

COMPLIANCE AUDIT

Conewango Township Non-Uniformed Pension Plan Warren County, Pennsylvania For the Period January 1, 2016 to December 31, 2018

September 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
Conewango Township
Warren County
Warren, PA 16365

We have conducted a compliance audit of the Conewango Township Non-Uniformed Pension Plan for the period January 1, 2016 to December 31, 2018. We also evaluated compliance with some requirements subsequent to that period when possible. The audit was conducted pursuant to authority derived from Section 402(j) of Act 205 and in accordance with the standards applicable to performance audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform our audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The objectives of the audit were:

1. To determine if municipal officials took appropriate corrective action to address the findings contained in our prior Limited Procedures Engagement (LPE) report; and
2. To determine if the pension plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies.

Our audit was limited to the areas related to the objectives identified above. To determine if municipal officials took appropriate corrective action to address the findings contained in our prior LPE report, we inquired of plan officials and evaluated supporting documentation provided by officials evidencing that the suggested corrective action has been appropriately taken. To determine whether the pension plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies, our methodology included the following:

- We determined 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 period under audit.

- We determined 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.
- We determined that there were no employee contributions required by the plan's governing document and applicable laws and regulations for the years covered by our audit period.
- We determined whether retirement benefits calculated for the plan member who elected to vest during the current audit period represent payments to all (and only) those entitled to receive them and were properly determined in accordance with the plan's governing document, applicable laws and regulations by recalculating the amount of the pension benefit due to the retired individual and comparing this amount to supporting documentation evidencing the amount determined.
- We determined 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.
- We determined whether transfers were properly authorized, timely, and appropriately recorded by plan officials by examining supporting documentation for both of the transfers made during the audit period.

Township officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Conewango Township Non-Uniformed Pension Plan is administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies. In conducting our audit, we obtained an understanding of the township's internal controls as they relate to the township's compliance with those requirements and that we considered to be significant within the context of our audit objectives, and assessed whether those significant controls were properly designed and implemented. Additionally and as previously described, we tested transactions, assessed official actions, performed analytical procedures, and interviewed selected officials to provide reasonable assurance of detecting instances of noncompliance with legal and regulatory requirements or noncompliance with provisions of contracts, administrative procedures, and local ordinances and policies that are significant within the context of the audit objectives.

The results of our procedures indicated that, in all significant respects, the Conewango Township Non-Uniformed Pension Plan was 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 – Restated Plan Document Not Adopted By Ordinance Or Resolution

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 Conewango Township and, where appropriate, their responses have been included in the report. We would like to thank township officials for the cooperation extended to us during the conduct of the audit.

September 3, 2019



EUGENE A. DEPASQUALE
Auditor General

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BACKGROUND

On December 18, 1984, the Pennsylvania Legislature adopted the Municipal Pension Plan Funding Standard and Recovery Act (P.L. 1005, No. 205, as amended, 53 P.S. § 895.101 et seq.). 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. Section 402(j) of Act 205 specifically requires the Auditor General, as deemed necessary, to make an audit of every municipality which receives general municipal pension system state aid and of every municipal pension plan and fund in which general municipal pension system state aid is deposited.

Annual state aid allocations are provided from a 2 percent foreign (out-of-state) casualty insurance premium tax, a portion of the foreign (out-of-state) fire insurance tax designated for paid firefighters and any investment income earned on the collection of these taxes. Generally, municipal pension plans established prior to December 18, 1984, are eligible for state aid. For municipal pension plans established after that date, the sponsoring municipality must fund the plan for three plan years before it becomes eligible for state aid. In accordance with Act 205, a municipality's annual state aid allocation cannot exceed its actual pension costs.

In addition to Act 205, the Conewango Township Non-Uniformed Pension Plan is also governed by implementing regulations adopted by the former Public Employee Retirement Commission published at Title 16, Part IV of the Pennsylvania Code and applicable provisions of various other state statutes.

The Conewango Township Non-Uniformed Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of a plan document effective January 1, 2008. The plan was established August 10, 1981. Active members are not required to contribute to the plan. As of December 31, 2018, the plan had 4 active members, 2 terminated members eligible for vested benefits in the future, and 3 retirees receiving pension benefits from the plan.

BACKGROUND – (Continued)

As of December 31, 2018, selected plan benefit provisions are as follows:

Eligibility Requirements:

Normal Retirement	Age 65
Early Retirement	Age 55 and 7 years of service.
Vesting	20% after 3 years of service; plus 20% for each additional year of service up to a maximum of 100%.

