

**CASS TOWNSHIP POLICE PENSION PLAN**

**SCHUYLKILL COUNTY**

**COMPLIANCE AUDIT REPORT**

**FOR THE PERIOD**

**JANUARY 1, 2008, TO DECEMBER 31, 2010**





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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.

Pension plan aid is provided from a 2 percent foreign casualty insurance premium tax, a portion of the foreign 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 Cass Township Police Pension Plan is also governed by implementing regulations adopted by the Public Employee Retirement Commission published at Title 16, Part IV of the Pennsylvania Code and applicable provisions of various other state statutes.

The Cass Township Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 784-89, as amended. The plan is also affected by the provisions of collective bargaining agreements between the township and its police officers. The plan has had no active members since December 31, 2005.





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

We have conducted a compliance audit of the Cass Township Police Pension Plan for the period January 1, 2008, to December 31, 2010. The audit was conducted pursuant to authority derived from Section 402(j) of Act 205 and in accordance with *Government Auditing Standards* applicable to performance audits 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 finding and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our finding 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 finding contained in our prior audit 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. Cass Township contracted with an independent certified public accounting firm for annual audits of its financial statements prepared in conformity with the accounting practices prescribed or permitted by the Department of Community and Economic Development of the Commonwealth of Pennsylvania, which are available at the township's offices. Those financial statements were not audited by us and, accordingly, we express no opinion or other form of assurance on them.

Township officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Cass 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, we tested transactions, assessed official actions, performed analytical procedures and interviewed selected officials to the extent necessary to satisfy the audit objectives.

The results of our tests indicated that, in all significant respects, the Cass 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 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 accompanying supplementary information is presented for purposes of additional analysis. We did not audit the information 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 the report.

January 26, 2012

JACK WAGNER  
Auditor General

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 Properly Determine And Fully Pay The Minimum Municipal Obligation Of The Plan

The township paid the remaining balance of the minimum municipal obligations (MMOs) due to the plan for the years 2003 through 2007 in the amount of \$3,038, plus applicable interest; however, plan officials failed to budget and pay the MMOs for the years 2009 and 2011, 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 Of The Plan

Condition: As disclosed in the prior audit report, the municipality had an outstanding unpaid MMO balance for the years 2003 through 2007 in the amount of \$3,038. During the current audit period, the township paid the remaining balance of the MMOs due to the plan, plus applicable interest; however, plan officials failed to budget and pay the MMOs that were due to the plan for the years 2009 and 2011. Based upon an estimate prepared by this department, the municipality had unpaid MMOs in the amounts of \$28,883 and \$19,498, for the years 2009 and 2011, respectively.

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, in part:

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. . . .

Cause: Plan officials failed to establish adequate internal control procedures to ensure that the 2009 MMO which included a one-time amortization contribution of \$25,526 was paid. In addition, plan officials allocated the entire amount of the township's 2011 state aid allocation to the nonuniformed pension plan instead of properly allocating the state aid to the police pension plan.

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

Due to the municipality's failure to pay the 2009 and 2011 MMOs by the December 31, deadlines, the municipality must add the 2009 and 2011 MMOs to the current year's MMO and include interest, as required by Act 205.

CASS TOWNSHIP POLICE PENSION PLAN  
FINDING AND RECOMMENDATION

Finding – (Continued)

Recommendation: We recommend that the municipality pay the MMOs due to the police pension plan for the years 2009 and 2011, with interest, in accordance with Section 302(e) of Act 205. Plan officials should utilize the 2011 state aid allocation transferred from the nonuniformed pension plan as a \$16,789 credit towards the 2011 MMO due to the plan. Therefore, the township will still owe a balance of \$2,709 from their general fund for the 2011 MMO and the entire amount of the 2009 MMO. A copy of the interest calculation must be maintained by the township for examination during our next audit of the plan.

Furthermore, we recommend that plan officials establish adequate internal control procedures to ensure the plan's MMO is budgeted and paid in accordance with Act 205 requirements.

