

COMPLIANCE AUDIT

Jenks Township Non-Uniformed Pension Plan Forest County, Pennsylvania

October 2023



Commonwealth of Pennsylvania
Department of the Auditor General

Timothy L. DeFoor • Auditor General



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**TIMOTHY L. DEFOOR
AUDITOR GENERAL**

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

We have conducted a compliance audit of the Jenks Township Non-Uniformed Pension Plan pursuant to authority derived from the Municipal Pension Plan Funding Standard and Recovery Act (Act 205 of 1984, as amended, 53 P.S. § 895.402(j)), which requires the Auditor General, as deemed necessary, to audit every municipality which receives general municipal pension system state aid and every municipal pension plan and fund in which general municipal pension system state aid is deposited. The audit was not conducted, nor was it required to be, in accordance with Government Auditing Standards issued by the Comptroller General of the United States. We planned and performed the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our finding and conclusion based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our finding and conclusion based on our audit objectives.

The objectives of the audit were:

1. To determine if municipal officials took appropriate corrective action to address the finding contained in our prior 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. To determine if municipal officials took appropriate corrective action to address the finding contained in our prior report, we inquired of plan officials and evaluated supporting documentation provided by officials evidencing that the suggested corrective action has been appropriately taken. To determine whether the pension plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies, our methodology included the following:

- For the period January 1, 2021 to December 31, 2022, and through the completion of our fieldwork procedures, we determined 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 the period January 1, 2021 to December 31, 2022, we determined 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.
- For the period January 1, 2021 to December 31, 2022, we determined that there were no employee contributions required by the plan's governing document and applicable laws and regulations.
- For the period January 1, 2021 to December 31, 2022, we determined that there were no benefit calculations prepared.
- We determined whether the January 1, 2019 and January 1, 2021 actuarial valuation reports were prepared and submitted by March 31, 2020 and 2022, 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.

The Jenks Township Non-Uniformed 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 Annual Comprehensive 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.

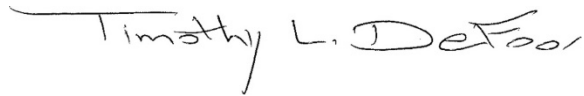
Township officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Jenks Township Non-Uniformed Pension Plan is administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies. As previously described, we tested transactions, interviewed selected officials, and performed procedures to the extent necessary 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 procedures indicated that, in all significant respects, the Jenks Township Non-Uniformed 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 finding further discussed later in this report:

Finding – Partial Compliance With Prior Recommendation – 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 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 the report. We would like to thank township officials for the cooperation extended to us during the conduct of the audit.

A handwritten signature in black ink that reads "Timothy L. DeFoor". The signature is written in a cursive style with a horizontal line above the first name.

Timothy L. DeFoor
Auditor General
October 2, 2023

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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.

Annual state aid allocations are provided from a two percent foreign (out-of-state) casualty insurance premium tax, a portion of the foreign (out-of-state) 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 Non-Uniformed Pension Plan is also governed by implementing regulations 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 Non-Uniformed Pension Plan is a single-employer cash balance pension plan locally controlled by the provisions of Ordinance No. 7-6-20, effective July 1, 2020, and a separately executed plan agreement with the Pennsylvania Municipal Employees Retirement System (PMRS) adopted pursuant to Act 15. Prior to July 1, 2020, the pension plan was locally controlled by the provisions of Ordinance No. 11-1-2012, and an agreement with PMRS adopted pursuant to Act 15. The plan was established June 22, 1973. Active members are not required to contribute to the plan. The municipality is required to contribute \$500 per member per calendar quarter. As of December 31, 2022, the plan had four active members and two terminated members eligible for vested benefits in the future.

