AUG 15 2001

Michael F. Mangano
Principal Deputy Inspector General

Review of the State of New Jersey's Fiscal Year 1994 Pension Fund Withdrawal
(A-02-01-02005)

Curtis L. Coy, Director
Program Support Center

This is to alert you to the issuance of our final report on Friday, August 17, 2001. A copy is attached. The objective of our review was to determine if the Federal Government received its proportionate share of $180.2 million of pension funds withdrawn by the State of New Jersey (State) in Fiscal Year (FY) 1994.

On June 30, 1994, the State withdrew $180.2 million from the Public Employees' Retirement System (PERS) and Police and Firemen's Retirement System (PFRS) and transferred the funds to the State's General Fund. This transfer complied with the requirements of Chapter 62 of New Jersey Public Law (P.L.) 1994 which contained pension reform legislation that changed the State's method of pension funding. The law mandated that the difference between the PERS and the PFRS local employer contributions (required under the original March 31, 1992, actuarial valuation) and the revised required contributions (based on the revised actuarial valuations) be deposited in the State's General Fund.

Our review showed that, contrary to the requirements of OMB Circular A-87, the State did not credit the Federal Government for its share of the withdrawn pension funds. Our audit determined that the Federal Government was due a refund of $6,641,596 for the pension expenses originally funded for its programs, grants, and contracts. Additionally, using the monthly interest rates earned by the State's General Fund from July 1994 to March 2001, we computed interest due the Federal Government on the $6,641,596 in the amount of $3,012,326.

We recommended that the State refund $9,653,922 to the Federal Government for its share of the FY 1994 pension withdrawal and implement procedures to ensure that any future withdrawals result in an immediate refund of the appropriate amount to the Federal Government.

In comments dated July 17, 2001 (see Appendix B), State officials concurred with our recommendations and have issued a check to the U.S. Department of Health and Human Services for $9,653,922.

Any questions or comments on any aspect of this memorandum are welcome. Please address them to Donald L. Dille, Assistant Inspector General for Administrations of Children, Family, and Aging Audits, at (202) 619-1175.

Attachment
Department of Health and Human Services

OFFICE OF INSPECTOR GENERAL

REVIEW OF THE STATE OF NEW JERSEY'S FISCAL YEAR 1994 PENSION FUND WITHDRAWAL

AUGUST 2001
A-02-01-02005
Our Reference: Common Identification No. A-02-01-02005

Ms. Charlene M. Holzbaur
Director, Office of Management and Budget
State of New Jersey, Department of Treasury
P.O. Box 221
Trenton, New Jersey 08625

Dear Ms. Holzbaur:

Enclosed are two copies of the U.S. Department of Health and Human Services, Office of the Inspector General, Office of Audit Services' final report entitled “Review Of The State of New Jersey's Fiscal Year 1994 Pension Fund Withdrawal.” A copy of this report will be forwarded to the action official noted below for his/her review and any action deemed necessary.

Final determination as to actions taken on all matters reported will be made by the HHS action official named below. We request that you respond to the HHS action official within 30 days from the date of this letter. Your response should present any comments or additional information that you believe may have a bearing on the final determination.

In accordance with the principles of the Freedom of Information Act (Public Law 90-23), OIG, OAS reports issued to the Department's grantees and contractors are made available to members of the press and general public to the extent information contained therein is not subject to exemptions in the Act which the Department chooses to exercise. (See 45 CFR Part 5.)
To facilitate identification, please refer to Common Identification Number A-02-01-02005 in all correspondence relating to this report.

Sincerely yours,

Timothy J. Horgan
Regional Inspector General
for Audit Services

Enclosures – as stated

Direct Reply to HHS Action Official:

Vincent J. Bamundo, Director
Division of Cost Allocation
Department of Health and Human Services
26 Federal Plaza, Room 41-122
New York, New York 10278
EXECUTIVE SUMMARY

Background

On June 30, 1994, the State of New Jersey (State) withdrew $180.2 million from the Public Employees’ Retirement System (PERS) and Police and Firemen’s Retirement System (PFRS) and transferred the funds to the State’s General Fund. This transfer complied with the requirements of Chapter 62 of New Jersey Public Law (P.L.) 1994 which contained pension reform legislation that changed the State’s method of pension funding. The law mandated that the difference between the PERS and the PFRS local employer contributions (required under the original March 31, 1992, actuarial valuation) and the revised required contributions (based on the revised actuarial valuations) be deposited into the State’s General Fund.

