

# COMPLIANCE AUDIT

---

## Cecil Township Non-Uniformed Pension Plan Washington County, Pennsylvania For the Period January 1, 2016 to December 31, 2018

---

March 2020



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**

Board of Township Supervisors  
Cecil Township  
Washington County  
Cecil, PA 15321

We have conducted a compliance audit of the Cecil 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 finding and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our finding and conclusions based on our audit objective.

The objective of the audit was 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 objective identified above. 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 whether retirement benefits calculated for the two plan members who retired during the current audit period represent payments to all (and only) those entitled to receive them and were properly determined and disbursed in accordance with the plan's governing document, applicable laws and regulations by recalculating the amount of the monthly pension benefit due to retired individuals and comparing these amounts to supporting documentation evidencing amounts determined and actually paid to recipients.
- We determined whether the January 1, 2015 and January 1, 2017 actuarial valuation reports were prepared and submitted by March 31, 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 the terms of the plan's unallocated insurance contracts, including ownership and any restrictions, were in compliance with plan provisions, investment policies, and state regulations by comparing the terms of the contracts with the plan's provisions, investment policies, and state regulations.
- We determined whether the pension plan is in compliance with Act 205 for distressed municipalities through inquiry of plan officials and evaluation of the recovery remedies implemented during the audit period.

Cecil Township contracted with an independent certified public accounting firm for annual audits of its basic financial statements 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 Cecil 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 objective.

The results of our procedures indicated that, in all significant respects, the Cecil 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 - Ordinance Improperly Amended By Resolution

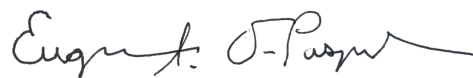
As previously noted, the objective of our audit of the Cecil Township Non-Uniformed Pension Plan was to determine compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies. Act 205 was amended on September 18, 2009, through the adoption of Act 44 of 2009. Among several provisions relating to municipal pension plans, the act provides for the implementation of a distress recovery program. Three levels of distress have been established:

<u>Level</u>	<u>Indication</u>	<u>Funding Criteria</u>
I	Minimal distress	70-89%
II	Moderate distress	50-69%
III	Severe distress	Less than 50%

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. However, we are extremely concerned about the funded status of the plan contained in the schedule of funding progress included in this report which indicates **the plan's funded ratio is 58.5% as of January 1, 2017**, which is the most recent data available. **Based on this information, the Municipal Pension Reporting Program issued a notification that the township is currently in Level II moderate distress status.** We encourage township officials to monitor the funding of the non-uniformed pension plan to ensure its long-term financial stability.

The contents of this report were discussed with officials of Cecil Township and, where appropriate, their responses have been included in the report.

February 19, 2020



EUGENE A. DEPASQUALE  
Auditor General

## CONTENTS

	<u>Page</u>
Background.....	1
Finding And Recommendation:	
Finding - Ordinance Improperly Amended By Resolution.....	3
Supplementary Information .....	4
Report Distribution List .....	10

## 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 Cecil 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 Cecil Township Non-Uniformed Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 9-92, as amended. The plan is also affected by the provisions of collective bargaining agreements between the township and its non-uniformed employees. The plan was established January 1, 1987. Active members are required to contribute 3 percent of compensation to the plan. As of December 31, 2018, the plan had 20 active members, 5 terminated members eligible for vested benefits in the future, 14 retirees receiving pension benefits from the plan, and 2 retirees receiving benefits funded through annuities purchased with plan assets.

## **BACKGROUND - (Continued)**

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

### Eligibility Requirements:

Normal Retirement    Age 62 and 10 years of service.

Early Retirement     Age 50 and 25 years of service.

Vesting                100% after 5 years of service.

### Retirement Benefit:

The monthly pension shall be 1.85% credit for each year of service (maximum 30 years) times the average monthly compensation over the participant's last 36 months of employment.

### Survivor Benefit:

None

### Service Related Disability Benefit:

None

CECIL TOWNSHIP NON-UNIFORMED PENSION PLAN  
FINDING AND RECOMMENDATION

**Finding - Ordinance Improperly Amended By Resolution**

Condition: The board of township supervisors approved Resolution No. 26-01 on November 7, 2001, amending the vesting schedule provided by the pension plan's governing document, Ordinance No. 9-92, as amended, by reducing the vesting period for the non-uniformed pension plan to five years. During prior audits of the pension plan, verbal observations were issued to the township recommending that the township adopt an ordinance to properly amend the plan; however, the condition has not been remedied.

Criteria: 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 and not by a resolution.

Cause: Municipal officials failed to ensure compliance with this department's prior verbal observations.

Effect: The failure to properly amend the plan's governing document could result in inconsistent or improper benefit calculations and incorrect benefit payments from the pension plan.

Recommendation: We recommend that the township amend the plan's governing document with 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.



