

LIMITED PROCEDURES ENGAGEMENT

South Bend Township Non-Uniformed Pension Plan Armstrong 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



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EUGENE A. DePASQUALE
AUDITOR GENERAL

Board of Township Supervisors
South Bend Township
Armstrong County
Spring Church, PA 15686

We conducted a Limited Procedures Engagement (LPE) of the South Bend 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 annual employee contributions were required during the engagement period and, if so, were calculated, deducted, and deposited into the pension plan in accordance with the plan's governing document and applicable laws and regulations by testing total members' contributions on an annual basis using the rates obtained from the plan's governing document in effect for all years within the engagement period and examining documents evidencing the deposit of these employee contributions into the pension plan.
- 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 South Bend 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 – Receipt 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 South Bend 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 9, 2019



EUGENE A. DEPASQUALE
Auditor General

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SOUTH BEND TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDING AND RECOMMENDATION

Finding – Receipt Of State Aid In Excess Of Entitlement

Condition: The township received state aid in excess of the non-uniformed pension plan’s pension costs for full-time plan members in the year 2016, as illustrated below:

State aid allocation	\$ 2,297
Municipal pension costs for full-time plan members	<u>(2,050)</u>
Excess state aid	<u>\$ 247</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 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.

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

Eligible recipients of general municipal pension system State aid. Any county of the second class which, prior to the effective date of this chapter, received allocations for its police pension fund pursuant to the act of May 12, 1943 (P.L. 259, No. 120), or any city, borough, incorporated town or township or any home rule municipality formerly classified as a city, borough, incorporated town or township which employs one or more full-time municipal employees. . . .

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

The applicable number of units shall be attributable to each active employee who was employed on a full-time basis for a minimum of six consecutive months. . . .

Therefore, Act 205 state aid funding may only be used to fund the pension costs attributable to full-time employees.

SOUTH BEND TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

Cause: Plan officials failed to reconcile the township's allocation of state aid to the plan's annual pension costs attributable to full-time plan members.

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. Consequently, the overpayment of state aid in the year 2016 must be returned to the Commonwealth for redistribution.

Recommendation: We recommend that the municipality return the \$247 overpayment of state aid received in the year 2016 to the Commonwealth from the township's general fund. A check in this amount, with interest compounded annually from date of receipt to date of repayment, at a rate earned by the plan, should be made payable to: Commonwealth of Pennsylvania and mailed to: Department of the Auditor General, Municipal Pension & Fire Relief Programs Unit, 321 Finance Building, Harrisburg, PA 17120. A copy of the interest calculation must be submitted along with evidence of payment.

Furthermore, we recommend that, in the future, plan officials reconcile the amount of state aid allocated to the township with the plan's annual defined contribution pension costs attributable to full-time members and reimburse any excess state aid received to the Commonwealth.

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

Auditor's Conclusion: The township's compliance with the finding recommendation will be monitored subsequent to the release of the report and through our next engagement of the pension plan.

SOUTH BEND TOWNSHIP NON-UNIFORMED PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

The supplementary information contained on Pages 3 through 5 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	\$ 5,576	\$ 6,788
Interest	3,219	3,713
Net Change in Total Pension Liability	<u>8,795</u>	<u>10,501</u>
Total Pension Liability – Beginning	56,450	65,245
Total Pension Liability – Ending (a)	<u>\$ 65,245</u>	<u>\$ 75,746</u>
Plan Fiduciary Net Position		
Contributions – employer*	\$ 2,343	\$ 2,885
Contributions – PMRS assessment	-	100
Contributions – employee	3,313	3,940
PMRS investment income	3,207	3,701
Market value investment income	(246)	(4,365)
PMRS administrative expense	(80)	(100)
Additional administrative expense	(123)	(154)
Net Change in Plan Fiduciary Net Position	<u>8,414</u>	<u>6,007</u>
Plan Fiduciary Net Position – Beginning	55,889	64,303
Plan Fiduciary Net Position – Ending (b)	<u>\$ 64,303</u>	<u>\$ 70,310</u>
Net Pension Liability – Ending (a-b)	<u>\$ 942</u>	<u>\$ 5,436</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	98.56%	92.82%
Estimated Covered Employee Payroll	\$ 75,438	\$ 94,928
Net Pension Liability as a Percentage of Covered Employee Payroll	1.25%	5.73%

* The 2015 employer contribution does not include \$100 administrative expense and includes \$83 excess employer contribution, and \$37 excess contribution in municipal reserve.

SOUTH BEND TOWNSHIP NON-UNIFORMED 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	\$ 5,803	\$ 5,852
Interest	3,271	4,285
Difference between expected and actual experience	(446)	-
Changes of assumptions	406	-
Benefit payments, including refunds of member contributions	(3,632)	(3,632)
Net Change in Total Pension Liability	<u>5,402</u>	<u>6,505</u>
Total Pension Liability – Beginning	75,746	81,148
Total Pension Liability – Ending (a)	<u>\$ 81,148</u>	<u>\$ 87,653</u>
Plan Fiduciary Net Position		
Contributions – employer*	\$ 2,363	\$ 2,372
Contributions – PMRS assessment	80	100
Contributions – employee	3,447	3,481
PMRS investment income	3,255	4,201
Market value investment income	155	9,416
Benefit payments, including refunds of member contributions	(3,632)	(3,632)
PMRS administrative expense	(80)	(100)
Additional administrative expense	(159)	(193)
Net Change in Plan Fiduciary Net Position	<u>5,429</u>	<u>15,645</u>
Plan Fiduciary Net Position – Beginning	70,310	75,739
Plan Fiduciary Net Position – Ending (b)	<u>\$ 75,739</u>	<u>\$ 91,384</u>
Net Pension Liability – Ending (a-b)	<u>\$ 5,409</u>	<u>\$ (3,731)</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	93.33%	104.26%
Estimated Covered Employee Payroll	\$ 78,514	\$ 79,060
Net Pension Liability as a Percentage of Covered Employee Payroll	6.89%	(4.72%)

* The 2016 employer contribution does not include \$80 administrative expense and \$75 employer contribution (\$83 due less \$7 excess.) The 2017 employer contribution does not include \$100 administrative expense.

SOUTH BEND 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:

	1% Decrease (4.5%)	Current Discount Rate (5.5%)	1% Increase (6.5%)
Net Pension Liability – 12/31/14	\$ 13,991	\$ 942	\$ (12,107)
Net Pension Liability – 12/31/15	\$ 20,585	\$ 5,436	\$ (9,713)

The following presents the net pension liability of the township as of December 31, 2016 and 2017, 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	\$ 17,148	\$ 5,409	\$ (6,175)
Net Pension Liability – 12/31/17	\$ 9,611	\$ (3,731)	\$ (16,930)

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

Year Ended December 31	State Aid	Employer Contributions
2012	\$ 1,011	\$ 482
2013	1,019	541
2014	1,050	1,293
2015	1,813	1,052
2016	2,050	468
2017	1,771	701

SOUTH BEND TOWNSHIP PENSION NON-UNIFORMED PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

Mr. Kevin Rupert
Chairman, Board of Township Supervisors

Ms. Kimberly A. Anderson
Secretary and Chief Administrative Officer

Ms. Charity Rosenberry, CPA
Pennsylvania Municipal Retirement System

This report is a matter of public record and is available online at www.PaAuditor.gov. Media questions about the report can be directed to the Pennsylvania Department of the Auditor General, Office of Communications, 229 Finance Building, Harrisburg, PA 17120; via email to: news@PaAuditor.gov.