

# LIMITED PROCEDURES ENGAGEMENT

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## South Beaver Township Police Pension Plan Beaver County, Pennsylvania For the Period January 1, 2015 to December 31, 2018

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January 2020



Commonwealth of Pennsylvania  
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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Board of Township Supervisors  
South Beaver Township  
Beaver County  
Beaver Falls, PA 15010

We conducted a Limited Procedures Engagement (LPE) of the South Beaver Township Police Pension Plan for the period January 1, 2015 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 member 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 the retired individual and comparing these amounts to supporting documentation evidencing amounts determined and actually paid to the recipient.
- 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 South Beaver 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 – Failure To Implement Mandatory Act 44 Procedures For The Procurement Of Professional Services

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 South Beaver 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.

January 10, 2020



EUGENE A. DEPASQUALE  
Auditor General

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SOUTH BEAVER TOWNSHIP POLICE PENSION PLAN  
STATUS OF PRIOR FINDING

Compliance With Prior LPE Report Recommendation

South Beaver Township has complied with the prior LPE report recommendation concerning the following:

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

During the current engagement period, the township reimbursed \$1,477 to the Commonwealth for overpayment of state aid received in 2013, 2014 and 2015 and complied with the instructions accompanying Certification Form AG 385 and accurately reported the required information.

SOUTH BEAVER TOWNSHIP POLICE PENSION PLAN  
FINDING AND RECOMMENDATION

**Finding – Failure To Implement Mandatory Act 44 Procedures For The Procurement Of Professional Services**

Condition: As disclosed as a verbal observation during the prior engagement, municipal officials failed to adopt the mandatory provisions of Act 205 regarding professional services contracts.

Criteria: Section 701-A of Act 205, as amended by Act 44 of 2009, defines a “Professional Services Contract”, as follows:

“Professional services contract.” A contract to which the municipal pension system is a party that is:

- (1) for the purchase or provision of professional services, including investment services, legal services, real estate services and other consulting services; and
- (2) not subject to a requirement that the lowest bid be accepted.

In addition, Section 702-A (a) of Act 205 states in part:

Each municipal pension system ... shall develop procedures to select the most qualified person to enter into a professional services contract. The procedures shall ensure that the availability of a professional services contract is advertised to potential participants in a timely and efficient manner. Procedures shall include applications and disclosure forms to be used to submit a proposal for review and to receive the award of a professional services contract.

Additionally, Section 702-A (c), (e), (f) and (h) state, in part:

**Review.** Procedures to select the most qualified person shall include a review of the person’s qualifications, experience and expertise and the compensation to be charged.

**Conflict of interest.** The municipal pension system shall adopt policies relating to potential conflicts of interest in the review of a proposal or the negotiation of a contract.

**Public information.** Following the award of a professional services contract, all applications and disclosure forms shall be public except for proprietary information or other information protected by law.

SOUTH BEAVER TOWNSHIP POLICE PENSION PLAN  
FINDING AND RECOMMENDATION

**Finding – (Continued)**

**Notice and summary.** The relevant factors that resulted in the award of the professional services contract must be summarized in a written statement to be included in or attached to the documents awarding the contract. Within ten days of the award of the professional services contract, the original application, a summary of the basis for the award and all required disclosure forms must be transmitted to all unsuccessful applications and posted on the municipal pension system's Internet website, if an Internet website is maintained, at least seven days prior to the execution of the professional services contract.

Cause: Plan officials failed to establish adequate internal controls procedures to ensure compliance with provisions of Act 205 as previously recommended.

Effect: The township's failure to comply in all respects with the previous recommendation and the provisions stipulated in Act 205 regarding the procurement of professional investment and advisory services for the township's pension plan results in a general lack of overall transparency of the actions taken by plan officials relative to the awarding of the investment and advisory services contract for the township's pension plan.

Recommendation: We recommend that municipal officials obtain a comprehensive understanding of Act 205 provisions for the procurement of professional services and develop and implement formal written procedures to ensure compliance with these provisions while maintaining appropriate and sufficient supporting documentation evidencing every phase of the process in the awarding of future professional services contracts for the pension plan, including authorizations/approvals of township officials in the official minutes of formal board meetings and the required notifications and disclosure responsibilities to ensure the transparency of the actions taken by plan officials relative to the awarding of such professional services contracts.

