COMPLIANCE AUDIT

Manor Township Police Pension Plan

Lancaster County, Pennsylvania

For the Period
January 1, 2015 to December 31, 2018

November 2019

Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General

Commonwealth of Pennsylvania
Department of the Auditor General
Harrisburg, PA 17120-0018
Facebook: Pennsylvania Auditor General
Twitter: @PAAuditorGen
www.PaAuditor.gov

EUGENE A. DEPASQUALE
AUDITOR GENERAL

Board of Township Supervisors
Manor Township
Lancaster County
Lancaster, PA 17603

We have conducted a compliance audit of the Manor Township Police Pension Plan for the period January 1, 2015 to December 31, 2018. We also evaluated compliance with some requirements subsequent to that period when possible. The audit was conducted pursuant to authority derived from Section 402(j) of Act 205 and in accordance with the standards applicable to performance audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our finding and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our finding and conclusions based on our audit objective.

The objective of the audit was 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 objective identified above. 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:

- 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 all years within the period under audit.

- 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.

- We determined whether annual employee contributions were calculated, deducted, and deposited into the pension plan in accordance with the plan's governing document and applicable laws and regulations by testing total members' contributions on an annual basis using the rates obtained from the plan's governing document in effect for all years within the period under audit and examining documents evidencing the deposit of these employee contributions into the pension plan.

- We determined whether retirement benefits calculated for all 4 of the plan members who retired during the current audit 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.

- We determined whether the January 1, 2015 and January 1, 2017 actuarial valuation report 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.

- We determined whether the terms of the plan's unallocated insurance contract, including ownership and any restrictions, were in compliance with plan provisions, investment policies, and state regulations by comparing the terms of the contract with the plan's provisions, investment policies, and state regulations.

Township officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Manor Township Police Pension Plan is administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies. In conducting our audit, we obtained an understanding of the township's internal controls as they relate to the township's compliance with those requirements and that we considered to be significant within the context of our audit objective, and assessed whether those significant controls were properly designed and implemented. Additionally and as previously described, we tested transactions, assessed official actions, performed analytical procedures, and interviewed selected officials 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 objective.

The results of our procedures indicated that, in all significant respects, the Manor Township Police 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 – Incorrect Data On Certification Form AG 385 Resulting In An Overpayment Of State Aid

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 Manor 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.

October 23, 2019

EUGENE A. DEPASQUALE
Auditor General

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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. Section 402(j) of Act 205 specifically requires the Auditor General, as deemed necessary, to make an audit of every municipality which receives general municipal pension system state aid and of every municipal pension plan and fund in which general municipal pension system state aid is deposited.

Annual state aid allocations are provided from a 2 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 Manor Township Police Pension Plan is also governed by implementing regulations adopted by the former Public Employee Retirement Commission 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 600 - Police Pension Fund Act, Act of May 29, 1956 (P.L. 1804, No. 600), as amended, 53 P.S. § 767 et seq.

The Manor Township Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 5-2007, as amended, and a separately executed plan agreement with the plan's custodian, adopted pursuant to Act 600. The plan is also affected by the provisions of collective bargaining agreements between the township and its police officers. The plan was established May 1, 1969. Active members are required to contribute 5 percent of their compensations to the plan. As of December 31, 2018, the plan had 19 active members, no terminated members eligible for vested benefits in the future, and 14 retirees receiving benefits.

BACKGROUND – (Continued)

As of December 31, 2018, selected plan benefit provisions are as follows:

Eligibility Requirements:

Normal Retirement	Age 50 and 25 years of service.
Early Retirement	None
Vesting	100% vesting available after 12 years of service.

Retirement Benefit:

Benefit equals 50% of average compensation, multiplied by accrued benefit adjustment. Average compensation is the monthly average of pay received for the 36 latest compensation months occurring prior to normal retirement date; effective 1/1/2001, average compensation includes overtime.

Survivor Benefit:

In the event of an off-duty death, or death after retirement, the amount paid to the spouse or dependent child equal to 50% of the participant's vested accrued benefit.

Service Related Disability Benefit:

Benefit equals 50% of final one month salary prior to the date of disability offset by Social Security benefits.