We were requested by the Department of Health and Human Services (HHS), Division of Cost Allocation (DCA) to determine if the Federal Government received its proportionate share of the $180.2 million for pension contributions made on behalf of federally-funded programs, grants, and contracts.

Objective

The objective of our review was to determine if the Federal Government received its proportionate share of $180.2 million of pension funds withdrawn by the State in FY 1994.

Summary of Findings

We determined that the Federal Government was due a refund of $6,641,596 because the State did not credit the Federal Government for its share of withdrawn pension funds that were originally charged as expenses to Federal programs, grants, and contracts. Additionally, using the monthly interest rates earned by the State’s General Fund from July 1994 to March 2001, we computed interest due the Federal Government on the $6,641,596 in the amount of $3,012,326.

As a result of the changes in the actuarial methods of funding its public employees pension
Recommendations

We recommend that the State:

- Refund $9,653,922 to the Federal Government for its share of the FY 1994 pension withdrawal and accrued interest.

- Implement procedures to ensure that any future withdrawals result in an immediate refund of the appropriate amount to the Federal Government.

Auditee Comments

In comments dated July 17, 2001, (see Appendix B), State officials concurred with our recommendations and have issued a check to HHS for $9,653,922.

INTRODUCTION

Background

In accordance with Chapter 62 of N.J.P.L. 1994, the State changed the actuarial method used to fund its employee pension plans. As a result of that change, the State withdrew $180.2 million in employer contributions from the PERS ($105,000,000) and the PFRS ($75,200,000) and transferred this amount to the State’s General Fund on June 30, 1994.

Prior to FY 1994, New Jersey utilized an “entry age normal” actuarial system to fund its pension systems. Under this method, the cost of each participant’s retirement benefit is amortized, on a level basis, over the period from his or her individual hire dates to his or her respective retirement dates. In FY 1994, the pension reform legislation changed the State’s funding method from the “entry age normal” to the “projected unit credit method” which resulted in less employer contributions required to be made to the PERS and the PFRS. Under the projected unit credit method, the cost for each plan participant is based on the actuarial present value of the pension benefit that is accrued during that fiscal year. The law mandated the PERS and PFRS transfer the difference between local employer contributions required under the original March 31, 1992, actuarial valuation and the local employer contributions required based on the revised actuarial valuations to the State. These funds were deposited into the State’s General Fund.
Objective, Scope, and Methodology

The objective of this review was to determine if the Federal Government received its proportionate share of $180.2 million of pension funds withdrawn by the State in FY 1994.

To accomplish our objective, we:

- Reviewed the derivation of the FY 1994 through FY 2000 statewide fringe benefit rates to determine if there were any adjustments relating to the $180.2 million pension withdrawal the State made in FY 1994.

- Met with State officials to verify that the Federal Government did not receive its share of the withdrawal.

- Requested the State’s Office of Management and Budget and Division of Pensions and Benefits provide us with information to enable us to compute the Federal share of the $180.2 million pension withdrawal. We were advised that this information was not available and, consequently, we utilized alternative means to make our determination. This included discussions with various State officials to determine the best methods of identifying local government programs whose employees participated in PERS or PFRS. As a result of these discussions, we obtained a State report that included local programs administered by State agencies. Using the Catalog of Federal Domestic Assistance (CFDA), we identified programs within this report for which there was Federal participation. We selected and reviewed three large counties (Camden, Mercer and Union) to identify federally-funded programs and the State agencies that administered them.

  We contacted each of the administering State agencies to obtain the program contact names and phone numbers statewide for each of the CFDA programs identified. We also visited State offices, obtained local government annual cost reports, and verified that the applicable local employees participated in either PERS or PFRS.

