

COMPLIANCE AUDIT

Conewango Township Police 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 Police 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 whether annual employee contributions 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 period under audit and examining documents evidencing the deposit of these employee contributions into the pension plan.
- We determined that there were no benefit calculations prepared for the years covered by our audit period.
- 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.

Township officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Conewango Township Police 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 Police 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 findings further discussed later in this report:

Finding No. 1 – Restated Plan Document Not Adopted by Ordinance

Finding No. 2 – Inconsistent Pension Benefits

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.

August 28, 2019

A handwritten signature in black ink, appearing to read "Eugene A. DePasquale". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

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 Police 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 including, but not limited to, the following:

Act 600 - Police Pension Fund Act, Act of May 29, 1956 (P.L. 1804, No. 600), as amended, 53 P.S. § 767 et seq.

The Conewango Township Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 1986-2, as amended, adopted pursuant to Act 600, and a plan document effective January 1, 2008. The plan is also affected by the provisions of collective bargaining agreements between the township and its police officers. The plan was established September 16, 1957. Active members were required to contribute one percent of compensation to the plan in 2016 and 2017, and contributions were waived for the year 2018. As of December 31, 2018, the plan had 4 active members, no terminated members eligible for vested benefits in the future, and 2 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 52 and 25 years of service.

Early Retirement None

Vesting 100% after 12 years of service.

Retirement Benefit:

50% of final 36 months average salary, plus a service increment of \$100 per month for each year of service in excess of 25 years, up to a maximum of \$500 per month.

Survivor Benefit:

Before Retirement Eligibility Refund of member contributions plus interest.

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:

50% of the member's salary at the time the disability was incurred, offset by Social Security disability benefits received for the same injury.

CONEWANGO TOWNSHIP POLICE PENSION PLAN
STATUS OF PRIOR FINDINGS

Compliance With Prior LPE Report Recommendations

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

- Inconsistent Normal Retirement Benefit Provision

During the current audit period, the collective bargaining agreement was amended to set the retirement age at age 52; and

- Improper Reduction Of Members' Contributions

Township officials annually reduced members' contributions for 2018 and 2019 in accordance with Act 600; and

- Failure To Maintain An Adequate Record-Keeping System

Municipal officials maintained all plan records for the audit period.

CONEWANGO TOWNSHIP POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Restated Plan Document Not Adopted By Ordinance

Condition: The terms, provisions, and conditions of the police 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.

Criteria: Act 600 at Section 1(a)(1) states, in part:

Each borough, town and township of this Commonwealth maintaining a police force of three or more full-time members and each regional police department shall, and all other boroughs, towns or townships may, establish, by ordinance or resolution, a police pension fund. . . .

Furthermore, in Wynne v. Lower Merion Township, 181 Pa. Superior Ct., 524, the Pennsylvania Superior Court held that an ordinance may be amended only by another ordinance.

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

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.

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 POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Inconsistent Pension Benefits

Condition: The plan agreement with the Principal Financial Group, effective January 1, 2008, contains a survivor benefit provision that conflicts with the collective bargaining agreement between the police officers and the township, as follows:

<u>Benefit Provision</u>	<u>Governing Document</u>	<u>Collective Bargaining Agreement</u>
Survivor Benefit	...the survivor benefit shall be equal to 50% of the amount that was payable to the participant.	...retirement benefit will include a 75% spousal benefit in the event of the retiree’s death.

Criteria: The plan agreement and the collective bargaining agreement should contain consistent benefit provisions to ensure the sound administration of retirement benefits.

Cause: Municipal officials failed to establish adequate internal control procedures to ensure the plan agreement was consistent with the collective bargaining agreement.

Effect: Inconsistent plan documents could result in inconsistent or improper benefit calculations and incorrect benefit payments from the pension plan.

Recommendation: We recommend that municipal officials take appropriate action to ensure the plan agreement and the collective bargaining agreement contain consistent benefit provisions at their earliest opportunity to do so.

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 POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

