

# LIMITED PROCEDURES ENGAGEMENT

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## Jackson Township Police Pension Plan Luzerne County, Pennsylvania For the Period January 1, 2016 to December 31, 2018

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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 Police 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 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 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 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 - Incorrect Data On Certification Form AG 385 Resulting In A  
Net Overpayment Of State Aid

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

  
EUGENE A. DEPASQUALE  
Auditor General

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JACKSON TOWNSHIP POLICE PENSION PLAN  
FINDING AND RECOMMENDATION

**Finding - Incorrect Data On Certification Form AG 385 Resulting In A Net Overpayment Of State Aid**

Condition: 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.

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:

JACKSON TOWNSHIP POLICE PENSION PLAN  
FINDING AND RECOMMENDATION

**Finding - (Continued)**

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

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.

JACKSON TOWNSHIP POLICE PENSION PLAN  
FINDING AND RECOMMENDATION

**Finding - (Continued)**

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.

JACKSON TOWNSHIP POLICE PENSION PLAN  
POTENTIAL WITHHOLD OF STATE AID

The finding 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 POLICE PENSION PLAN  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

The supplementary information contained on Pages 5 through 7 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   | \$ 17,573         | \$ 13,725         | \$ 15,529         | \$ 18,482         | \$ 30,578         |
| Interest   | 31,339            | 38,109            | 38,753            | 41,143            | 43,345            |
| Difference between expected and actual experience                          | 107,809           | -                 | 26,464            | -                 | 73,473            |
| Changes of assumptions   | -                 | (12,158)          | 25,159            | -                 | -                 |
| Benefit payments, including refunds of member contributions                | <u>(29,777)</u>   | <u>(29,777)</u>   | <u>(29,777)</u>   | <u>(29,777)</u>   | <u>(29,777)</u>   |
| Net Change in Total Pension Liability                                      | 126,944           | 9,899             | 76,128            | 29,848            | 117,619           |
| Total Pension Liability - Beginning  | <u>566,919</u>    | <u>693,863</u>    | <u>703,762</u>    | <u>779,890</u>    | <u>809,738</u>    |
| Total Pension Liability - Ending (a)                                       | <u>\$ 693,863</u> | <u>\$ 703,762</u> | <u>\$ 779,890</u> | <u>\$ 809,738</u> | <u>\$ 927,357</u> |
| Plan Fiduciary Net Position  |                   |                   |                   |                   |                   |
| Contributions - employer   | \$ 31,962         | \$ 18,781         | \$ 19,351         | \$ 32,996         | \$ 34,896         |
| Contributions - PMRS assessment  | -                 | 80                | 100               | 120               | 100               |
| Net investment income  | 23,467            | (1,807)           | 46,765            | 96,468            | (22,783)          |
| Benefit payments, including refunds of member contributions                | <u>(29,777)</u>   | <u>(29,777)</u>   | <u>(29,777)</u>   | <u>(29,777)</u>   | <u>(29,777)</u>   |
| Administrative expense   | <u>(691)</u>      | <u>(1,266)</u>    | <u>(1,522)</u>    | <u>(1,457)</u>    | <u>(1,500)</u>    |
| Net Change in Plan Fiduciary Net Position                                  | 24,961            | (13,989)          | 34,917            | 98,350            | (19,064)          |
| Plan Fiduciary Net Position - Beginning                                    | <u>495,170</u>    | <u>520,131</u>    | <u>506,142</u>    | <u>541,059</u>    | <u>639,409</u>    |
| Plan Fiduciary Net Position - Ending (b)                                   | <u>\$ 520,131</u> | <u>\$ 506,142</u> | <u>\$ 541,059</u> | <u>\$ 639,409</u> | <u>\$ 620,345</u> |
| Net Pension Liability - Ending (a-b)                                       | <u>\$ 173,732</u> | <u>\$ 197,620</u> | <u>\$ 238,831</u> | <u>\$ 170,329</u> | <u>\$ 307,012</u> |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | 74.96%            | 71.92%            | 69.38%            | 78.96%            | 66.89%            |
| Estimated Covered Employee Payroll   | \$ 104,880        | \$ 75,575         | \$ 108,505        | \$ 121,797        | \$ 201,514        |
| Net Pension Liability as a Percentage of Covered Employee Payroll          | 165.65%           | 261.49%           | 220.11%           | 139.85%           | 152.35%           |