  We believe the procedures noted provided us with reasonable assurance that we identified the Federal programs impacted by the change in the method of calculating the pension amount. Appendix A identifies the programs that we included in computing the financial adjustment. Our computed recommended financial adjustment pertains only to the Federal programs listed in Appendix A.

- For each program, we obtained the Federal financial participation (FFP) rates and calculated the total federally-funded salaries for FY 1994. If FY 1994 information was not accessible, we utilized the most recent FY information available.
Met with DCA officials to discuss our methodology for determining the Federal share of the withdrawal that should be refunded to the Federal Government. The DCA agreed with our methodology, which they had employed for a similar withdrawal by the State in FY 1992.

Determined the Federal Government’s share of the pension fund withdrawal by applying the difference between the pension contribution rate prior to and after the FY 1994 actuarial change to federally-funded salaries of local government employees who participated in PERS or PFRS for FY 1994, or the most recent FY available. We also calculated the interest earned by the State on the Federal share during the period July 1994 through March 2001.

Our review was performed in accordance with generally accepted standards for government auditing. We did not perform a review of the State’s internal control structure, as the objective of this review did not require an understanding or assessment of internal controls.

Our initial fieldwork was performed during the period March 2000 through June 2000 at the State’s Division of Pension and Benefits and the Office of Management and Budget. Additional fieldwork was performed at the State’s Department of Labor, Department of Human Services, Department of Health and Senior Services, Department of Law and Public Safety, and other State agencies during the period November 2000 through April 2001.

**FINDINGS AND RECOMMENDATIONS**

**FY 1994 Withdrawal of Pension Funds from the PERS and PFRS**

We determined that the Federal Government was due a refund of $6,641,596 because the State did not credit the Federal Government for its share of withdrawn pension funds that were originally charged as expenses to Federal programs, grants and contracts. Additionally, using the monthly interest rates earned by the State’s General Fund from July 1994 to March 2001, we computed interest due the Federal Government on the $6,641,596 in the amount of $3,012,326.

As a result of the changes in the actuarial methods of funding its public employees
funds. The withdrawn funds were transferred to the State’s General Fund. Contrary to the requirements of OMB Circular A-87, the State did not credit the Federal Government for its share of the withdrawn pension funds. The OMB Circular A-87 states that applicable credits refer to those receipts or reduction of expenditure-type transactions that offset or reduce expense items allocable to Federal awards as direct or indirect costs. Examples of applicable credits in OMB Circular A-87 include adjustments of overpayments. Further, to the extent that such credits accruing to or received by the government unit relate to allowable costs, they shall be credited to the Federal award either as a cost reduction or cash refund, as appropriate.

**Calculation of Amount to be Refunded to the Federal Government**

The State calculates their annual employer pension contributions based on actuarial valuations and includes them in their computation of fringe benefit rates. These rates are applied to all Federal programs, grants, and contracts. The New Jersey Department of Treasury’s Division of Pensions and Benefits provided a pension reform analysis, which showed that for PERS, the pension contribution percentage was 3.58 prior to the FY 1994 actuarial change and 0.84 subsequent to it. The difference of 2.74 percent represents the reduction of PERS contribution rate for FY 1994.

For employees under PFRS, the pension contribution percentage was 19.84 prior to the FY 1994 actuarial change and 9.65 subsequent to it. The difference of 10.19 percent represents the reduction of PFRS contribution rate for FY 1994.

To calculate the amount to be refunded to the Federal Government, we:

A. Determined the FY 1994 federally-funded salaries that were paid to local government employees participating in the PERS and PFRS retirement systems. If the FY 1994 salary information was not accessible, we utilized the most recent FY. As discussed in the Scope and Methodology section, we first had to identify the programs impacted and then develop applicable information on the salary charges. Our computations pertain only to programs listed in Appendix A. The federally-funded salaries we identified are as follows:
PERS

State Agency  Federally Funded Salaries

Department of Community Affairs  $809,468
Department of Health and Senior Services  74,330,617
Department of Human Services  126,577,843
Department of Labor  1,045,928
Department of Law and Public Safety  29,193,479