JENKS TOWNSHIP NON-UNIFORMED PENSION PLAN
STATUS OF PRIOR FINDING

Partial Compliance With Prior Recommendation

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

- Receipt Of State Aid In Excess Of Entitlement

During the current period, the township reimbursed \$12,019 to the Commonwealth from the general fund for the excess state aid received in 2015, 2016, and 2017; however, the township again received state aid in excess of 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 Finding section of this report, the township partially complied with the prior recommendation by reimbursing the Commonwealth for the state aid overpayments received during the years 2015, 2016 and 2017. However, a similar condition occurred during the current audit period. The township received state aid in excess of the plan’s pension costs in the years 2021 and 2022, as illustrated below:

	<u>2021</u>	<u>2022</u>
Municipal pension costs	\$ 8,570	\$ 9,725
Less: Forfeitures available	(-)	(14,930)
Adjusted municipal pension costs	8,570	-
State aid allocation	12,449	13,543
<i>Less: State aid returned*</i>	-	(4,840)
Excess state aid	\$ 3,879	\$ 8,703

** In November 2022, the township was notified by the Municipal Pension Reporting Program that their 2022 state aid allocation was overpaid \$4,840 due to the late filing of the January 1, 2021, actuarial valuation report. The township returned the overpayment to this Department in January 2023.*

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.

In addition, Section 17.03 of Article XVII of the separately executed base plan document, states:

Use of Forfeitures

Forfeitures and investment income attributable to contributions shall be used to reduce Municipality contributions and shall not be used hereunder to increase the benefit of any person.

JENKS TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

Cause: The township again failed to implement procedures to reconcile the annual amount of state aid received and allocated to the pension plan, along with available plan forfeitures, with the plan's actual defined contribution pension costs to ensure compliance with the prior recommendation.

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 2021 and 2022 must be returned to the Commonwealth for redistribution.

In addition, as a result of the township not reconciling the annual state aid received and allocated to the pension plan and using available forfeitures towards pension costs, an unallocated reserve fund increased to \$21,731 as of December 31, 2022. *(It should be noted however, that \$6,815 of this reserve fund represents 2015, 2016, and 2017 excess state aid originally deposited into the pension plan during the prior period which should be liquidated and reimbursed to the general fund since the township reimbursed the Commonwealth \$12,019 (refer to Status of Prior Finding section of this report) entirely from general fund monies.)*

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

Recommendation: We recommend that the municipality return the \$12,582 of excess state aid received in the years 2021 and 2022 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 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.

In addition, we again recommend that, in the future, plan officials reconcile the township's annual state aid allocation, along with available 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 audit report and through our next audit of the plan.

JENKS TOWNSHIP NON-UNIFORMED PENSION PLAN
POTENTIAL WITHHOLD OF STATE AID

The finding contained in this audit report cites an overpayment of state aid to the township in the amount of \$12,582, 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
 SUPPLEMENTARY INFORMATION
 (UNAUDITED)

SCHEDULE OF CONTRIBUTIONS

Year Ended December 31	Statutorily Required Contribution (SRC)*	Contributions in Relation to the SRC*	Contribution Deficiency (Excess)**	Covered- Employee Payroll	Contributions as a Percentage of Covered- Employee Payroll
2014	\$ 9,740	\$ 8,243	\$ 1,497	\$ 149,609	5.51%
2015	10,720	8,720	2,000	169,881	5.13%
2016	11,240	11,040	200	169,046	6.53%
2017	10,240	10,240	-	182,552	5.61%
2018	9,905	4,800	5,105	186,903	2.57%
2019	12,260	3,931	8,329	235,719	1.67%
2020	9,132	12,131	(2,999)	198,783	6.10%
2021	8,570	8,570	-	186,583	4.59%
2022	9,725	9,725	-	***	***

* The Statutorily Required Contribution (SRC) is a contribution amount based upon the payroll and the contribution rate as outlined under the terms of the cash balance pension plan.

** The SRC and the actual Contribution in Relation to the SRC were provided by PMRS. Deviation between these amounts may be due to contributions to or transfers from the municipal reserve account.

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 allocation of \$1,515 in terminated employee forfeitures.

In 2015, the township met the plan's \$10,720 funding requirement though the deposit of \$1,905 in state aid and allocation of \$8,815 in terminated employee forfeitures.

*** Due to the timing of this audit, covered-employee payroll for 2022 was not provided in this schedule.

JENKS TOWNSHIP NON-UNIFORMED PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Joshua D. Shapiro
Governor
Commonwealth of Pennsylvania

Mr. Gregory Geyer
Chairman, Board of Township Supervisors

Ms. Misty D. Dittman
Secretary

Mr. Richard Cardamone, CPA, CGMA
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.