

LIMITED PROCEDURES ENGAGEMENT

Jackson Township Non-Uniformed Pension Plan Luzerne 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



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EUGENE A. DePASQUALE
AUDITOR GENERAL

Board of Township Supervisors
Jackson Township
Luzerne County
Jackson Township, PA 18708

We conducted a Limited Procedures Engagement (LPE) of the Jackson Township Non-Uniformed Pension Plan for the period January 1, 2016 to December 31, 2018 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 municipal officials took appropriate corrective action to address the finding contained in our prior LPE Report, by inquiring of plan officials and evaluating supporting documentation provided by officials evidencing that the suggested corrective action has been appropriately taken.
- 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.
- 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.

- Whether annual employee contributions were required during the engagement period and, if so, 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 engagement period and examining documents evidencing the deposit of these employee contributions into the pension plan.
- Whether retirement benefits calculated for plan members who retired during the engagement 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.
- Whether the January 1, 2017 actuarial valuation report was prepared and submitted by March 31, 2018, 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.

Based on the results of our procedures performed during our LPE, nothing came to our attention indicating that the Jackson 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 findings further discussed later in this report:

Finding No. 1 - Partial Compliance With Prior Audit Recommendation -
Incorrect Data On Certification Form AG 385 Resulting In A
Net Overpayment Of State Aid

Finding No. 2 - Allocation 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 Jackson 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.

February 26, 2020

A handwritten signature in black ink, appearing to read "Eugene A. DePasquale". The signature is fluid and cursive, with a long horizontal flourish extending to the right.

EUGENE A. DEPASQUALE
Auditor General

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JACKSON TOWNSHIP NON-UNIFORMED PENSION PLAN
STATUS OF PRIOR FINDING

Partial Compliance With Prior LPE Recommendation

Jackson Township has partially complied with the prior LPE recommendation concerning the following:

· Incorrect Data On Certification Form AG 385 Resulting In An Overpayment Of State Aid

During the current audit period, the township reimbursed \$418 to the Commonwealth for the overpayment of state aid in 2014 and 2015; however, plan officials failed to comply with the instructions that accompany Certification Form AG 385 to assist them in accurately reporting the required pension data in the years 2017, 2018, and 2019 as further discussed in the Findings and Recommendations section of this report.

JACKSON TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 - Partial Compliance With Prior Audit Recommendation - Incorrect Data On Certification Form AG 385 Resulting In An Overpayment Of State Aid

Condition: As disclosed in the Status of Prior Finding section of this report, the township partially complied with the prior recommendation by reimbursing \$418 to the Commonwealth for the overpayment of state aid received in 2014 and 2015. However, plan officials again failed to comply with the instructions that accompany Certification Form AG 385 to assist them in accurately reporting the required pension data in the years 2017, 2018, and 2019. During the current engagement period, the township certified 1 ineligible police officer (2 units) and overstated payroll by \$28,272 on the Certification Form AG 385 filed in 2017. In addition, the township certified 1 ineligible police officer (2 units) and overstated payroll by \$57,018, and failed to certify 1 eligible non-uniformed employee (1 unit) and understated payroll by \$27,897 on the Certification Form AG 385 filed in 2018. Furthermore, the township certified 1 ineligible police officer (2 units) and overstated payroll by \$58,728 on the Certification Form AG 385 filed in 2019. The data contained on these certification forms is based on prior calendar year information.

Criteria: Pursuant to Act 205, at Section 402(e)(2), in order to be eligible for certification, an employee must have been employed on a full-time basis for at least six consecutive months and must have been participating in a pension plan during the certification year.

Cause: A turnover in municipal officials responsible for preparing and submitting the Certification Form AG 385 contributed to the certification errors. The ineligible police officer certified on the Certification Form AG 385 filed in 2017 was a part time employee during 2016 until beginning full time employment in December 2017, and was not eligible to be certified on the form filed in 2017. The ineligible police officer certified on the Certification Forms AG 385 filed in 2018 and 2019 is a part time employee and therefore not eligible to be certified. The eligible non-uniformed employee who was not certified on the Certification Form AG 385 filed in 2018 terminated employment in December 2017 but still met the eligibility requirements to be certified.

