

# LIMITED PROCEDURES ENGAGEMENT

---

## Catawissa Borough Non-Uniformed Pension Plan Columbia County, Pennsylvania For the Period January 1, 2013 to December 31, 2016

---

June 2017



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

The Honorable Mayor and Borough Council  
Catawissa Borough  
Columbia County  
Catawissa, PA 17820

We conducted a Limited Procedures Engagement (LPE) of the Catawissa Borough Non-Uniformed Pension Plan for the period January 1, 2013 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 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 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 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 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 Catawissa Borough 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 – Failure To Maintain An Adequate Record-Keeping System

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 borough 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 Catawissa Borough and, where appropriate, their responses have been included in this report. We would like to thank borough officials for the cooperation extended to us during the conduct of this LPE.

May 31, 2017



EUGENE A. DEPASQUALE  
Auditor General

## CONTENTS

	<u>Page</u>
Finding and Recommendation:	
Finding – Failure To Maintain An Adequate Record-Keeping System.....	1
Supplementary Information .....	2
Report Distribution List .....	8

CATAWISSA BOROUGH NON-UNIFORMED PENSION PLAN  
FINDING AND RECOMMENDATION

**Finding – Failure To Maintain An Adequate Record-Keeping System**

Condition: The pension plan’s record-keeping system did not provide effective control over assets, revenues and expenses and does not meet the minimum requirements of financial records required by this Department. The deficiencies are as follows:

- Newly adopted joinder agreement was not maintained;
- Pension plan’s financial statements were not maintained;
- Certification Forms AG 385 were not maintained;
- Minimum Municipal Obligations were not maintained; and
- The 2015 Act 205 report was not maintained.

Criteria: An adequate system of accounting and record keeping is a prerequisite for sound administration of pension plans.

Cause: Plan officials were unaware of their various record-keeping responsibilities.

Effect: Although we were able to obtain copies from a third-party source in order to complete our engagement procedures, the failure of plan officials to maintain adequate records prohibits municipal officials from effectively monitoring the plan’s financial operations.

Recommendation: We recommend that plan officials establish accounting procedures which meet the minimum record-keeping requirements of this Department. Plan officials should refer to the Auditor General’s Bulletin No. 2-88 entitled “Preparation, Maintenance and Auditability of Financial Records,” for further guidance in establishing adequate accounting procedures.

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.

CATAWISSA BOROUGH 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	\$ 33,683	\$ 17,572	\$ 18,451
Interest	71,113	76,015	80,418
Difference between expected and actual experience	-	(20,148)	-
Changes of assumptions	-	28,659	-
Benefit payments, including refunds of member contributions	(31,838)	(31,838)	(39,682)
Net Change in Total Pension Liability	<u>72,958</u>	<u>70,260</u>	<u>59,187</u>
Total Pension Liability - Beginning	930,413	1,003,371	1,073,631
Total Pension Liability - Ending (a)	<u>\$ 1,003,371</u>	<u>\$ 1,073,631</u>	<u>\$ 1,132,818</u>
Plan Fiduciary Net Position			
Contributions - employer	\$ 20,283	\$ 7,248	\$ 10,938
Contribution - state aid	18,785	27,056	35,962
Contribution - member	1,856	2,830	3,601
Net investment income	51,685	(5,788)	41,612
Benefit payments, including refunds of member contributions	(31,838)	(31,838)	(39,682)
Administrative expense	(7,316)	(11,277)	(8,794)
Net Change in Plan Fiduciary Net Position	<u>53,455</u>	<u>(11,769)</u>	<u>43,637</u>
Plan Fiduciary Net Position - Beginning	851,080	904,535	892,766
Plan Fiduciary Net Position - Ending (b)	<u>\$ 904,535</u>	<u>\$ 892,766</u>	<u>\$ 936,403</u>
Net Pension Liability - Ending (a-b)	<u>\$ 98,836</u>	<u>\$ 180,865</u>	<u>\$ 196,415</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	90.1%	83.2%	82.7%
Estimated Covered Employee Payroll	\$ 221,434	\$ 192,340	\$ 275,018
Net Pension Liability as a Percentage of Covered Employee Payroll	44.6%	94.0%	71.4%

CATAWISSA BOROUGH 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 borough as of December 31, 2014, 2015, and 2016, calculated using the discount rate of 7.5%, as well as what the borough'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 (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
Net Pension Liability - 12/31/14	\$ 193,156	\$ 98,836	\$ 17,190
Net Pension Liability - 12/31/15	\$ 277,518	\$ 180,865	\$ 97,256
Net Pension Liability - 12/31/16	\$ 292,424	\$ 196,415	\$ 113,245

SCHEDULE OF INVESTMENT RETURNS

Annual Money-Weighted Rate of Return, Net of Investment Expense:

2016	4.66%
2015	-0.64%
2014	6.18%

CATAWISSA BOROUGH NON-UNIFORMED 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	\$ 1,079,766	\$ 966,970	\$ (112,796)	111.7%
01-01-13	890,935	864,149	(26,786)	103.1%
01-01-15	1,008,472	1,011,882	3,410	99.7%

Note: The market values of the plan's assets at 01-01-11, 01-01-13, and 01-01-15 have been adjusted to reflect the smoothing of gains and/or losses at 120 percent of market value. This method will lower contributions in years of less than expected returns and increase contributions in years of greater than expected returns. The net effect over long periods of time is to have less variance in contribution levels from year to year.



CATAWISSA BOROUGH NON-UNIFORMED 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.

CATAWISSA BOROUGH NON-UNIFORMED PENSION PLAN  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER  
AND OTHER CONTRIBUTING ENTITIES

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2011	\$ 33,366	100.0%
2012	35,662	100.0%
2013	36,657	100.0%
2014	39,068	100.0%
2015	34,304	100.0%
2016	46,900	100.0%

CATAWISSA BOROUGH NON-UNIFORMED 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	7 years
Asset valuation method	Plan assets are valued using the method described in Section 210 of Act 205, as amended, subject to a ceiling of 120% of the market value of assets.
Actuarial assumptions:	
Investment rate of return	7.5%
Projected salary increases	5.0%

CATAWISSA BOROUGH NON-UNIFORMED PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

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

**The Honorable Frank Achy**  
Mayor

**Mr. Gary Steinruck**  
Council President

**Mr. Fred E. Hess**  
Borough Manager

**Ms. Nancy M. Yost**  
Borough Treasurer

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).