

# LIMITED PROCEDURES ENGAGEMENT

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## Jenks Township Non-Uniformed Pension Plan Forest County, Pennsylvania For the Period January 1, 2015 to December 31, 2017

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April 2019



Commonwealth of Pennsylvania  
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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We conducted a Limited Procedures Engagement (LPE) of the Jenks Township Non-Uniformed Pension Plan for the period January 1, 2015 to December 31, 2017 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 findings 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, 2012 to December 31, 2017, 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, 2012 to December 31, 2017, 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 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, 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 Jenks 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 finding further discussed later in this report:


Finding – Partial Compliance With Prior Recommendation – Receipt 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 Jenks 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 19, 2018

  
EUGENE A. DEPASQUALE  
Auditor General

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JENKS TOWNSHIP NON-UNIFORMED PENSION PLAN  
STATUS OF PRIOR FINDINGS

Compliance With Prior LPE Report Recommendations

Jenks Township has complied with the prior LPE report recommendations concerning the following:

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

During the current engagement period, municipal officials accurately reported the required pension data on the Certification Form AG 385; and

- Failure To Fund Members' Accounts

During the current engagement period, township officials deposited \$1,500 into the accounts of plan members who were eligible to receive allocations during 2014.

Partial Compliance With Prior LPE Report Recommendation

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

- Receipt Of State Aid In Excess Of Entitlement

During the current engagement period, the township reimbursed \$263 to the Commonwealth for the excess state aid received in 2013; however, plan officials again failed to reconcile the amount of state aid allocated to the non-uniformed pension plan with the plans pension costs, as further discussed in the Finding and Recommendation section of this report.

JENKS TOWNSHIP NON-UNIFORMED PENSION PLAN  
FINDING AND RECOMMENDATION

**Finding – Partial Compliance With Prior Recommendation – Receipt Of State Aid In Excess Of Entitlement**

Condition: As disclosed in the Status of Prior Findings section of this report, the township partially complied with the prior recommendation by reimbursing the Commonwealth for the excess state aid received in the year 2013; however, plan officials again failed to reconcile the amount of state aid allocated to the township with the plan’s annual pension costs for the years 2015, 2016 and 2017, as illustrated below:

	<u>2015</u>	<u>2016</u>	<u>2017</u>
State aid allocation	\$ 9,867	\$ 10,364	\$ 11,452
Forfeiture available	8,815	-	-
Actual municipal pension costs	<u>(10,720)</u>	<u>(9,540)</u>	<u>(10,240)</u>
Excess state aid	<u>\$ 7,962</u>	<u>\$ 824</u>	<u>\$ 1,212</u>

In addition, it was noted that a portion of the excess state aid amount for 2015 (\$1,147) and the excess state aid amounts for 2016 (\$824) and 2017 (\$1,212) remain in the township’s general fund as of the date of this report.

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.

Cause: Plan officials again failed to implement adequate internal control procedures to annually reconcile the township’s state aid allocation and employee forfeitures available to reduce municipal contributions with the plan’s actual annual pension costs and ensure compliance with the prior recommendation.

JENKS TOWNSHIP NON-UNIFORMED PENSION PLAN  
FINDING AND RECOMMENDATION

**Finding – (Continued)**

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 overpayment of state aid in the years 2015, 2016, and 2017 must be returned to the Commonwealth for redistribution.

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

Recommendation: We recommend the municipality return the total excess state aid amounting to \$9,998 (\$6,815 of which was deposited into the township's pension plan and remains in the plan's unallocated municipal reserve account and \$3,183 which remains in the township's general fund), to the Commonwealth. A check in this total 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, 321 Finance Building, Harrisburg, PA 17120. 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.

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 of the plan.

JENKS TOWNSHIP NON-UNIFORMED 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 \$9,998, 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.



JENKS TOWNSHIP NON-UNIFORMED PENSION PLAN  
SUMMARY OF DEPOSITED STATE AID AND EMPLOYER CONTRIBUTIONS

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 AND 2015

	<u>2014</u>	<u>2015</u>
Total Pension Liability		
Service cost	\$ 9,500	\$ 10,500
Interest	22,337	24,733
Difference between expected and actual experience	(148)	(8,880)
Changes of assumptions	-	3,084
Benefit payments, including refunds of member contributions	<u>(15,382)</u>	<u>(17,908)</u>
Net Change in Total Pension Liability	16,307	11,529
Total Pension Liability – Beginning	<u>412,358</u>	<u>428,665</u>
Total Pension Liability – Ending (a)	<u>\$ 428,665</u>	<u>\$ 440,194</u>
Plan Fiduciary Net Position		
Contributions – employer*	\$ 8,243	\$ 8,500
Contributions – PMRS assessment	-	220
PMRS investment income	22,164	24,802
Market value investment income	(131)	(26,370)
Benefit payments, including refunds of member contributions	(15,382)	(17,908)
PMRS administrative expense	(240)	(220)
Additional administrative expense	<u>(850)</u>	<u>(1,034)</u>
Net Change in Plan Fiduciary Net Position	13,804	(12,010)
Plan Fiduciary Net Position – Beginning	<u>405,096</u>	<u>418,900</u>
Plan Fiduciary Net Position – Ending (b)	<u>\$ 418,900</u>	<u>\$ 406,890</u>
Net Pension Liability – Ending (a-b)	<u>\$ 9,765</u>	<u>\$ 33,304</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	97.72%	92.43%
Estimated Covered Employee Payroll	\$ 149,609	\$ 169,881
Net Pension Liability as a Percentage of Covered Employee Payroll	6.53%	19.60%