Effect: The data submitted on these certification forms is used, in part, to calculate the state aid due to the municipality for distribution to its pension plans.

Factoring in data for both the township's police and non-uniformed pension plans, the township's original state aid allocation for 2017 in the amount of \$44,341 was based on the plans' pension costs. However, based on the corrected information, the township was only entitled to an allocation in the amount of \$36,706 based on unit value (8 units at \$4,588.25 each). Therefore, the township received an overpayment of state aid in the amount of \$7,635 in 2017.

JACKSON TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 - (Continued)

Because the township’s state aid allocations were based on unit value in years 2018 and 2019, the incorrect certification of pension data affected the township’s state aid allocations, as identified below:

<u>Year</u>	<u>Type Of Plan</u>	<u>Units Overstated (Understated)</u>	<u>Unit Value</u>	<u>State Aid Overpayment (Underpayment)</u>
2018	Police	2	\$ 4,684	\$ 9,368
	Non-Uniformed	(1)	\$ 4,684	<u>\$ (4,684)</u>
			2018 Net Overpayment	<u><u>\$ 4,684</u></u>
2019	Police	2	\$ 5,120	<u>\$ 10,240</u>

The net overpayment of state aid for the years 2017, 2018, and 2019 is \$22,559.

In addition, the township used the overpayments of state aid to pay the minimum municipal obligations (MMOs) due to the police and non-uniformed pension plans; therefore, if the reimbursement to the Commonwealth is made from the pension plans, the plan’s MMOs will not be fully paid.

Furthermore, the township’s future state aid allocations may be withheld until the finding recommendation is complied with.

Recommendation: We recommend that the net overpayment of state aid, in the amount of \$22,559, plus interest, be returned to the Commonwealth. A check in this amount, with interest compounded annually from date of receipt to date of repayment, at a rate earned by the pension 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 the check.

We also recommend that plan officials establish adequate internal control procedures, such as having at least two people review the data certified, to ensure compliance with the instructions that accompany Certification Form AG 385 to assist them in accurately reporting the required pension data.

JACKSON TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 - (Continued)

In addition, if the reimbursement to the Commonwealth is made from police and/or non-uniformed pension plan funds, we recommend that any resulting MMO deficiencies be paid to the pension plans with interest, at a rate earned by the pension plans.

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

Auditor's Conclusion: Due to the potential withhold of state aid, the township's compliance with the finding recommendation will be monitored subsequent to the release of the report and through our next plan engagement.

Finding No. 2 - Allocation Of State Aid In Excess Of Entitlement

Condition: In 2016, the township allocated state aid to the non-uniformed pension plan in excess of the plan's actual pension costs under Act 205, as illustrated below:

State aid allocated to plan	\$ 15,566
Less: Actual municipal pension costs	<u>(13,098)</u>
Excess state aid	<u>\$ 2,468</u>

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 plan 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 were unaware of the need to annually reconcile the amount of state aid allocated to the pension plan with the plan's actual pension costs.

JACKSON TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 - (Continued)

Effect: It is this department's opinion that, since 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; however, the township does have the option to allocate the excess state aid to its defined benefit pension plan.

Recommendation: We recommend that municipal officials allocate the \$2,468 of excess state aid to the township's defined benefit pension plan.

In addition, we recommend that, in the future, plan officials reconcile the amount of state aid allocated to the non-uniformed pension plan with the pension plan's actual pension costs.

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

Auditor's Conclusion: Compliance will be evaluated during our next plan engagement.

JACKSON TOWNSHIP NON-UNIFORMED PENSION PLAN
POTENTIAL WITHHOLD OF STATE AID

Finding No. 1 contained in this report cites an overpayment of state aid to the township in the amount of \$22,559, plus interest. A condition of this nature may lead to a total withholding of state aid in the future unless that finding is corrected. A check in this amount with interest, at a rate earned by the pension 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.