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

The supplementary information contained on Pages 4 through 6 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, 2016, 2017, AND 2018

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Total Pension Liability					
Service cost	\$ 83,606	\$ 88,630	\$ 93,062	\$ 128,523	\$ 134,628
Interest	195,853	201,566	213,064	233,003	249,882
Difference between expected and actual experience	-	(8,102)	-	(17,583)	-
Changes of assumptions	-	88,482	-	168,673	-
Benefit payments, including refunds of member contributions	(146,768)	(152,106)	(149,699)	(149,280)	(150,393)
Net Change in Total Pension Liability	<u>132,691</u>	<u>218,470</u>	<u>156,427</u>	<u>363,336</u>	<u>234,117</u>
Total Pension Liability - Beginning	<u>2,293,930</u>	<u>2,426,621</u>	<u>2,645,091</u>	<u>2,801,518</u>	<u>3,164,854</u>
Total Pension Liability - Ending (a)	<u>\$ 2,426,621</u>	<u>\$ 2,645,091</u>	<u>\$ 2,801,518</u>	<u>\$ 3,164,854</u>	<u>\$ 3,398,971</u>
Plan Fiduciary Net Position					
Contributions - employer	\$ 55,070	\$ 87,500	\$ 82,741	\$ 115,420	\$ 116,788
Contributions - state aid	65,836	74,496	83,118	100,942	103,057
Contributions - member	28,490	32,410	37,165	37,689	35,770
Net investment income	36,380	(45,630)	53,760	209,848	(128,002)
Benefit payments, including refunds of member contributions	(146,767)	(152,106)	(149,699)	(149,280)	(150,393)
Other	711	-	-	-	-
Net Change in Plan Fiduciary Net Position	<u>39,720</u>	<u>(3,330)</u>	<u>107,085</u>	<u>314,619</u>	<u>(22,780)</u>
Plan Fiduciary Net Position - Beginning	<u>1,432,214</u>	<u>1,471,934</u>	<u>1,468,604</u>	<u>1,575,689</u>	<u>1,890,308</u>
Plan Fiduciary Net Position - Ending (b)	<u>\$ 1,471,934</u>	<u>\$ 1,468,604</u>	<u>\$ 1,575,689</u>	<u>\$ 1,890,308</u>	<u>\$ 1,867,528</u>
Net Pension Liability - Ending (a-b)	<u>\$ 954,687</u>	<u>\$ 1,176,487</u>	<u>\$ 1,225,829</u>	<u>\$ 1,274,546</u>	<u>\$ 1,531,443</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	60.66%	55.52%	56.24%	59.70%	54.90%
Estimated Covered Employee Payroll	\$ 848,215	\$ 1,106,857	\$ 1,160,817	\$ 1,211,973	\$ 1,263,031
Net Pension Liability as a Percentage of Covered Employee Payroll	112.55%	106.29%	105.60%	105.20%	121.30%

CECIL 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, 2014, calculated using the discount rate of 8.5%, 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 (7.5%)	Current Discount Rate (8.5%)	1% Increase (9.5%)
Net Pension Liability - 12/31/14	\$ 1,052,219	\$ 954,687	\$ 870,371

The following presents the net pension liability of the township as of December 31, 2015 and 2016, calculated using the discount rate of 8.0%, 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 (7.0%)	Current Discount Rate (8.0%)	1% Increase (9.0%)
Net Pension Liability - 12/31/15	\$ 1,445,637	\$ 1,176,487	\$ 942,482
Net Pension Liability - 12/31/16	\$ 1,507,450	\$ 1,225,829	\$ 980,718

The following presents the net pension liability of the township as of December 31, 2017 and 2018, calculated using the discount rate of 7.75%, 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 (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Net Pension Liability - 12/31/17	\$ 1,603,002	\$ 1,274,546	\$ 990,018
Net Pension Liability - 12/31/18	\$ 1,878,200	\$ 1,531,443	\$ 1,230,874

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

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
2009	\$ 91,593	\$ 91,593	\$ -	\$ 752,962	12.16%
2010	64,360	64,360	-		
2011	89,543	89,543	-	703,653	12.73%
2012	86,600	86,600	-		
2013	118,656	118,656	-	779,993	15.21%
2014	120,906	120,906	-	848,216	14.25%
2015	161,996	161,996	-	1,106,857	14.64%
2016	165,859	165,859	-	1,160,817	14.29%
2017	216,362	216,362	-	1,211,973	17.85%
2018	219,845	219,845	-	1,263,031	17.41%

\* For 2014 and 2015, the actuarially determined contributions for the years 2014 and 2015 reflect the 25 percent reduction of the amortization contributions the township was permitted to defer pursuant to Act 44 of 2009.

\*\* 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 even years prior to 2013.

SCHEDULE OF INVESTMENT RETURNS

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

2018	N/A
2017	N/A
2016	3.75%
2015	N/A
2014	N/A

CECIL 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	\$ 1,315,586	\$ 2,168,127	\$ 852,541	60.7%
01-01-15	1,497,618	2,507,001	1,009,383	59.7%
01-01-17	1,727,021	2,952,608	1,225,587	58.5%

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 over a four-year averaging period 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.

CECIL 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.

CECIL 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	Level dollar
Remaining amortization period	11 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.
Actuarial assumptions:	
Investment rate of return	7.75%
Projected salary increases	4.75%

CECIL TOWNSHIP NON-UNIFORMED PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

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

**Ms. Cindy Fisher**  
Chairman, Board of Township Supervisors

**Mr. Frank A. Egizio**  
Vice-Chairman, Board of Township Supervisors

**Mr. Eric J. Sivavec**  
Township Supervisor

**Mr. Thomas A. Casciola**  
Township Supervisor

**Mr. Ronald Fleher**  
Township Supervisor

**Mr. Donald A. Gennuso**  
Township Manager

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).