

**COWANSHANNOCK TOWNSHIP NONUNIFORMED PENSION PLAN**

**ARMSTRONG COUNTY**

**COMPLIANCE AUDIT REPORT**

**FOR THE PERIOD**

**JANUARY 1, 2005, TO DECEMBER 31, 2007**





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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 Cowanshannock Township Nonuniformed 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 including, but not limited to, the following:

Act 69 - The Second Class Township Code, Act of May 1, 1933 (P.L. 103, No. 69), as reenacted and amended, 53 P.S. § 65101 et seq.

The Cowanshannock Township Nonuniformed Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Resolution No. 2 of 1990, as amended.





Board of Township Supervisors  
Cowanshannock Township  
Armstrong County  
NuMine, PA 16244

We have conducted a compliance audit of the Cowanshannock Township Nonuniformed Pension Plan for the period January 1, 2005, to December 31, 2007. 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.

Township officials are responsible for establishing and maintaining an internal control structure to provide reasonable assurance that the Cowanshannock Township Nonuniformed Pension Plan is administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies. To assist us in planning and performing our audit, we obtained an understanding of the township's internal control structure as it relates to the township's compliance with those requirements. 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 Cowanshannock Township Nonuniformed 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 – Failure To Pay Vested Pension Benefit

We also noted a matter that has been included in the following observation further discussed later in this report:

Observation – Failure To Prepare Financial Statements

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 Cowanshannock Township and, where appropriate, their responses have been included in the report.

April 17, 2008

JACK WAGNER  
Auditor General

COWANSHANNOCK TOWNSHIP NONUNIFORMED PENSION PLAN  
STATUS OF PRIOR FINDING

Status Of Prior Audit Recommendation

- Failure To Prepare Financial Statements

The status of the prior audit recommendation is addressed in the Observation discussed later in this report.

COWANSHANNOCK TOWNSHIP NONUNIFORMED PENSION PLAN  
FINDING AND RECOMMENDATION

Finding – Failure To Pay Vested Pension Benefit

Condition: A member of the pension plan who was born on May 23, 1939, and hired on February 28, 1986, vested his pension benefit on March 24, 1995, with nine years of service. The township calculated the vested retiree's benefit to be \$44 per month, due upon his normal retirement date of June 1, 2004, but failed to begin making pension payments until June of 2005. However, the township failed to pay the retiree the benefits due to him retroactive to June 1, 2004.

Criteria: The pension plan's governing document, Resolution No. 2 of 1990, as amended by Resolution No. 1 of 1993 states:

Normal retirement age: later of the date Participant attains 65<sup>th</sup> birthday or the 10<sup>th</sup> anniversary of Employment.

Cause: Municipal officials failed to establish adequate internal control procedures to ensure the retiree's benefit payments were paid in a timely manner.

Effect: The retiree was not paid the \$44 per month benefit to which he was entitled for the 12 month period from June 1, 2004, to May 30, 2005.

Recommendation: We recommend that the township pay the benefits due to the retiree, plus interest.

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

COWANSHANNOCK TOWNSHIP NONUNIFORMED 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, except for distressed pension plans, for which annual reporting was required through January 1, 2003. The historical information, beginning as of January 1, 2003, is as follows:

	(1)	(2)	(3)	(4)	(5)	(6)
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)	Covered Payroll (c)	Unfunded (Assets in Excess of) Actuarial Accrued Liability as a % of Payroll [(b-a)/(c)]
01-01-03	\$ 83,442	\$ 79,827	\$ (3,615)	104.5%	\$ 81,292	(4.4%)
01-01-05	97,629	94,980	(2,649)	102.8%	87,098	(3.0%)
01-01-07	105,814	111,092	5,278	95.2%	98,535	5.4%

COWANSHANNOCK TOWNSHIP NONUNIFORMED 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.

COWANSHANNOCK TOWNSHIP NONUNIFORMED PENSION PLAN  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER  
AND OTHER CONTRIBUTING ENTITIES

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2002	\$ 4,040	119.1%
2003	5,715	100.0%
2004	4,569	117.8%
2005	6,371	100.0%
2006	4,225	102.0%
2007	7,178	100.0%

COWANSHANNOCK TOWNSHIP NONUNIFORMED 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, 2007
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	19 years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return	6.0%
Projected salary increases	4.0%



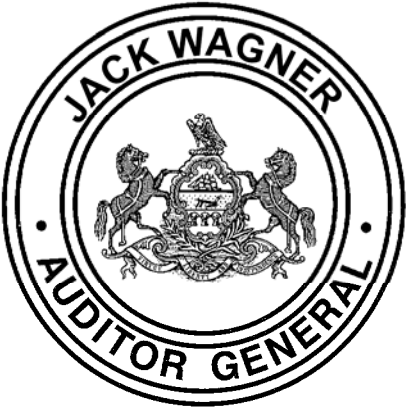
COWANSHANNOCK TOWNSHIP NONUNIFORMED PENSION PLAN  
OBSERVATION

Observation – Failure To Prepare Financial Statements

Plan officials have not prepared financial statements or required notes to the financial statements for the nonuniformed pension plan for the years ended December 31, 2005, 2006 and 2007.

Financial reporting assists in fulfilling a municipality's duty to be publicly accountable and should enable users to assess accountability. Guidance for the form and content of annual financial statements and notes to the financial statements can be found in Governmental Accounting Standards Board Statements No. 25 (GASB 25), as amended by No. 50 (GASB 50).

Plan officials should consider establishing and implementing procedures to ensure the preparation of annual financial statements, which include note disclosures required by GASB 25, as amended by GASB 50, in accordance with accounting principles generally accepted in the United States of America.



COWANSHANNOCK TOWNSHIP NONUNIFORMED PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell  
Governor  
Commonwealth of Pennsylvania

Cowanshannock Township Nonuniformed Pension Plan  
Armstrong County  
P.O. Box 137  
NuMine, PA 16244

Mr. Randy Hartzell      Chairman, Board of Township Supervisors

Ms. Debra A. Zemko      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).