFIELD TOWNSHIP NON-UNIFORMED PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

Mr. Thomas A. Bulicz
Chairman, Board of Township Supervisors

Ms. Kristi Kulka
Secretary

Ms. Charity Rosenberry, CPA
Pennsylvania Municipal Retirement System

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