

LIMITED PROCEDURES ENGAGEMENT

Jones Township Non-Uniformed Pension Plan Elk County, Pennsylvania For the Period January 1, 2014 to December 31, 2017

August 2018



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
Jones Township
Elk County
Wilcox, PA 15870

We conducted a Limited Procedures Engagement (LPE) of the Jones Township Non-Uniformed Pension Plan for the period January 1, 2014 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 finding contained in our prior audit 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 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, 2013, January 1, 2015 and January 1, 2017 actuarial valuation reports were prepared and submitted by March 31, 2014, 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.
- Whether refunds made to plan members were authorized in accordance with plan provisions and applicable laws and regulations.

Based on the results of our procedures performed during our LPE, nothing came to our attention indicating that the Jones 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 – Receipts Of State Aid 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 Jones 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.

August 20, 2018



EUGENE A. DEPASQUALE
Auditor General

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JONES TOWNSHIP NON-UNIFORMED PENSION PLAN
STATUS OF PRIOR FINDING

Compliance With Prior Audit Recommendation

Jones Township has complied with the prior audit report recommendation concerning the following:

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

During the current period, the township returned \$3,525 to the Commonwealth for the excess state aid received during 2012 and 2013 and complied with the instructions that accompanied the Certification Form AG 385s in accurately reporting the required pension data.

JONES TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDING AND RECOMMENDATION

Finding – Receipt Of State Aid In Excess Of Entitlement

Condition: The township received state aid in excess of the non-uniformed pension plan’s pension costs in the years 2014, 2015, and 2017, as illustrated below:

	<u>2014</u>	<u>2015</u>	<u>2017</u>
State aid allocation	\$ 14,190	\$ 13,217	\$ 14,249
Forfeitures available	9,617	-	-
Actual municipal pension costs	<u>(3,720)</u>	<u>(13,212)</u>	<u>(14,180)</u>
Excess state aid	<u>\$ 10,470</u>	<u>\$ 5</u>	<u>\$ 69</u>

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 failed to establish adequate procedures to reconcile the township’s state aid allocation and employee forfeitures available to reduce municipal contributions with the plan’s actual defined contribution pension costs.

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 2014, 2015, 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.

JONES TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

Recommendation: We recommend that the municipality return the \$10,544 of excess state aid received in the years 2014, 2015, and 2017 to the Commonwealth from the non-uniformed pension plan's savings account where the excess state aid currently remains. 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, 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 defined contribution 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 LPE report and through our next engagement of the plan.

JONES 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 \$10,544, 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.

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

The supplementary information contained on Pages 5 and 6 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, AND 2016

	<u>2014</u>	<u>2015</u>	<u>2016</u>
Total Pension Liability			
Service cost	\$ 19,705	\$ 17,411	\$ 20,982
Interest	17,812	18,260	20,196
Difference between expected and actual experience	(20,490)	649	339
Changes of assumptions	-	580	750
Benefit payments, including refunds of member contributions	<u>(3,685)</u>	<u>(4,809)</u>	<u>(3,685)</u>
Net Change in Total Pension Liability	13,342	32,091	38,582
Total Pension Liability – Beginning	<u>315,935</u>	<u>329,277</u>	<u>361,368</u>
Total Pension Liability - Ending (a)	<u>\$ 329,277</u>	<u>\$ 361,368</u>	<u>\$ 399,950</u>
Plan Fiduciary Net Position			
Contributions – employer*	\$ 12,532	\$ 11,031	\$ 6,040
Contributions – PMRS assessment	-	140	-
Contributions – employee	6,488	4,337	6,733
PMRS investment income	17,979	18,840	20,376
Market value investment income	(12,300)	(19,619)	8,120
Benefit payments, including refunds of member contributions	(3,685)	(4,809)	(3,685)
PMRS administrative expense	(120)	(140)	(120)
Additional administrative expense	<u>(689)</u>	<u>(785)</u>	<u>(998)</u>
Net Change in Plan Fiduciary Net Position	20,205	8,995	36,466
Plan Fiduciary Net Position – Beginning	<u>312,817</u>	<u>333,022</u>	<u>342,017</u>
Plan Fiduciary Net Position - Ending (b)	<u>\$ 333,022</u>	<u>\$ 342,017</u>	<u>\$ 378,483</u>
Net Pension Liability - Ending (a-b)	<u>\$ (3,745)</u>	<u>\$ 19,351</u>	<u>\$ 21,467</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	101.14%	94.65%	94.63%
Estimated Covered Employee Payroll	\$ 130,575	\$ 163,423	\$ 178,107
Net Pension Liability as a Percentage of Covered Employee Payroll	(2.87%)	11.84%	12.05%

* Employer contributions (2014) reduced by withdrawals totaling \$805 paid from actuarial surplus.
Employer contributions (2015) reduced by withdrawals totaling \$2,043 paid from actuarial surplus.
Employer contributions (2016) reduced by withdrawals totaling \$8,329 paid from actuarial surplus.

JONES 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 5.5%, 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 (4.5%)	Current Discount Rate (5.5%)	1% Increase (6.5%)
Net Pension Liability - 12/31/14	\$ 57,136	\$ (3,745)	\$ (64,203)
Net Pension Liability - 12/31/15	\$ 86,653	\$ 19,351	\$ (47,548)

In addition, the following presents the net pension liability of the township as of December 31, 2016, 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 (4.25%)	Current Discount Rate (5.25%)	1% Increase (6.25%)
Net Pension Liability – 12/31/16	\$ 96,464	\$ 21,467	\$ (53,147)

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

Year Ended December 31	State Aid	Employer Contributions
2012	\$ 10,682	\$ 1,090
2013	12,319	None
2014	3,720	None
2015	13,212	2
2016	13,072	1,297
2017	14,180	None

Note: In 2014, the township met the plan's \$13,337 funding requirement through the deposit of \$3,720 in state aid and \$9,617 in terminated employee forfeitures.

JONES 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. Roger C. Vonarx, Jr.
Chairman, Board of Township Supervisors

Ms. Laurie Storrar
Secretary

Ms. Charity Rosenberry, CPA
Pennsylvania Municipal Retirement System

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.