

# LIMITED PROCEDURES ENGAGEMENT

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## Cass Township Police Pension Plan Schuylkill County, Pennsylvania For the Period January 1, 2014 to December 31, 2016

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March 2018



Commonwealth of Pennsylvania  
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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Board of Township Supervisors  
Cass Township  
Schuylkill County  
Pottsville, PA 17901

We conducted a Limited Procedures Engagement (LPE) of the Cass Township Police Pension Plan for the period January 1, 2014 to December 31, 2016 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 audit 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 the January 1, 2011, January 1, 2013 and January 1, 2015 actuarial valuation reports were prepared and submitted to the former Public Employee Retirement Commission (PERC) by March 31, 2012, 2014 and 2016, 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 Cass 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 – Partial Compliance With Prior Audit Recommendation – Failure To Budget And Pay The Minimum Municipal Obligation Of The Plan

The finding contained in this LPE report repeats a condition that was cited in our previous audit report that has not been corrected by township officials. We are concerned by the township's failure to fully correct this previously reported audit finding and strongly encourage timely implementation of the recommendation noted in this report.

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 Cass 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.

February 23, 2018



EUGENE A. DEPASQUALE  
Auditor General

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CASS TOWNSHIP POLICE PENSION PLAN  
STATUS OF PRIOR FINDING

Partial Compliance With Prior Audit Recommendation

Cass Township has partially complied with the prior audit recommendation concerning the following:

- Failure To Budget And Pay The Minimum Municipal Obligation Of The Plan

Plan officials paid \$5,000 during June 2016 towards the outstanding 2009 MMO that was due to the plan; however, a funding deficiency remains for funding year 2009. In addition, a similar condition occurred during the current period. Plan officials again failed to pay the 2015 MMO that was due to the police pension plan as further discussed in the Finding and Recommendation section of this report.

CASS TOWNSHIP POLICE PENSION PLAN  
FINDING AND RECOMMENDATION

**Finding – Partial Compliance With Prior Audit Recommendation – Failure To Budget And Pay The Minimum Municipal Obligation (MMO) Of The Plan**

Condition: As disclosed in the Status of Prior Finding section of this report, although plan officials paid \$5,000 in June 2016 towards the outstanding 2009 MMO that was due to the plan; a funding deficiency still remains for 2009. In addition, a similar condition occurred during the current period. The township again failed to pay the MMO that was due to the plan for the year 2015, as required by Act 205. Based upon an estimate prepared by the Municipal Pension Reporting Program (formerly PERC), the municipality had an outstanding MMO balance remaining for 2009 in the amount of \$40,795 as of September 23, 2016 which included interest earned by the plan. Additionally, based upon an estimate prepared by the department, the municipality had an unpaid MMO for 2015 in the amount of \$2,920.

Criteria: Section 302(d) of Act 205 states:

Annually, the municipality shall provide for the full amount of the minimum obligation of the municipality in the budget of the municipality. The minimum obligation of the municipality shall be payable to the pension plan from the revenue of the municipality.

Furthermore, Section 302(e) of Act 205 states:

Any amount of the minimum obligation of the municipality which remains unpaid as of December 31 of the year in which the minimum obligation is due shall be added to the minimum obligation of the municipality for the following year, with interest from January 1 of the year in which the minimum obligation was first due until the date the payment is paid at a rate equal to the interest assumption used for the actuarial valuation report or the discount rate applicable to treasury bills issued by the Department of Treasury of the United States with a six-month maturity as of the last business day in December of the plan year in which the obligation was due, whichever is greater, expressed as a monthly rate and compounded monthly.

Cause: Plan officials again failed to establish adequate internal control procedures to ensure compliance with the prior audit recommendation.

Effect: The continued failure to properly budget and consistently pay the MMO could result in the plan not having adequate resources to meet current and future benefit obligations to its members.