The supplementary information contained on Pages 6 through 9 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	\$ 49,565	\$ 42,525	\$ 41,807	\$ 45,759
Interest	54,992	49,394	66,200	70,675
Difference between expected and actual experience	-	23,756	-	(8,335)
Changes of assumptions	-	(185,248)	-	-
Benefit payments, including refunds of member contributions	(5,204)	(30,484)	(43,124)	(43,125)
Net Change in Total Pension Liability	<u>99,353</u>	<u>(100,057)</u>	<u>64,883</u>	<u>64,974</u>
Total Pension Liability – Beginning	<u>1,000,722</u>	<u>1,100,075</u>	<u>1,000,018</u>	<u>1,064,901</u>
Total Pension Liability – Ending (a)	<u>\$ 1,100,075</u>	<u>\$ 1,000,018</u>	<u>\$ 1,064,901</u>	<u>\$ 1,129,875</u>
Plan Fiduciary Net Position				
Contributions – employer	\$ -	\$ 17,419	\$ 13,683	\$ -
Contributions – state aid	-	-	9,623	23,236
Contributions – member	-	-	1,686	2,124
Net investment income	(1,666)	(4,659)	37,807	54,138
Benefit payments, including refunds of member contributions	(5,204)	(30,484)	(43,124)	(43,125)
Administrative expense	-	-	-	(3,000)
Net Change in Plan Fiduciary Net Position	<u>(6,870)</u>	<u>(17,724)</u>	<u>19,675</u>	<u>33,373</u>
Plan Fiduciary Net Position – Beginning	<u>1,283,875</u>	<u>1,277,005</u>	<u>1,259,281</u>	<u>1,278,956</u>
Plan Fiduciary Net Position – Ending (b)	<u>\$ 1,277,005</u>	<u>\$ 1,259,281</u>	<u>\$ 1,278,956</u>	<u>\$ 1,312,329</u>
Net Pension Liability – Ending (a-b)	<u>\$ (176,930)</u>	<u>\$ (259,263)</u>	<u>\$ (214,055)</u>	<u>\$ (182,454)</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	116.08%	125.93%	120.10%	116.15%
Estimated Covered Employee Payroll	\$ 148,515	\$ 194,427	\$ 193,794	\$ 230,254
Net Pension Liability as a Percentage of Covered Employee Payroll	-119.13%	-133.35%	-110.45%	-79.24%

* Schedule prepared using January 1 measurement date.

CONEWANGO TOWNSHIP POLICE 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	\$ 47,365	\$ 46,841	\$ 47,184
Interest	75,002	80,119	80,239
Difference between expected and actual experience	-	(74,249)	-
Changes of assumptions	-	(6,135)	-
Benefit payments, including refunds of member contributions	(43,125)	(43,124)	(46,718)
Net Change in Total Pension Liability	<u>79,242</u>	<u>3,452</u>	<u>80,705</u>
Total Pension Liability – Beginning	<u>1,129,875</u>	<u>1,209,117</u>	<u>1,212,569</u>
Total Pension Liability – Ending (a)	<u>\$ 1,209,117</u>	<u>\$ 1,212,569</u>	<u>\$ 1,293,274</u>
Plan Fiduciary Net Position			
Contributions – employer	\$ -	\$ -	\$ -
Contributions – state aid	23,525	24,061	27,530
Contributions – member	2,178	2,269	2,545
Net investment income	(64,054)	93,412	185,403
Benefit payments, including refunds of member contributions	(43,125)	(43,124)	(46,718)
Administrative expense	(3,000)	(2,250)	(3,750)
Net Change in Plan Fiduciary Net Position	<u>(84,476)</u>	<u>74,368</u>	<u>165,010</u>
Plan Fiduciary Net Position – Beginning	<u>1,312,329</u>	<u>1,227,853</u>	<u>1,302,221</u>
Plan Fiduciary Net Position – Ending (b)	<u>\$ 1,227,853</u>	<u>\$ 1,302,221</u>	<u>\$ 1,467,231</u>
Net Pension Liability – Ending (a-b)	<u>\$ (18,736)</u>	<u>\$ (89,652)</u>	<u>\$ (173,957)</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	101.55%	107.39%	113.45%
Estimated Covered Employee Payroll	\$ 228,120	\$ 226,231	\$ 228,104
Net Pension Liability as a Percentage of Covered Employee Payroll	-8.21%	-39.63%	-76.26%

* Schedule prepared using January 1 measurement date.

CONEWANGO 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, 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	\$ 156,927	\$ (18,736)	\$ (164,120)
Net Pension Liability – 12/31/17	\$ 93,324	\$ (89,652)	\$ (239,285)
Net Pension Liability – 12/31/18	\$ 21,197	\$ (173,957)	\$ (333,549)

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
2012	\$ 17,419	\$ 17,419	\$ -	\$ 194,427	8.96%
2013	13,682	23,306	(9,624)	193,794	12.03%
2014	13,802	23,236	(9,434)	230,254	10.09%
2015	15,333	23,525	(8,192)	228,120	10.31%
2016	14,833	24,061	(9,228)	226,231	10.64%
2017	18,086	27,530	(9,444)	228,104	12.07%
2018	20,621	22,502	(1,881)	241,376	9.32%

CONEWANGO TOWNSHIP POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF INVESTMENT RETURNS

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

2017	14.35%
2016	7.67%
2015	(4.92%)
2014	4.27%
2013	3.02%
2012	(0.37%)
2011	(0.13%)

CONEWANGO 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	\$ 1,433,871	\$ 1,000,018	\$ (433,853)	143.4%
01-01-15	1,537,736	1,129,875	(407,861)	136.1%
01-01-17	1,562,666	1,212,569	(350,097)	128.9%

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 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.

CONEWANGO 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	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

* Includes inflation at 2.25%

CONEWANGO TOWNSHIP POLICE PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

Mr. Edward L. Seebeck
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Mr. Vincent Duckett
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Mr. Jeffrey Zariczny
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