Retirement Benefit:

2% of final 60 months average salary multiplied by years of service up to a maximum of 25 years.

Survivor Benefit:

Before Retirement Eligibility	A monthly benefit equal to 50% of the pension the member was receiving or was entitled to receive on the day of the member's death.
After Retirement Eligibility	A monthly benefit equal to 50% of the pension the member was receiving or was entitled to receive on the day of the member's death.

Service Related Disability Benefit:

None

CONEWANGO TOWNSHIP NON-UNIFORMED PENSION PLAN
STATUS OF PRIOR FINDINGS

Compliance With Prior LPE Report Recommendations

Conewango Township has complied with the prior recommendations concerning the following:

- Failure To Determine Vested Pension Benefit

During the audit period, all vested pension benefit calculations were prepared timely; and

- Failure To Maintain An Adequate Record-Keeping System

Municipal officials maintained all plan records for the audit period.

CONEWANGO TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDING AND RECOMMENDATION

Finding – Restated Plan Document Not Adopted By Ordinance Or Resolution

Condition: The terms, provisions, and conditions of the non-uniformed pension plan were restated in a separately executed plan agreement with the Principal Financial Group effective January 1, 2008. However, the restated plan agreement has not been formally adopted by an ordinance or resolution.

Criteria: Sound internal control dictates that benefit provisions should be consistent within the plan documents to avoid the payment of improper or inconsistent benefits for plan members and their beneficiaries.

Cause: Plan officials were unaware that the township should formally adopt the provisions of the restated plan agreement through a properly executed ordinance or resolution.

Effect: The failure to properly adopt the plan agreement could result in improper or inconsistent benefit payments to plan members and their beneficiaries.

Recommendation: We recommend that municipal officials take appropriate action to formally adopt the restated plan document through a properly executed ordinance or resolution.

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

Auditor's Conclusion: Compliance will be evaluated during our next audit of the plan.

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

The supplementary information contained on Pages 5 through 8 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, 2012, 2013, 2014, AND 2015*

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
Total Pension Liability				
Service cost	\$ 21,695	\$ 27,426	\$ 18,083	\$ 15,207
Interest	39,386	36,240	45,395	47,471
Difference between expected and actual experience	-	(18,151)	-	25,802
Changes of assumptions	-	(106,017)	-	-
Benefit payments, including refunds of member contributions	<u>(12,900)</u>	<u>(27,353)</u>	<u>(28,666)</u>	<u>(28,666)</u>
Net Change in Total Pension Liability	48,181	(87,855)	34,812	59,814
Total Pension Liability – Beginning	<u>735,506</u>	<u>783,687</u>	<u>695,832</u>	<u>730,644</u>
Total Pension Liability – Ending (a)	<u><u>\$ 783,687</u></u>	<u><u>\$ 695,832</u></u>	<u><u>\$ 730,644</u></u>	<u><u>\$ 790,458</u></u>
Plan Fiduciary Net Position				
Contributions – employer	\$ -	\$ 31,248	\$ 42,654	\$ 8,582
Contributions – state aid	55,480	46,489	23,306	23,236
Net Investment Income	11,455	16,163	(4,414)	25,197
Benefit payments, including refunds of member contributions	<u>(12,900)</u>	<u>(27,353)</u>	<u>(28,666)</u>	<u>(28,666)</u>
Net Change in Plan Fiduciary Net Position	54,035	66,547	32,880	28,349
Plan Fiduciary Net Position – Beginning	<u>537,350</u>	<u>591,385</u>	<u>657,932</u>	<u>690,812</u>
Plan Fiduciary Net Position – Ending (b)	<u><u>\$ 591,385</u></u>	<u><u>\$ 657,932</u></u>	<u><u>\$ 690,812</u></u>	<u><u>\$ 719,161</u></u>
Net Pension Liability – Ending (a-b)	<u><u>\$ 192,302</u></u>	<u><u>\$ 37,900</u></u>	<u><u>\$ 39,832</u></u>	<u><u>\$ 71,297</u></u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	75.46%	94.55%	94.55%	90.98%
Estimated Covered Employee Payroll	\$ 171,646	\$ 183,556	\$ 166,004	\$ 196,040
Net Pension Liability as a Percentage of Covered Employee Payroll	112.03%	20.65%	23.99%	36.37%

* Schedule prepared using January 1 measurement date.

