

LIMITED PROCEDURES ENGAGEMENT

Jefferson Township Police Pension Plan Mercer County, Pennsylvania For the Period January 1, 2013 to December 31, 2016

November 2017



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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AUDITOR GENERAL

Board of Township Supervisors
Jefferson Township
Mercer County
Mercer, PA 16137

We conducted a Limited Procedures Engagement (LPE) of the Jefferson Township Police Pension Plan for the period January 1, 2013 to December 31, 2016 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, 2011 to December 31, 2016, 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, 2011 to December 31, 2016, are presented on the Summary of Deposited State Aid and Employer Contributions.

- 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 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, 2011, January 1, 2013 and January 1, 2015 actuarial valuation reports were prepared and submitted to the former Public Employee Retirement Commission (PERC) by March 31, 2012, 2014 and 2016, 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.
- Whether the terms of the plan's allocated 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.

Based on the results of our procedures performed during our LPE, nothing came to our attention indicating that the Jefferson Township Police 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 – Improper Distribution From Allocated Insurance Contract

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 contents of this report were discussed with officials of Jefferson 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 26, 2017



EUGENE A. DEPASQUALE
Auditor General

CONTENTS

	<u>Page</u>
Finding and Recommendation:	
Finding – Improper Distribution From Allocated Insurance Contract.....	1
Potential Withhold of State Aid.....	3
Summary of Deposited State Aid and Employer Contributions.....	4
Report Distribution List	5

JEFFERSON TOWNSHIP POLICE PENSION PLAN
FINDING AND RECOMMENDATION

Finding – Improper Distribution From Allocated Insurance Contract

Condition: The cash surrender value of an allocated insurance contract maintained by the pension plan to fund pension benefits was withdrawn and the net proceeds, totaling \$17,276, were deposited into the township’s general fund. The contract was purchased in May 2012 for a police officer who was hired on January 3, 2011 and terminated his employment on November 10, 2014.

Criteria: The governing plan document in effect on the officer’s employment date, Resolution No. 1212A5, at Section VII, states:

Jefferson Township shall maintain a pension fund to provide pension and retirement benefits for its full-time police officers with a “defined contribution” in the amount of four thousand six hundred dollars (\$4,600.00) per year for each participant through the discretionary purchase of individual annuity contracts.

Further, Section XII of Resolution No. 1212A5 stated a police officer is 100 percent vested in his or her annuity contract.

The governing resolution was amended in December 2012, and township officials changed the pension plan from a defined contribution plan to a discretionary plan, and removed the 100 percent vesting provision from the plan.

Section 102 of Act 205 contains the following definition:

“Pension fund.” The entity which is the repository for the assets amassed by a pension plan as reserves for present and future periodic retirement payments and benefits of active and retired members of the pension plan.

As indicated above, the assets of the pension fund are restricted for the payment of retirement benefits and are not authorized to be utilized by a municipality’s general fund.

Cause: Based on the amended plan document which included the removal of the 100 percent vesting provision, plan officials believed the terminated member was not eligible to receive benefits from the pension plan.

Effect: A terminated plan member may have been denied pension benefits to which he was entitled. Furthermore, if the terminated plan member is not eligible for pension benefits, the township is improperly retaining the proceeds from an insurance contract that was funded through state aid, and these funds should be returned to the Commonwealth for redistribution to eligible municipalities for reimbursement of eligible pension costs.

JEFFERSON TOWNSHIP POLICE PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

In addition, the township's future state aid allocations may be withheld until the finding recommendation is complied with.

Recommendation: We recommend that township officials, with the assistance of their solicitor, determine if the terminated plan member was eligible for a pension distribution based on the provisions of the plan document in effect at the time of his commencement of employment with the township. If it determined that the terminated member is eligible for benefits, we recommend township officials make the distribution to the terminated member from the proceeds of the insurance contract. If it is determined the terminated member is not eligible for a pension benefit distribution, we recommend the township determine the portion of the allocated insurance contract that was funded through state aid and reimburse this amount to the Commonwealth. A check, along with any applicable calculations used in determining the amount reimbursed, should be made payable to the Commonwealth of Pennsylvania and submitted to: Department of the Auditor General, Municipal Pensions & Fire Relief Programs Unit, 321 Finance Building, Harrisburg, PA 17120.

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 engagement.

JEFFERSON TOWNSHIP POLICE PENSION PLAN
POTENTIAL WITHHOLD OF STATE AID

A condition such as that contained in this report may lead to a total withholding of state aid in the future unless the finding is corrected. However, such action will not be considered if sufficient written documentation is provided to verify compliance with this department's recommendation. Such documentation should be submitted to: Department of the Auditor General, Bureau of Municipal Pension & Liquor Control Audits, 314 Finance Building, Harrisburg, PA 17120.

JEFFERSON TOWNSHIP POLICE PENSION PLAN
SUMMARY OF DEPOSITED STATE AID AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid	Employer Contributions
2011	\$ 4,576	\$ 4,624
2012	9,305	None
2013	9,698	None
2014	9,025	None
2015	8,908	1,356
2016	8,908	None

JEFFERSON TOWNSHIP POLICE PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

Mr. Garth Falkner
Chairman, Board of Township Supervisors

Ms. Linda Evans
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.