JACKSON TOWNSHIP POLICE 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:

|                                  | 1% Decrease<br>(4.50%) | Current<br>Discount Rate<br>(5.50%) | 1% Increase<br>(6.50%) |
|----------------------------------|------------------------|-------------------------------------|------------------------|
| Net Pension Liability - 12/31/14 | \$ 273,778             | \$ 173,732                          | \$ 91,172              |
| Net Pension Liability - 12/31/15 | \$ 299,345             | \$ 197,620                          | \$ 113,653             |

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:

|                                  | 1% Decrease<br>(4.25) | Current<br>Discount Rate<br>(5.25%) | 1% Increase<br>(6.25%) |
|----------------------------------|-----------------------|-------------------------------------|------------------------|
| Net Pension Liability - 12/31/16 | \$ 352,467            | \$ 238,831                          | \$ 144,869             |
| Net Pension Liability - 12/31/17 | \$ 288,314            | \$ 170,329                          | \$ 72,771              |
| Net Pension Liability - 12/31/18 | \$ 438,336            | \$ 307,012                          | \$ 197,538             |

JACKSON TOWNSHIP POLICE PENSION PLAN  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

SCHEDULE OF CONTRIBUTIONS

| <u>Year Ended<br/>December 31</u> | <u>Actuarially<br/>Determined<br/>Contribution</u> | <u>Actual<br/>Contributions</u> | <u>Contribution<br/>Deficiency<br/>(Excess)</u> | <u>Covered-<br/>Employee<br/>Payroll</u> | <u>Contributions as<br/>a Percentage of<br/>Covered-<br/>Employee<br/>Payroll</u> |
|-----------------------------------|--|---------------------------------|---|--|---|
| 2014                              | \$ 31,962  | \$ 31,962                       | \$ -  | \$ 104,880                               | 30.47%  |
| 2015                              | 18,861   | 18,861                          | -   | 75,575                                   | 24.96%  |
| 2016                              | 19,431   | 19,451                          | (20)  | 108,505                                  | 17.93%  |
| 2017                              | 33,096   | 33,116                          | (20)  | 121,797                                  | 27.19%  |
| 2018                              | 34,996   | 34,996                          | -   | 201,514                                  | 17.37%  |

JACKSON 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, 2013, is as follows:

|                                | (1)                                    | (2)  | (3)  | (4)                        |
|--------------------------------|--|--|--|----------------------------|
| Actuarial<br>Valuation<br>Date | Actuarial<br>Value of<br>Assets<br>(a) | Actuarial<br>Accrued<br>Liability<br>(AAL) -<br>Entry Age<br>(b) | Unfunded<br>(Assets in<br>Excess of)<br>Actuarial<br>Accrued<br>Liability<br>(b) - (a) | Funded<br>Ratio<br>(a)/(b) |
| 01-01-13                       | \$ 428,556                             | \$ 520,499   | \$ 91,943  | 82.3%                      |
| 01-01-15                       | 535,925                                | 693,863  | 157,938  | 77.2%                      |
| 01-01-17                       | 587,890                                | 779,890  | 192,000  | 75.4%                      |

JACKSON 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.

JACKSON 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, 2017  |
| Actuarial cost method         | Entry age normal   |
| Amortization method           | Level dollar   |
| Remaining amortization period | 18 years   |
| Asset valuation method        | The Actuarial Value of Assets equals the plan's member, municipal, DROP (if applicable) reserve accounts plus the retiree actuarial liability. This asset smoothing is based on the unique legislative structure of PMRS and the administrative rules adopted by the PMRS Board in conjunction with Pennsylvania Municipal Retirement Law, all of which are subject to comply with the Actuarial Standards of Practice No. 44, Selection and Use of Asset Valuation Methods when defining the actuarial Value of Assets. |
| Actuarial assumptions:        |  |
| Investment rate of return     | 5.25%, compounded annually, net of investment and administration expenses.   |
| Salary scale                  | Total rate (including inflation) (e.g. age 25 – 7.05%; age 35 – 4.55%; age 45 – 3.97%; age 55 – 3.44%; age 65 – 2.80%).  |
| Cost-of-living adjustments    | 2.8% per year, subject to plan limitations.  |

JACKSON TOWNSHIP POLICE PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

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