

JENKS TOWNSHIP NONUNIFORMED PENSION PLAN

FOREST COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2009, TO DECEMBER 31, 2011



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ABBREVIATION

PMRS - Pennsylvania Municipal Retirement System

BACKGROUND

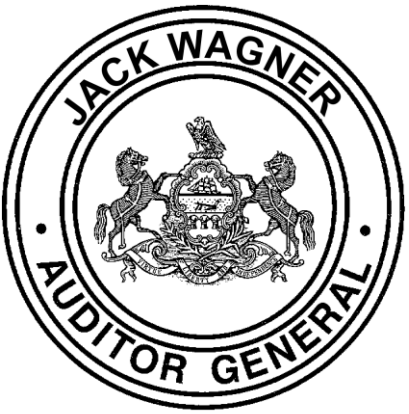
On December 18, 1984, the Pennsylvania Legislature adopted the Municipal Pension Plan Funding Standard and Recovery Act (P.L. 1005, No. 205, as amended, 53 P.S. § 895.101 et seq.). The act established mandatory actuarial reporting and funding requirements and a uniform basis for the distribution of state 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.

Pension plan aid is provided from a 2 percent foreign casualty insurance premium tax, a portion of the foreign 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 Jenks Township Nonuniformed Pension Plan is also governed by implementing regulations adopted by the Public Employee Retirement Commission 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 15 - Pennsylvania Municipal Retirement Law, Act of February 1, 1974
(P.L. 34, No. 15), as amended, 53 P.S. § 881.101 et seq.

The Jenks Township Nonuniformed Pension Plan is a single-employer cash balance pension plan locally controlled by the provisions of Ordinance No. 03-05-01, as amended, adopted pursuant to Act 15. Active members are not required to contribute to the plan; however, they may contribute up to, but no more than, 10 percent of their compensation. The municipality is required to quarterly contribute \$500 per member.



Board of Township Supervisors
Jenks Township
Forest County
Marienville, PA 16239

We have conducted a compliance audit of the Jenks Township Nonuniformed Pension Plan for the period January 1, 2009, to December 31, 2011. The audit was conducted pursuant to authority derived from Section 402(j) of Act 205 and in accordance with *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 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 audit 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. Our methodology addressed determinations about the following:

- Whether state aid was properly determined and deposited in accordance with Act 205 requirements.
- Whether employer contributions are determined and deposited in accordance with the plan's governing document and applicable laws and regulations.
- Whether employee contributions are required and, if so, are determined, deducted and deposited into the pension plan and are in accordance with the plan provisions and applicable laws and regulations.

- Whether benefit payments, if any, represent payments to all (and only) those entitled to receive them and are properly determined in accordance with applicable laws and regulations.
- Whether obligations for plan benefits are accurately determined in accordance with plan provisions and based on complete and accurate participant data; and whether actuarial valuation reports are prepared and submitted to the Public Employee Retirement Commission (PERC) in accordance with state law and 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.
- Whether the terms of the contractual agreement with the Pennsylvania Municipal Retirement System are in accordance with the plan's governing document, if separately stated, and applicable laws and regulations.

The Jenks Township Nonuniformed Pension Plan participates in the Pennsylvania Municipal Retirement System (PMRS), which is an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for participating municipal pension plans. PMRS issues a separate Comprehensive Annual Financial Report, copies of which are available from the PMRS accounting office. PMRS's 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 Jenks Township Nonuniformed 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, 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 objectives.

The results of our tests indicated that, in all significant respects, the Jenks Township Nonuniformed 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 findings further discussed later in this report:

Finding No. 1 – Noncompliance With Prior Audit Recommendation –
Governing Document Allows For The Allocation Of Excess
State Aid To Plan Members

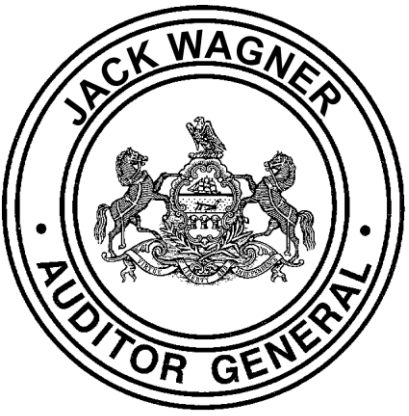
Finding No. 2 – Receipt Of State Aid In Excess Of Entitlement

The accompanying supplementary information is presented for purposes of additional analysis. We did not audit the information and, accordingly, express no form of assurance on it.

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

August 22, 2012

JACK WAGNER
Auditor General



JENKS TOWNSHIP NONUNIFORMED PENSION PLAN
STATUS OF PRIOR FINDINGS

Compliance With Prior Audit Recommendation

Jenks Township has complied with the prior audit recommendation concerning the following:

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

The township reimbursed \$745 to the Commonwealth for the overpayment of state aid.

