

COMPLIANCE AUDIT

Conewango Township Police Pension Plan Warren County, Pennsylvania

October 2024



Commonwealth of Pennsylvania
Department of the Auditor General

Timothy L. DeFoor • Auditor General



**Commonwealth of Pennsylvania
Department of the Auditor General
Harrisburg, PA 17120-0018
Facebook: Pennsylvania Auditor General
Twitter: @PAAuditorGen
www.PaAuditor.gov**

**TIMOTHY L. DEFOOR
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 pursuant to authority derived from the Municipal Pension Plan Funding Standard and Recovery Act (Act 205 of 1984, as amended, 53 P.S. § 895.402(j)), which requires the Auditor General, as deemed necessary, to audit every municipality which receives general municipal pension system state aid and every municipal pension plan and fund in which general municipal pension system state aid is deposited. The audit was not conducted, nor was it required to be, in accordance with Government Auditing Standards issued by the Comptroller General of the United States. We planned and performed the 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 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 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:

- For the period January 1, 2022 to December 31, 2023, 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 the period January 1, 2022 to December 31, 2023, 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.
- For the period January 1, 2022 to December 31, 2023, 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 the years in the period noted and examining documents evidencing the deposit of these employee contributions into the pension plan.
- For the period January 1, 2022 to December 31, 2023, we determined whether retirement benefits calculated for the plan member who elected to vest during the period noted 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 benefits due to the retired individual and comparing these amounts to supporting documentation evidencing amounts determined and payable to the recipient.
- We determined whether the January 1, 2023 actuarial valuation report was prepared and submitted by March 31, 2024 in accordance with Act 205 and whether selected information provided on this report 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. As previously described, we tested transactions, interviewed selected officials, and performed procedures to the extent necessary 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 for the periods noted above, except as noted in the following findings further discussed later in this report:

Finding No. 1 – Noncompliance With Prior Recommendation – Restated Plan Document Not Adopted By Ordinance

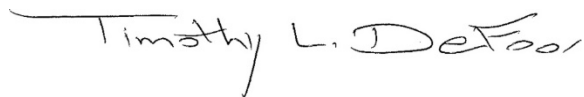
Finding No. 2 – Noncompliance With Prior Recommendation – Inconsistent Pension Benefit

Finding No. 3 – Inconsistent Member Contributions Provision

Finding Nos. 1 and 2 contained in this audit report repeat conditions that were cited in our previous report that have not been corrected by township officials. We are concerned by the township's failure to correct those previously reported findings and strongly encourage timely implementation of the recommendations noted in this audit report.

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.



Timothy L. DeFoor
Auditor General
August 26, 2024

CONTENTS

	<u>Page</u>
Background.....	1
Status of Prior Findings	2
Findings and Recommendations:	
Finding No. 1 – Noncompliance With Prior Recommendation – Restated Plan Document Not Adopted By Ordinance.....	3
Finding No. 2 – Noncompliance With Prior Recommendation – Inconsistent Pension Benefit.....	4
Finding No. 3 – Inconsistent Member Contributions Provision	5
Supplementary Information	7
Report Distribution List	11

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.

Annual state aid allocations are provided from a two 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 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 (*refer to Finding No. 1*). 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 are required to contribute five percent of compensation to the plan; however, contributions were reduced to three percent for the years 2022 and 2023. As of December 31, 2023, the plan had three active members, one terminated member eligible for vested benefits in the future, and two retirees receiving pension benefits from the plan.

CONEWANGO TOWNSHIP POLICE PENSION PLAN
STATUS OF PRIOR FINDINGS

Noncompliance With Prior Recommendations

Conewango Township has not complied with the prior recommendations concerning the following as further discussed in the Findings and Recommendations section of this report:

- Restated Plan Document Not Adopted By Ordinance; and
- Inconsistent Pension Benefits

CONEWANGO TOWNSHIP POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Noncompliance With Prior Recommendation – Restated Plan Document Not Adopted By Ordinance

Condition: As disclosed in our prior audit report, 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: Due to turnover of plan officials, current 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 again 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: We are concerned that the municipality has not complied with the prior audit recommendation and encourage compliance at the earliest opportunity to do so.