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

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

SOUTH BEAVER TOWNSHIP POLICE PENSION PLAN  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

The supplementary information contained on Pages 4 through 6 reflects 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	\$ 27,671	\$ 28,463	\$ 21,815	\$ 22,056	\$ 22,365
Interest	35,805	36,864	35,335	38,006	39,833
Change pf benefits	-	-	-	-	9,188
Difference between expected and actual experience	(31,728)	-	24,478	-	(42,945)
Changes of assumptions	-	(65,034)	21,666	-	-
Transfers	-	-	-	-	(7,053)
Benefit payments, including refunds of member contributions	(5,933)	(20,819)	(22,077)	(22,077)	(22,077)
Net Change in Total Pension Liability	<u>25,815</u>	<u>(20,526)</u>	<u>81,217</u>	<u>37,985</u>	<u>(689)</u>
Total Pension Liability – Beginning	626,250	652,065	631,539	712,756	750,741
Total Pension Liability – Ending (a)	<u>\$ 652,065</u>	<u>\$ 631,539</u>	<u>\$ 712,756</u>	<u>\$ 750,741</u>	<u>\$ 750,052</u>
Plan Fiduciary Net Position					
Contributions – employer *	\$ 27,039	\$ 25,088	\$ 23,414	\$ 23,544	\$ 20,871
Contributions – PMRS assessment	-	20	-	20	20
PMRS investment income	35,699	32,311	40,601	41,288	43,345
Market value investment income	(10,170)	(27,313)	20,403	91,421	(84,865)
Benefit payments, including refunds of member contributions	(5,933)	(20,819)	(22,077)	(22,077)	(22,077)
Transfers	-	-	-	-	(7,053)
PMRS administrative expense	(100)	(120)	(120)	(120)	(140)
Additional administrative expense	(1,369)	(1,347)	(1,989)	(1,899)	(1,934)
Net Change in Plan Fiduciary Net Position	<u>45,166</u>	<u>7,820</u>	<u>60,232</u>	<u>132,177</u>	<u>(51,833)</u>
Plan Fiduciary Net Position – Beginning	639,979	685,145	692,965	753,197	885,374
Plan Fiduciary Net Position – Ending (b)	<u>\$ 685,145</u>	<u>\$ 692,965</u>	<u>\$ 753,197</u>	<u>\$ 885,374</u>	<u>\$ 833,541</u>
Net Pension Liability – Ending (a-b)	<u>\$ (33,080)</u>	<u>\$ (61,426)</u>	<u>\$ (40,441)</u>	<u>\$ (134,633)</u>	<u>\$ (83,489)</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	105.07%	109.73%	105.67%	117.93%	111.13%
Estimated Covered Employee Payroll	\$ 180,744	\$ 184,268	\$ 179,929	\$ 182,741	\$ 185,297
Net Pension Liability as a Percentage of Covered Employee Payroll	(18.30%)	(33.34%)	(22.48%)	(73.67%)	(45.06%)

\* Does not include administrative expense.



SOUTH BEAVER 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 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 – 12/31/14	\$ 45,734	\$ (33,080)	\$ (99,426)
Net Pension Liability – 12/31/15	\$ 17,288	\$ (61,426)	\$ (127,752)

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:

	<u>1% Decrease (4.25%)</u>	<u>Current Discount Rate (5.25%)</u>	<u>1% Increase (6.25%)</u>
Net Pension Liability – 12/31/16	\$ 57,247	\$ (40,441)	\$ (121,422)
Net Pension Liability – 12/31/17	\$ (31,739)	\$ (134,633)	\$ (219,930)
Net Pension Liability – 12/31/18	\$ 15,364	\$ (83,489)	\$ (165,976)

SOUTH BEAVER 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
2014	\$ 26,332	\$ 27,039	\$ (707)	\$ 180,744	14.96%
2015	25,088	25,108	(20)	184,268	13.63%
2016	24,630	23,414	1,216	179,929	13.01%
2017	23,533	23,564	(31)	182,741	12.89%
2018	20,871	20,891	(20)	185,297	11.27%

SOUTH BEAVER 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	\$ 595,851	\$ 572,822	\$ (23,029)	104.0%
01-01-15	695,430	652,065	(43,365)	106.7%
01-01-17	806,672	712,756	(93,916)	113.2%

SOUTH BEAVER 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.

SOUTH BEAVER 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	The Actuarial Value of Assets equals the plan's member, municipal, DROP (if applicable) reserve accounts plus the retiree actuarial liability. This asset smoothing is based on the unique legislative structure of PMRS and the administrative rules adopted by the PMRS Board in conjunction with Pennsylvania Municipal Retirement Law, all of which are subject to comply with the Actuarial Standards of Practice No. 44, Selection and Use of Asset Valuation Methods when defining the actuarial Value of Assets.
Actuarial assumptions:	
Investment rate of return	5.25% compounded annually, net of investment and administration expenses.
Salary scale	Total rate (including inflation) (e.g. age 25 – 7.05%; age 35 – 4.55%; age 45 – 3.97%; age 55 – 3.44%; age 65 – 2.80%).
Cost-of-living adjustments	2.8% per year, subject to plan limitations.

SOUTH BEAVER TOWNSHIP POLICE PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

**The Honorable Tom W. Wolf**  
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