

# LIMITED PROCEDURES ENGAGEMENT

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## Cussewago Township Non-Uniformed Pension Plan Crawford County, Pennsylvania For the Period January 1, 2014 to December 31, 2017

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November 2018



Commonwealth of Pennsylvania  
Department of the Auditor General

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Cussewago Township  
Crawford County  
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We conducted a Limited Procedures Engagement (LPE) of the Cussewago Township Non-Uniformed Pension Plan for the period January 1, 2014 to December 31, 2017 to determine its compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies. We also evaluated compliance with some requirements subsequent to that period when possible. The LPE was conducted pursuant to authority derived from Section 402(j) of the Municipal Pension Plan Funding Standard and Recovery Act (P.L. 1005, No. 205, as amended, 53 P.S. § 895.101 et seq.) but was not conducted in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States. 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. We believe that the evidence obtained provides a reasonable basis to support our LPE results.

Our LPE was limited to determining the following:

- 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 engagement period. State aid allocations that were deposited into the pension plan for the years ended December 31, 2012 to December 31, 2017, are presented on the Summary of Deposited State Aid and Employer Contributions.
- 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. Employer contributions that were deposited into the pension plan for the years ended December 31, 2012 to December 31, 2017, are presented on the Summary of Deposited State Aid and Employer Contributions.

- 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.

Based on the results of our procedures performed during our LPE, nothing came to our attention indicating that the Cussewago Township Non-Uniformed Pension Plan was not being 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 – Receipt Of State Aid In Excess Of Entitlement

Our determination to perform a LPE for this engagement period does not preclude the Department from conducting an audit in accordance with *Government Auditing Standards* of the pension plan in subsequent periods. The township should continue to maintain documentation related to this pension plan.

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

October 29, 2018



EUGENE A. DEPASQUALE  
Auditor General

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CUSSEWAGO TOWNSHIP NON-UNIFORMED PENSION PLAN  
FINDING AND RECOMMENDATION

**Finding – Receipt Of State Aid In Excess Of Entitlement**

Condition: The township received state aid in excess of the plan’s annual pension costs in the years 2015 and 2017, as illustrated below:

	<u>2015</u>	<u>2017</u>
State aid allocation	\$ 3,229	\$ 3,037
Actual municipal pension costs	(3,000)	(3,020)
Excess state aid	\$ 229	\$ 17

Criteria: Section 402(f)(2) of Act 205 states:

No municipality shall be entitled to receive an allocation of general municipal pension system State aid in an amount which exceeds the aggregate actual financial requirements of any municipal pension plans for police officers, paid firefighters or employees other than police officers or paid firefighters maintained by the municipality, less the amount of any aggregate annual member or employee contributions during the next succeeding plan year, as reported in the most recent complete actuarial report filed with the commission.

Cause: Plan officials failed to establish adequate internal control procedures to reconcile the township’s state aid allocation with the plan’s annual pension costs.

Effect: It is this department’s opinion that because the entire proceeds of the insurance premium tax on foreign casualty insurance companies are distributed annually to each eligible recipient municipality, it is inappropriate to use state aid in one year to offset pension costs in other years. Consequently, the overpayments of state aid in the years 2015 and 2017 must be returned to the Commonwealth for redistribution.

Recommendation: We recommend that the municipality return the \$246 of excess state aid received in the years 2015 and 2017 to the Commonwealth from the township’s general fund. A check in this amount, with interest compounded annually from date of receipt to date of repayment, at a rate earned by the plan, should be made payable to: Commonwealth of Pennsylvania and mailed to: Department of the Auditor General, Municipal Pension & Fire Relief Programs Unit, 321 Finance Building, Harrisburg, PA 17120. A copy of the interest calculation must be submitted along with evidence of payment.

CUSSEWAGO TOWNSHIP NON-UNIFORMED PENSION PLAN  
FINDING AND RECOMMENDATION

**Finding – (Continued)**

Furthermore, we recommend that, in the future, plan officials reconcile the township's annual state aid allocation with the plan's annual pension costs and reimburse any excess state aid received to the Commonwealth.

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

Auditor's Conclusion: The township's compliance with the finding recommendation will be monitored subsequent to the release of the report and through our next engagement.

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

The supplementary information contained on Pages 3 and 4 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 YEAR ENDED DECEMBER 31, 2016

Total Pension Liability	
Service cost	\$ 6,000
Interest	1,307
Difference between expected and actual experience	1
Transfers*	23,702
Net Change in Total Pension Liability	<u>31,010</u>
Total Pension Liability - Beginning	-
Total Pension Liability - Ending (a)	<u><u>\$ 31,010</u></u>
 Plan Fiduciary Net Position	
Contributions – employer**	\$ 6,000
Contributions – PMRS assessment	20
PMRS investment income	1,312
Market value investment income	(1,483)
Transfers*	23,702
PMRS administrative expense	(20)
Additional administrative expense	(64)
Net Change in Plan Fiduciary Net Position	<u>29,467</u>
Plan Fiduciary Net Position - Beginning	-
Plan Fiduciary Net Position - Ending (b)	<u><u>\$ 29,467</u></u>
 Net Pension Liability - Ending (a-b)	<u><u>\$ 1,543</u></u>
 Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	95.02%
 Estimated Covered Employee Payroll	\$ 38,290
 Net Pension Liability as a Percentage of Covered Employee Payroll	4.03%

\* Transfer from Fidelity to PMRS.

\*\* Includes contributions of \$3,000 for 2015 and \$3,000 for 2016.

CUSSEWAGO 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, calculated using the discount rate of 5.25%, 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 (4.25%)	Current Discount Rate (5.25%)	1% Increase (6.25%)
Net Pension Liability	\$ 7,745	\$ 1,543	\$ (4,659)



CUSSEWAGO TOWNSHIP NON-UNIFORMED PENSION PLAN  
SUMMARY OF DEPOSITED STATE AID AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid	Employer Contributions
2012	\$ 1,910	None
2013	1,914	\$ 1,086
2014	3,000	None
2015	3,000	None
2016	3,000	None
2017	3,020	None

CUSSEWAGO 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

**Mr. Frank Monterosso**  
Chairman, Board of Township Supervisors

**Ms. Deborah Acker**  
Secretary/Treasurer

**Ms. Charity Rosenberry, CPA**  
Pennsylvania Municipal Retirement System

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