CONEWANGO TOWNSHIP POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Noncompliance With Prior Recommendation – Inconsistent Pension Benefit

Condition: As previously disclosed in our prior audit report, the plan agreement with the Principal Financial Group, effective January 1, 2008, contains a survivor benefit provision that conflicts with the collective bargaining agreement (CBA) between the police officers and the township, as follows:

<u>Benefit Provision</u>	<u>Plan Agreement</u>	<u>CBA</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 CBA should contain consistent benefit provisions to ensure the sound administration of retirement benefits.

Cause: Municipal officials again 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 again recommend that municipal officials take appropriate action to ensure that the plan agreement and the CBA 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: We are concerned that the municipality has not complied with the prior audit recommendation and encourage compliance at the earliest opportunity to do so.

CONEWANGO TOWNSHIP POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – Inconsistent Member Contributions Provision

Condition: The collective bargaining agreement (CBA) between the police officers and the township for the period January 1, 2023 to December 31, 2025 contains a member contributions provision that conflicts with the pension plan agreement and Act 600. This provision was not included in the prior CBA. The inconsistent provisions are as follows:

<u>Plan Agreement</u>	<u>CBA</u>	<u>Act 600</u>
<p>If determined by the Employer, each active Participant shall make Required Contributions. These Contributions shall be made for each month in which he is an Active Participant. The amount of each Contribution will be equal to 5% of his Compensation for the month. The Employer may, on an annual basis, by resolution, reduced or eliminate Required Contributions.</p>	<p>Members of the Police Department shall be required to financially contribute into the Police pension plan three percent (3%) of their base salary earned each pay period through payroll deduction.</p>	<p>Members shall pay into the fund, monthly, an amount equal to not less than 5% nor more than 8% of monthly compensation. The governing body municipality may, on an <u>annual</u> basis, by ordinance or resolution, reduce or eliminate payments into the fund by members. (Emphasis added.)</p>

Criteria: The member contributions provision contained in the plan agreement and the CBA should be consistent and in compliance with Act 600 provisions. In addition, any reduction or elimination of member contributions should be done annually in accordance with Act 600 provisions.

Cause: During collective bargaining, the Act 600 requirement to reduce or eliminate member contributions annually by ordinance or resolution, as opposed to permanently setting a reduced rate, was not considered.

Effect: Although members did contribute to the plan at a reduced rate during the period subject to audit, member contributions were not annually reduced in accordance with Act 600 provisions. In addition, an inconsistent member contributions provision amongst the varying plan documents could result in improper amounts of contributions being deducted.

Recommendation: We recommend that municipal officials ensure that the member contributions provisions in the plan agreement and CBA are consistent and in compliance with Act 600 provisions at their earliest opportunity to do so.

CONEWANGO TOWNSHIP POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

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

Auditor's Conclusion: Compliance will be subject to verification during our next audit of the plan.

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, 2019, is as follows:

	(1)	(2)	(3)	(4)
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) - Entry Age (b)	Unfunded (Assets in Excess of) Actuarial Liability (b) - (a)	Funded Ratio (a)/(b)
01-01-19	\$ 1,609,067	\$ 1,375,623	\$ (233,444)	117.0%
01-01-21	1,784,234	1,508,185	(276,049)	118.3%
01-01-23	1,944,984	1,719,044	(225,940)	113.1%

Note: The market values of the plan’s assets at 01-01-19, 01-01-21, and 01-01-23 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
 (UNAUDITED)

SCHEDULE OF CONTRIBUTIONS

<u>Year Ended December 31</u>	<u>Actuarially Determined Contribution</u>	<u>Actual Contributions</u>	<u>Contribution Deficiency (Excess)</u>	<u>Covered- Employee Payroll</u>	<u>Contributions as a Percentage of Covered- Employee Payroll</u>
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%
2019	22,502	22,502	-	237,607	9.47%
2020	36,226	36,226	-	245,333	14.77%
2021	40,246	40,246	-	235,432	17.09%
2022	34,679	34,679	-	260,335	13.32%
2023	39,073	39,073	-	*	

* Due to the timing of this audit, covered-employee payroll for 2023 was not provided in this schedule.

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, 2023
Actuarial cost method	Entry age normal
Amortization method	Not applicable
Remaining amortization period	None
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%

CONEWANGO TOWNSHIP POLICE PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Joshua D. Shapiro
Governor
Commonwealth of Pennsylvania

Mr. Jeffrey Zariczny
Chairman, Board of Township Supervisors

Ms. Emily Onuffer
Township Secretary

This report is a matter of public record and is available online at 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.