CASS TOWNSHIP POLICE PENSION PLAN  
FINDING AND RECOMMENDATION

**Finding – (Continued)**

Due to the municipality's failure to pay the entire 2009 and 2015 MMOs by the respective December 31 deadlines, the municipality must add the outstanding 2009 and 2015 MMOs to the current year's MMO and include interest, as required by Act 205.

Furthermore, an *Order To Show Cause* was issued to the township on July 24, 2014 by the department as a result of its noncompliance with the prior audit recommendation, resulting in the township's 2015, 2016 and 2017 annual state aid allocations being withheld. Although the township has partially complied with the recommendation by depositing \$5,000 towards the outstanding 2009 MMO, the township's 2015, 2016 and 2017, as well as any future state aid allocations, will continue to be withheld until the township fully complies with the recommendations.

Recommendation: We again recommend that the municipality pay the outstanding MMOs due to the police pension plan for the years 2009 and 2015, with interest, in accordance with Section 302(e) of Act 205. A copy of the interest calculation must be maintained by the township for examination during our next engagement.

Furthermore, plan officials should establish and implement written procedures to assist them in complying with Act 205 reporting and funding requirements and fully pay the annual MMO due the plan.

Management's Response: Management provided documentation showing payment in the amount of \$3,396 on February 6, 2018 representing the outstanding 2015 MMO (\$2,920) plus interest. In addition, the Board of Supervisors also approved their 2018 municipal budget which allocates \$21,475 towards (expense) line item named 483.02– Police Pension Fund Contributions; therefore, plan officials believe that this indicates that the township is making a concerted effort to address the police pension plan deficiency.

Auditor's Conclusion: This finding repeats a condition that was cited in our previous audit report that has not been fully corrected by township officials. We are concerned by the township's failure to fully correct this previously reported audit finding. Based on the management response, it appears that the township has paid the outstanding MMO for 2015 and intends to comply with the finding recommendation; however, due to the outstanding Order To Show Cause issued by the department as noted above, state aid allocations will continue to be withheld and compliance with the recommendation will be monitored subsequent to the release of this report and during our next engagement.

CASS TOWNSHIP POLICE PENSION PLAN  
POTENTIAL WITHHOLD OF STATE AID

A condition of a repeat finding such as that reported by the finding contained in this report may lead to a total withholding of state aid in the future unless that finding is corrected. However, such action will not be considered if sufficient written documentation is provided to verify compliance with this department's recommendation. Such documentation should be submitted to: Department of the Auditor General, Bureau of Municipal Pension & Liquor Control Audits, 314 Finance Building, Harrisburg, PA 17120.



CASS 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, 2011, 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)
01-01-11	\$ 204,187	\$ 213,069	\$ 8,882	95.8%
01-01-13	197,669	202,450	4,781	97.6%
01-01-15	168,378	191,493	23,115	87.9%

CASS 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.

CASS TOWNSHIP POLICE PENSION PLAN  
 SUPPLEMENTARY INFORMATION  
 (UNAUDITED)

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER  
 AND OTHER CONTRIBUTING ENTITIES

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2011	\$ 19,498	129.5%
2012	6,796	103.2%
2013	4,510	179.2%
2014	4,510	113.3%
2015	2,920	100.0%*
2016	4,455	100.0%

Note\*: As noted in the finding and recommendation of this report, subsequent to the engagement period, the township provided documentation evidencing deposit in the amount of \$3,396 on February 6, 2018 representing the outstanding 2015 MMO (\$2,920) plus interest.

CASS 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, 2015
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	2 years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return	7.0%
Projected salary increases	5.0%

CASS TOWNSHIP POLICE PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

**The Honorable Tom W. Wolf**  
Governor  
Commonwealth of Pennsylvania

**Ms. Brenda M. Helt**  
Chairwoman, Board of Township Supervisors

**Ms. Evelyn J. Bergan**  
Township Manager

This report is a matter of public record and is available online at [www.PaAuditor.gov](http://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](mailto:news@PaAuditor.gov).