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

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, 2005, is as follows:

|                          | (1)                              | (2)  | (3)   | (4)                     | (5)                    | (6)   |
|--------------------------|----------------------------------|--|---|-------------------------|------------------------|---|
| Actuarial Valuation Date | Actuarial Value of Assets<br>(a) | Actuarial Accrued Liability (AAL) - Entry Age<br>(b) | Unfunded (Assets in Excess of) Actuarial Accrued Liability<br>(b) - (a) | Funded Ratio<br>(a)/(b) | Covered Payroll<br>(c) | Unfunded (Assets in Excess of) Actuarial Accrued Liability as a % of Payroll<br>[(b-a)/(c)] |
| 01-01-05                 | \$ 128,550                       | \$ 175,712   | \$ 47,162   | 73.2%                   | \$ 49,979              | 94.4%   |
| 01-01-07                 | 201,033                          | 233,056  | 32,023  | 86.3%                   | None                   | N/A   |
| 01-01-09                 | 201,588                          | 223,264  | 21,676  | 90.3%                   | None                   | N/A   |

The amounts in the above table have been adjusted for the 01-01-05 actuarial valuation date, as appropriate, for insurance/annuity contracts maintained preretirement to fund a portion of the benefits provided by the pension plan at retirement.

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.

Trends in unfunded (assets in excess of) actuarial accrued liability and annual covered payroll are both affected by inflation. Expressing the unfunded (assets in excess of) actuarial accrued liability as a percentage of annual covered payroll (Column 6) approximately adjusts for the effects of inflation and aids analysis of the plan's progress made in accumulating sufficient assets to pay benefits when due. Generally, where there is an unfunded actuarial accrued liability, the smaller this percentage, the stronger the plan. However, when assets are in excess of the actuarial accrued liability, the higher the bracketed percentage, the stronger the plan.

CASS TOWNSHIP POLICE PENSION PLAN  
 SUPPLEMENTARY INFORMATION  
 (UNAUDITED)

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER  
 AND OTHER CONTRIBUTING ENTITIES

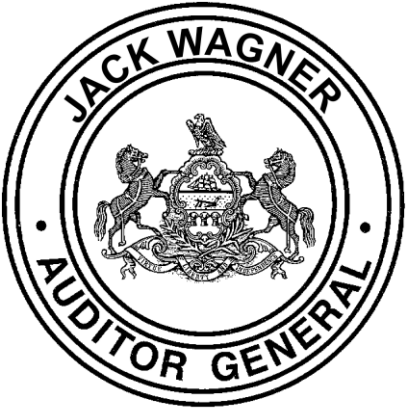
| Year Ended December 31 | Annual Required Contribution | Percentage Contributed |
|------------------------|------------------------------|------------------------|
| 2005                   | \$ 22,292                    | 100.5%                 |
| 2006                   | 17,059                       | 100.0%                 |
| 2007                   | 40,478                       | 100.0%                 |
| 2008                   | 558                          | 100.0%                 |
| 2009                   | 28,883                       | 0.0%                   |
| 2010                   | 3,915                        | 100.0%                 |



CASS TOWNSHIP POLICE PENSION PLAN  
SUPPLEMENTARY INFORMATION  
NOTES TO SUPPLEMENTARY SCHEDULES  
(UNAUDITED)

The information presented in the required 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, 2009  |
| Actuarial cost method         | Entry age normal |
| Amortization method           | Level dollar     |
| Remaining amortization period | 2 years          |
| Asset valuation method        | Fair value       |
| Actuarial assumptions:        |                  |
| Investment rate of return     | 7.0%             |
| Projected salary increases    | 5.0%             |
| Includes inflation at         | Not disclosed    |
| Cost-of-living adjustments    | None assumed     |



CASS TOWNSHIP POLICE PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett  
Governor  
Commonwealth of Pennsylvania

Cass Township Police Pension Plan  
Schuylkill County  
1209 Valley Road  
Pottsville, PA 17901

Mr. James D. Thomas      Chairman, Board of Township Supervisors

Ms. Evelyn J. Bergan      Secretary

This report is a matter of public record. Copies of this report may be obtained from the Pennsylvania Department of the Auditor General, Office of Communications, Room 318 Finance Building, Harrisburg, PA 17120. If you have any questions regarding this report or any other matter, you may contact the Department of the Auditor General by accessing our website at [www.auditorgen.state.pa.us](http://www.auditorgen.state.pa.us).