\* 2014 employer contributions do not include \$1,500 contribution made during 2016 to comply with a prior recommendation. 2015 employer contributions do not include excess state aid, employee forfeitures and administrative expense.

JENKS TOWNSHIP NON-UNIFORMED PENSION PLAN  
SUMMARY OF DEPOSITED STATE AID AND EMPLOYER CONTRIBUTIONS

SCHEDULE OF CHANGES IN THE NET PENSION  
LIABILITY AND RELATED RATIOS  
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2017

	<u>2016</u>	<u>2017</u>
Total Pension Liability		
Service cost	\$ 11,000	\$ 10,000
Interest	23,575	23,398
Difference between expected and actual experience	2,567	-
Changes of assumptions	6,184	-
Transfers	(3,605)	-
Benefit payments, including refunds of member contributions	<u>(25,313)</u>	<u>(25,313)</u>
Net Change in Total Pension Liability	14,408	8,085
Total Pension Liability – Beginning	<u>440,194</u>	<u>454,602</u>
Total Pension Liability – Ending (a)	<u>\$ 454,602</u>	<u>\$ 462,687</u>
Plan Fiduciary Net Position		
Contributions – employer*	\$ 11,000	\$ 10,000
Contributions – PMRS assessment	40	240
PMRS investment income	23,460	23,029
Market value investment income	14,725	51,528
Transfers	(3,605)	-
Benefit payments, including refunds of member contributions	(25,313)	(25,313)
PMRS administrative expense	(240)	(240)
Additional administrative expense	<u>(1,149)</u>	<u>(1,059)</u>
Net Change in Plan Fiduciary Net Position	18,918	58,185
Plan Fiduciary Net Position – Beginning	<u>406,890</u>	<u>425,808</u>
Plan Fiduciary Net Position – Ending (b)	<u>\$ 425,808</u>	<u>\$ 483,993</u>
Net Pension Liability – Ending (a-b)	<u>\$ 28,794</u>	<u>\$ (21,306)</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	93.67%	104.60%
Estimated Covered Employee Payroll	\$ 169,046	\$ 182,552
Net Pension Liability as a Percentage of Covered Employee Payroll	17.03%	(11.67%)

\* 2016 employer contributions include \$1,500 towards a prior recommendation as noted on the previous page of the report, and does not include \$40 of administrative expense. Additionally, 2017 employer contributions do not include \$240 of administrative expense.

JENKS TOWNSHIP NON-UNIFORMED PENSION PLAN  
SUMMARY OF DEPOSITED STATE AID AND EMPLOYER CONTRIBUTIONS

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	\$ 76,163	\$ 9,765	\$ (54,290)
Net Pension Liability – 12/31/15	\$ 89,427	\$ 33,304	\$ (18,890)

In addition, the following presents the net pension liability of the township as of December 31, 2016 and 2017, 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	\$ 87,667	\$ 28,794	\$ (26,224)
Net Pension Liability – 12/31/17	\$ 40,309	\$ (21,306)	\$ (79,200)

JENKS TOWNSHIP NON-UNIFORMED PENSION PLAN  
SUMMARY OF DEPOSITED STATE AID AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid	Employer Contributions
2012	\$ 7,255	\$ 934
2013	9,240	None
2014	7,574	2,170
2015	8,720	None
2016	9,540	None
2017	10,240	None

Note: In 2012, the township met the plan's \$8,713 funding requirement through the deposit of \$7,255 in state aid, \$934 in employer contributions and \$1,710 in terminated employee forfeitures.

In 2014, the township met the plan's \$11,259 funding requirement through the deposit of \$7,574 in state aid, \$2,170 in employer contributions and \$1,515 in terminated employee forfeitures.

In 2015, the township met the plan's \$10,720 funding requirement through the deposit of \$8,720 in state aid and liquidation of \$8,815 in terminated employee forfeitures. (Excess state aid amounting to \$6,815 remains in the pension plan's municipal reserve account as disclosed in the finding and recommendation of this report.)

JENKS 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. Kevin Carter**  
Chairman, Board of Township Supervisors

**Ms. Misty D. Dittman**  
Secretary

**Ms. Charity Rosenberry, CPA**  
Pennsylvania Municipal Retirement System

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