$231,957,335

PFRS

Department of Law and Public Safety  $2,806,327

Total federally-funded Salaries  $234,763,662

B. Applied the difference between the pension contribution rate prior to and after the FY 1994 actuarial change to federally-funded salaries paid to local government employees participating in the PERS and PFRS retirement systems for FY 1994:

PERS

Federally-funded salaries  $231,957,335
Reduction of PERS contribution rate  x 2.74%

Federal Refund Due  $6,355,631

PFRS

Federally-funded salaries  $2,806,327
Reduction of PFRS contribution rate  x 10.19%

Federal Refund Due  $285,965

Amount Due the Federal Government  $6,641,596
C. Calculated interest earned by the State on the $6,641,596 during the period July 1994 through March 2001. We obtained the monthly interest rates earned on the State’s General Fund, which ranged from 4.35 percent to 6.50 percent, from the State’s Division of Investment. We applied these interest rates to the $6,641,596 and calculated that the State earned $3,012,326 of interest on the federally-funded portion of the withdrawal.

Recommendations

We recommend that the State of New Jersey:

- Refund $9,653,922 to the Federal Government for its share of the FY 1994 pension withdrawal and accrued interest.

- Implement procedures to ensure that any future withdrawals result in an immediate refund of the appropriate amount to the Federal Government.

Auditee Comments

In comments dated July 17, 2001 (see Appendix B), State officials concurred with our recommendations and have issued a check to HHS for $9,653,922.
APPENDICES
LISTING OF LOCAL GOVERNMENT FEDERALLY-FUNDED PROGRAMS INCLUDED IN THE COMPUTATION OF FEDERAL REFUND

Department of Community Affairs
  Community Services Block Grants
  Emergency Community Services Homeless
  Heating System
  Small Cities Block Grant
  Weatherization Assistance

Department of Health and Senior Services
  County Administered Hospital
  County Nursing Facilities
  County Psychiatric Hospitals
  Maternal & Children’s Health and related grants
  Safe Housing and Transportation
  State Weekend Home Delivered Meals
  Title III Older Americans
  Tuberculosis, Immunization, and Substance Abuse Block Grant
  Woman, Infant, and Children’s Grants

Department of Human Services
  Adult Protective Services
  Food Stamps
  Home Energy Assistance
  Income Maintenance
  Medicaid Community Care Waiver
  Medical Assistance
  Reach Titles IV-F and XIX
  Refugee Resettlement Program
  Social Services

Department of Labor
  Job Training Partnership
  Work First New Jersey

Department of Law & Public Safety
  Judiciary Child Support and Paternity (Title IV-D)
  Narcotics Task Force
  Victims of Crimes
July 17, 2001

Timothy J. Horgan  
Regional Inspector General for Audit Services  
Jacob K. Javitas Federal Building  
New York, New York 10278

RE: Common Identification No. A-02-01-02005

Dear Mr. Horgan:

The State of New Jersey, Department of the Treasury, Office of Management and Budget has reviewed the draft report entitled “Review of the State of New Jersey's Fiscal Year 1994 Pension Fund Withdrawal.” The Office of Management and Budget concurs with your recommendations and has issued a check to the U.S. Department of Health and Human Services for $9,653,922. Per your instructions the check was mailed to U.S. Department of Health and Human Services, Division of Payment Management, P.O. Box 6021, Rockville, Maryland, 20852. A copy of the check is enclosed for your reference.

During the course of the audit all financial records and data were made available to you. To the best of our knowledge the programs listed in Appendix A had federal participation at the local level.

If you have any questions, I can be reached at (609) 292-6747.

Sincerely,

Charlene M. Holzbaur  
Director

clq  
Enclosure
Remittance Advice

To: The New Jersey State Treasury

Account Number: 10301002522019950025070

Date: 10/20/2019

An item of Remittance Advice

Description of Claim: Credit Card Payment for Gasoline

Amount: $100.00

Total: $100.00

Payee: The New Jersey State Treasury

Account Name: Remittance Advice

Account Number: 10301002522019950025070

Date: 10/20/2019

Company Name: Credit Card Payment for Gasoline

Company Number: 1234567890

Company Address: 123 Main Street, Anytown, USA

Authorized Signature: John Doe

Date: 10/20/2019