

LIMITED PROCEDURES ENGAGEMENT

Jackson Township Non-Uniformed Pension Plan Butler County, Pennsylvania For the Period January 1, 2016 to December 31, 2018

April 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
Butler County
Zelienople, PA 16063

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. State aid allocations that were deposited into the pension plan for the years ended December 31, 2013 to December 31, 2018, 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, 2013 to December 31, 2018, 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, 2015 and January 1, 2017 actuarial valuation reports were prepared and submitted by March 31, 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 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 LPE Report Recommendation - Incorrect Data On Certification Form AG 385 Resulting In An Overpayment Of State Aid
- Finding No. 2. – Allocation Of State Aid In Excess Of Entitlement
- Finding No. 3. – Municipal Contributions Made In Excess Of Contributions Required To Fund The Plan

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 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.

March 16, 2020

A handwritten signature in black ink, appearing to read "Eugene A. DePasquale". The signature is fluid and cursive, with a long horizontal stroke 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 Report Recommendation

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

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

During the current engagement period, the township reimbursed \$3,920 to the Commonwealth for the overpayment of state aid received in 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 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 LPE Report Recommendation - Incorrect Data On Certification Form AG 385 Resulting In An Overpayment Of State Aid

Condition: As disclosed in the Status of Prior Findings section of this report, the township partially complied with the prior recommendation by reimbursing \$3,920 to the Commonwealth for the overpayment of state aid received in 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. The township certified an ineligible non-uniformed employee (1 unit) and overstated payroll by \$37,512 on the Certification Form AG 385 filed in 2019. The data contained on this certification form is based on prior calendar year information.

Criteria: As previously disclosed, 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. In addition, the plan’s governing document, Ordinance No 97-20 contains additional requirements relative to an employee’s eligibility to participate in the non-uniformed pension plan as follows:

All employees of the Township shall be eligible to participate on the Effective Date (*January 1, 1987 per the ordinance*). Any employee hired after the Effective Date shall be eligible to participate on the Entry Date (*January 1, July 1 per the ordinance*) coincident with or following the first anniversary of the date of hire and attainment of age 18.

Cause: Plan officials failed to take into consideration the service and plan entry requirements prior to an employee’s eligibility to participate in the pension plan. In addition, the township’s 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, were not operating effectively to identify the ineligible participant prior to certification on the AG 385.

Effect: The data submitted on this certification form is used, in part, to calculate the state aid due to the municipality for distribution to its pension plans. Because the township’s state aid allocation was based on unit value, the incorrect certification of pension data affected the township’s state aid allocation, as identified below:

<u>Units Overstated</u>	<u>Unit Value</u>	<u>State Aid Overpayment</u>
1	\$ 5,121	\$ 5,121

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

JACKSON TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

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

Recommendation: We recommend that the overpayment of state aid, in the amount of \$5,121, 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 in the future, plan officials consider the plan’s service and plan entry requirements prior to determining a subsequently hired employees’ eligibility to participate in the pension plan and 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.

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

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

Auditor 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 of the plan.

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

Condition: During 2017, the township allocated state aid to the non-uniformed pension plan in excess of the plan’s defined contribution pension costs under Act 205, as illustrated below:

State aid allocation	\$ 20,250
Less: Actual municipal pension costs	<u>(17,550)</u>
Excess state aid	<u><u>\$ 2,700</u></u>

Finding No. 2 – (Continued)

JACKSON TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

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 failed to take into account the ineligibility of a plan member who terminated employment with the township during February 2017, and therefore was not entitled to an employer contribution during 2017. In addition, the township lacked adequate internal control procedures to reconcile the amount of state aid allocated to the non-uniformed pension plan with the pension plan's defined contribution pension costs during 2017.

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 re-allocate the \$2,700 of excess state aid deposited into the non-uniformed pension plan to the township's defined benefit pension plan.

In addition, we recommend that, in the future, plan officials take into account the eligibility status of plan members and annually reconcile the amount of state aid allocated to the non-uniformed pension plan with the pension plan's actual defined contribution pension costs.

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

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

JACKSON TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 3 - Municipal Contributions Made In Excess Of Contributions Required To Fund The Plan

Condition: The township made contributions to the non-uniformed pension plan in excess of contributions required to fund the pension plan, as illustrated below:

	<u>2018</u>
Actual municipal pension costs	\$ 17,550
State aid allocated	<u>(11,760)</u>
Municipal contributions required to fund plan	<u>\$ 5,790</u>
Actual municipal contributions made	<u>\$ 7,140</u>
Excess municipal contributions	<u>\$ 1,350</u>

Criteria: Article V, of the plan’s governing plan Ordinance No. 97-2, as amended, states:

Each Participant attaining a Plan Year of Service will be allocated a contribution of \$2,700 for that year. Participants entering on the July 1 Entry Date will receive a contribution of \$1,350 for the initial year. A participant who dies, retires, or becomes Disabled in the Plan Year will receive a pro-rata contribution calculated to the nearest month, if the separation date is prior to July 1.

Since state aid allocated to a pension plan must be expended on pension costs, it is the opinion of this department that where municipal contributions and state aid are both deposited into a pension plan, the state aid is expended first to fund pension costs.

Cause: The township deposited the amount calculated during the previous year and did not take into consideration employee turnover. In addition, the township lacked adequate internal control procedures to reconcile the state aid allocated and municipal contributions made to the pension plan with the pension plan’s annual defined contribution pension costs.

Effect: As a result of the township making contributions to the non-uniformed pension plan in excess of contributions required to fund the pension plan, less municipal funds were available in the township’s general fund to fund other general municipal government purposes and an unallocated reserve fund in the pension plan amounting to \$1,350 was created.

JACKSON TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding – No. 3 – (Continued)

The unallocated reserve fund maintained by the non-uniformed pension plan resulted because no reduction of municipal contributions occurred to reconcile the amount of state aid and municipal contributions with the plan's defined contribution pension costs. It is appropriate to use state aid to reimburse a municipality for contributions made to the pension plan to fund the pension costs in that same fiscal year, as long as annual pension costs for that pension plan are equal to or greater than the state aid allocated to that pension plan.

It is the opinion of this department that the township's failure to withdraw excess municipal contributions made in prior years does not preclude the township from withdrawing the municipal contributions maintained in the unallocated reserve fund at this time.

Recommendation: We recommend that the township liquidate the unallocated reserve fund maintained by the non-uniformed pension plan by transferring the assets, which represent non-state aid funds, to the township's general fund. In addition, any interest income earned on assets held in the reserve fund to the date of transfer should also be transferred to the general fund.

We also recommend that, in the future, plan officials calculate the township's contribution for each year and reconcile the amount of state aid allocated and municipal contributions made to the non-uniformed pension plan with the pension plan's annual defined contribution pension costs.

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

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

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 \$5,121, 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
SUMMARY OF DEPOSITED STATE AID AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid	Employer Contributions
2013	\$ 13,500	None
2014	12,150	None
2015	11,412	\$ 2,088
2016	17,550	50
2017	20,250	None
2018	11,760	7,140

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. Jay Grinnell
Chairman, Board of Township Supervisors

Mr. Chris Rearick
Township Manager

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.