CONEWANGO 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, 2017, AND 2018*

	<u>2016</u>	<u>2017</u>	<u>2018</u>
Total Pension Liability			
Service cost	\$ 16,157	\$ 10,449	\$ 13,154
Interest	51,421	53,579	50,816
Difference between expected and actual experience	-	(133,234)	-
Changes of assumptions	-	52,662	-
Benefit payments, including refunds of member contributions	<u>(28,666)</u>	<u>(28,666)</u>	<u>(28,666)</u>
Net Change in Total Pension Liability	38,912	(45,210)	35,304
Total Pension Liability – Beginning	<u>790,458</u>	<u>829,370</u>	<u>784,160</u>
Total Pension Liability – Ending (a)	<u>\$ 829,370</u>	<u>\$ 784,160</u>	<u>\$ 819,464</u>
 Plan Fiduciary Net Position			
Contributions – employer	\$ 9,243	\$ 16,957	\$ -
Contributions – state aid	23,525	24,061	27,530
Net investment income	(9,454)	19,667	13,561
Benefit payments, including refunds of member contributions	<u>(28,666)</u>	<u>(28,666)</u>	<u>(28,666)</u>
Net Change in Plan Fiduciary Net Position	(5,352)	32,019	12,425
Plan Fiduciary Net Position – Beginning	<u>719,161</u>	<u>713,809</u>	<u>745,828</u>
Plan Fiduciary Net Position – Ending (b)	<u>\$ 713,809</u>	<u>\$ 745,828</u>	<u>\$ 758,253</u>
 Net Pension Liability – Ending (a-b)	<u>\$ 115,561</u>	<u>\$ 38,332</u>	<u>\$ 61,211</u>
 Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	86.07%	95.11%	92.53%
 Estimated Covered Employee Payroll	\$ 161,536	\$ 159,118	\$ 177,028
 Net Pension Liability as a Percentage of Covered Employee Payroll	71.54%	24.09%	34.58%

* Schedule prepared using January 1 measurement date.

CONEWANGO 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, 2016, 2017, and 2018, calculated using the discount rate of 6.5%, 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 (5.5%)	Current Discount Rate (6.5%)	1% Increase (7.5%)
Net Pension Liability – 12/31/16	\$ 211,877	\$ 115,561	\$ 31,634
Net Pension Liability – 12/31/17	\$ 128,585	\$ 38,332	\$ (39,543)
Net Pension Liability – 12/31/18	\$ 155,527	\$ 61,211	\$ (20,170)

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
2011	\$ 54,582	\$ 55,480	\$ (898)	*	
2012	77,737	77,737	-	\$ 183,556	42.35%
2013	65,960	65,960	-	166,004	39.73%
2014	31,818	31,818	-	196,040	16.23%
2015	32,768	32,768	-	161,536	20.29%
2016	27,060	**41,018	(13,958)	159,118	25.78%
2017	41,018	***41,018	-	177,028	23.17%
2018	27,252	27,252	-	171,666	15.88%

* Due to GASB Statement No. 67, *Financial Reporting for Pension Plans*, being implemented only recently, the amount of Covered-Employee Payroll was not provided for 2011.

** Contribution for the year 2017 posted in the year 2016. Reported on cash basis of accounting.

*** Contribution for the year 2017 reported on the accrual basis of accounting.

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

SCHEDULE OF INVESTMENT RETURNS

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

2017	1.82%
2016	2.73%
2015	(1.31%)
2014	3.64%
2013	(0.65%)
2012	2.62%
2011	2.05%

CONEWANGO TOWNSHIP 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, 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	\$ 657,932	\$ 695,832	\$ 37,900	94.6%
01-01-15	741,107	790,458	49,351	93.8%
01-01-17	826,945	784,160	(42,785)	105.5%

Note: The market values of the plan’s assets at 01-01-13, 01-01-15, and 01-01-17 have been adjusted to reflect the smoothing of gains and/or losses subject to a corridor between 80 to 120 percent of the market value of assets. 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.

CONEWANGO TOWNSHIP 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.

CONEWANGO TOWNSHIP 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, 2017
Actuarial cost method	Entry age normal
Amortization method	Not applicable
Remaining amortization period	Not applicable
Asset valuation method	Plan assets are valued using the method described in Section 210 of Act 205, as amended, subject to a corridor between 80-120% of the market value of assets.
Actuarial assumptions:	
Investment rate of return	6.5%
Projected salary increases	4.0%
Cost-of-living adjustments	None

CONEWANGO TOWNSHIP NON-UNIFORMED PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
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Commonwealth of Pennsylvania

Mr. Edward L. Seebeck
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