Noncompliance With Prior Audit Recommendation

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

- Governing Document Allows For The Allocation Of Excess State Aid To Plan Members

JENKS TOWNSHIP NONUNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Noncompliance With Prior Audit Recommendation – Governing Document
Allows For The Allocation Of Excess State Aid To Plan Members

Condition: As disclosed in the prior audit report, the nonuniformed pension plan’s governing document allows for the allocation of excess state aid to plan members. Section 14 of the plan agreement adopted by Ordinance No. 03-05-01 states, in part:

If funds exist within the plan due to the allocation of General Municipal Pension System State Aid, as provided for by Act 205 of 1984, being more than anticipated ..., the township may annually elect to contribute all or a portion of such unanticipated assets to the members’ accounts in a given calendar year by adopting a resolution and filing it with the Board.

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.

The township filed actuarial valuation report form 203A for the nonuniformed pension plan with the Public Employee Retirement Commission.

Section 102 of Act 205 defines the following:

A type of pension benefit plan which provides for a fixed contribution rate or amount and which provides for periodic benefit payments calculable at retirement dependent on the accumulated contributions, investment income, experience gains and losses credited to the member and the expected mortality of the member.
(Emphasis added)

Accordingly, Section V, B, of the actuarial valuation report form 203A only provides for reporting a contribution rate either at a specified percentage of payroll or as a specified flat dollar amount.

Cause: Plan officials are waiting for PMRS to update their plan document.

JENKS TOWNSHIP NONUNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Effect: The township may allocate state aid to the pension plan in excess of the contribution rate specified in the plan’s governing document.

Recommendation: We again recommend that the municipality amend the plan’s governing document to remove the clause permitting state aid received in excess of the plan’s pension costs to be allocated to plan members.

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

Finding No. 2 – Receipt Of State Aid In Excess Of Entitlement

Condition: The township received state aid in excess of the plan’s annual pension costs for the years 2009 and 2011, as illustrated below:

	<u>2009</u>	<u>2011</u>
State aid allocation	\$ 9,755	\$ 10,893
Forfeiture available	2,123	-
Actual municipal pension costs	(8,713)	(8,556)
Excess state aid	\$ 3,165	\$ 2,337

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.

JENKS TOWNSHIP NONUNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

In addition, the plan agreement at Section 14 states, in part:

If funds exist within the plan due to the allocation of General Municipal Pension System State Aid, as provided for by Act 205 of 1984, being more than anticipated or assets becoming available due to a member's forfeiture of a benefit, the township may annually elect to contribute all or a portion of such unanticipated assets to the members' accounts in a given calendar year by adopting a resolution and filing it with the Board.

Cause: Prior to 2009, pursuant to the plan agreement with PMRS, the township allocated available forfeitures to active plan participants. The municipality was notified by PMRS in 2009 that PMRS will not authorize the reallocation of any forfeiture in 2009 or for any years in the future. Consequently, the forfeiture must be used to satisfy the employer contribution due to the plan in the year it becomes available.

Furthermore, while the township accurately reported the plan's defined contribution rate on the actuarial valuation reports, when the flat dollar contribution requirement was converted into a normal cost percentage it resulted in the receipt of excess state aid.

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 2009 and 2011, in the total amount of \$5,502, must be returned to the Commonwealth for redistribution.

Recommendation: We recommend that the municipality return \$5,502 of excess state aid received in the years 2009 and 2011 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, 11 Stanwix Street, Suite 1450, Pittsburgh, PA 15222. A copy of the interest calculation must be submitted along with evidence of payment.

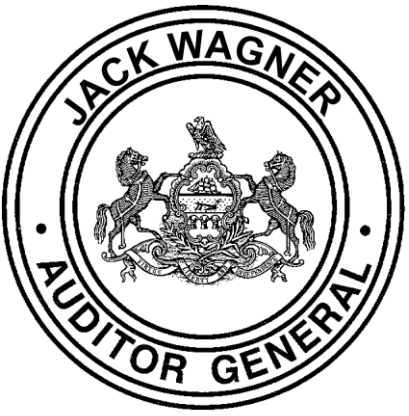
Furthermore, we recommend that, in the future, plan officials reconcile the township's annual state aid allocation and any available employee forfeitures with the plan's annual pension costs and reimburse any excess state aid received to the Commonwealth.

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

JENKS TOWNSHIP NONUNIFORMED PENSION PLAN
 SUPPLEMENTARY INFORMATION
 (UNAUDITED)

SCHEDULE OF STATE AID
 AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid Deposited	Employer Contributions
2006	\$ 6,273	\$ 2,367
2007	7,058	1,122
2008	8,106	1,594
2009	6,590	2,123
2010	9,469	211
2011	8,556	None



JENKS TOWNSHIP NONUNIFORMED PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania

Jenks Township Nonuniformed Pension Plan
Forest County
P.O. Box 436
Marienville, PA 16239

Mr. Gregory Geyer	Chairman, Board of Township Supervisors
Ms. Misty Dittman	Secretary
Ms. Kristine M. Cline	Pennsylvania Municipal Retirement System

This report is a matter of public record. Copies of this report may be obtained from the Pennsylvania Department of the Auditor General, Office of Communications, Room 318 Finance Building, Harrisburg, PA 17120. If you have any questions regarding this report or any other matter, you may contact the Department of the Auditor General by accessing our website at www.auditorgen.state.pa.us.