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

The supplementary information contained on Pages 7 through 9 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	\$ 26,470	\$ 26,419	\$ 27,330	\$ 27,045	\$ 33,611
Interest	26,185	29,145	31,711	32,993	35,780
Changes of benefits	-	-	-	-	7,273
Difference between expected and actual experience	11,859	469	553	-	1,509
Changes of assumptions	-	1,318	3,127	-	-
Benefit payments, including refunds of member contributions	(10,771)	(10,771)	(10,771)	(10,771)	(10,771)
Net Change in Total Pension Liability	53,743	46,580	51,950	49,267	67,402
Total Pension Liability - Beginning	471,848	525,591	572,171	624,121	673,388
Total Pension Liability - Ending (a)	<u>\$ 525,591</u>	<u>\$ 572,171</u>	<u>\$ 624,121</u>	<u>\$ 673,388</u>	<u>\$ 740,790</u>
Plan Fiduciary Net Position					
Contributions - employer	\$ 12,663	\$ 12,288	\$ 12,622	\$ 12,536	\$ 11,673
Contributions - PMRS assessment	-	140	140	160	160
Contributions - employee	14,071	14,242	14,708	14,509	17,792
Net investment income	35,551	(2,580)	44,479	104,482	(38,694)
Benefit payments, including refunds of member contributions	(10,771)	(10,771)	(10,771)	(10,771)	(10,771)
Administrative expense	(1,135)	(1,344)	(1,673)	(1,636)	(1,715)
Net Change in Plan Fiduciary Net Position	50,379	11,975	59,505	119,280	(21,555)
Plan Fiduciary Net Position - Beginning	464,712	515,091	527,066	586,571	705,851
Plan Fiduciary Net Position - Ending (b)	<u>\$ 515,091</u>	<u>\$ 527,066</u>	<u>\$ 586,571</u>	<u>\$ 705,851</u>	<u>\$ 684,296</u>
Net Pension Liability - Ending (a-b)	<u>\$ 10,500</u>	<u>\$ 45,105</u>	<u>\$ 37,550</u>	<u>\$ (32,463)</u>	<u>\$ 56,494</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	98.00%	92.12%	93.98%	104.82%	92.37%
Estimated Covered Employee Payroll	\$ 177,124	\$ 175,459	\$ 182,112	\$ 179,093	\$ 225,979
Net Pension Liability as a Percentage of Covered Employee Payroll	5.93%	25.71%	20.62%	(18.13%)	25.00%

JACKSON 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 and 2015, calculated using the discount rate of 5.50%, 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:

	<u>1% Decrease (4.50%)</u>	<u>Current Discount Rate (5.50%)</u>	<u>1% Increase (6.50%)</u>
Net Pension Liability - 12/31/14	\$ 101,565	\$ 10,500	\$ (78,455)
Net Pension Liability - 12/31/15	\$ 145,435	\$ 45,105	\$ (53,189)

In addition, the following presents the net pension liability of the township as of December 31, 2016, 2017, and 2018, 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:

	<u>1% Decrease (4.25)</u>	<u>Current Discount Rate (5.25%)</u>	<u>1% Increase (6.25%)</u>
Net Pension Liability - 12/31/16	\$ 148,109	\$ 37,550	\$ (71,008)
Net Pension Liability - 12/31/17	\$ 88,324	\$ (32,463)	\$ (151,301)
Net Pension Liability - 12/31/18	\$ 189,210	\$ 56,494	\$ (76,154)

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

SCHEDULE OF CONTRIBUTIONS

Year Ended December 31	Statutorily Required Contribution	Actual Contributions	Contribution Deficiency (Excess)	Covered- Employee Payroll	Contributions as a Percentage of Covered- Employee Payroll
2014	\$ 12,539	\$ 12,663	\$ (124)	\$ 177,124	7.15%
2015	12,317	12,428	(111)	175,459	7.08%
2016	12,762	12,762	-	182,112	7.01%
2017	12,676	12,696	(20)	179,093	7.09%
2018	15,959	11,833	4,126	225,979	5.24%

JACKSON 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. John Jay Wilkes, Jr.
Chairman, Board of Township Supervisors

Mr. Allen L. Fox
Secretary/Treasurer

Ms. Charity Rosenberry, CPA
Pennsylvania Municipal Retirement System

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