Finding – Incorrect Data On Certification Form AG 385 Resulting In An Overpayment Of State Aid

Condition: The township certified an ineligible police officer (2 units) and overstated payroll by $55,775 on the Certification Form AG 385 filed in 2017. The data contained on this certification form 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: Plan officials failed to establish adequate internal control procedures to ensure the accuracy of the data certified.

Effect: The data submitted on this certification form is used, in part, to calculate the state aid due to the municipality for distribution to its pension plan. Because the township's state aid allocation was based on unit value, the incorrect certification of pension data affected the township's state aid allocation, as identified below:

Year	Units Overstated	Unit Value	State Aid Overpayment
2017	2	$ 4,588	$ 9,176

In addition, the township used the overpayment of state aid to pay the minimum municipal obligation (MMO) due to the police pension plan; therefore, if the reimbursement to the Commonwealth is made from the pension plan, the plan's MMO will not be fully paid.

Recommendation: We recommend that the total excess state aid, in the amount of $9,176, 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 in the future, plan officials establish adequate internal control procedures, such as having at least 2 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.

Finding – (Continued)

In addition, if the reimbursement to the Commonwealth is made from police pension plan funds, we recommend that any resulting MMO deficiency be paid to the pension plan with interest, at a rate earned by the pension plan.

Management's Response: Plan officials indicated that this employee was just short of the six month requirement by six days; and that this length of time is adequate enough to justify the full amount of state aid and the finding should be reversed.

Auditor's Conclusion: Based on the files and records maintained by the township, the employee in question was short of the required time necessary to satisfy the eligibility requirements for certification during 2017. As such, the finding remains as stated and compliance will be evaluated during our next audit.

MANOR TOWNSHIP POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

The supplementary information contained on pages 5 through 8 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

	2014	2015
Total Pension Liability		
Service cost	$ 180,731	$ 200,713
Interest	521,932	535,944
Difference between expected and actual experience	-	(415,653)
Changes of assumptions	-	128,072
Benefit payments, including refunds of member contributions	(258,798)	(249,731)
Net Change in Total Pension Liability	443,865	199,345
Total Pension Liability – Beginning	6,683,275	7,127,140
Total Pension Liability – Ending (a)	$ 7,127,140	$ 7,326,485
Plan Fiduciary Net Position		
Contributions – Employer	$ 135,201	$ 98,244
Contributions – State Aid	94,881	131,680
Contributions – Member	68,369	74,066
Net investment income	338,723	(56,623)
Benefit payments, including refunds of member contributions	(258,798)	(249,731)
Administrative expense	(5,675)	(6,290)
Net Change in Plan Fiduciary Net Position	372,701	(8,654)
Plan Fiduciary Net Position – Beginning	6,390,933	6,763,634
Plan Fiduciary Net Position – Ending (b)	$ 6,763,634	$ 6,754,980
Net Pension Liability – Ending (a-b)	$ 363,506	$ 571,505
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	94.9%	92.2%
Estimated Covered Employee Payroll	$ 1,459,024	$ 1,456,868
Net Pension Liability as a Percentage of Covered Employee Payroll	24.9%	39.2%

MANOR TOWNSHIP POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF CHANGES IN THE NET PENSION
LIABILITY AND RELATED RATIOS
FOR THE YEARS ENDED DECEMBER 31, 2016, 2017, AND 2018

	2016	2017	2018
Total Pension Liability			
Service cost	$ 210,749	$ 221,091	$ 232,146
Interest	570,892	596,531	628,283
Difference between expected and actual experience	-	(108,556)	-
Changes of assumptions	-	18,618	-
Benefit payments, including refunds of member contributions	(341,768)	(400,676)	(437,265)
Net Change in Total Pension Liability	439,873	327,008	423,164
Total Pension Liability – Beginning	7,326,485	7,766,358	8,093,366
Total Pension Liability – Ending (a)	$ 7,766,358	$ 8,093,366	$ 8,516,530
Plan Fiduciary Net Position			
Contributions – Employer	$ -	$ 30,260	$ 50,301
Contributions – State Aid	191,806	185,530	178,006
Contributions – Member	73,923	73,943	76,305
Net investment income	378,785	1,060,457	(420,453)
Benefit payments, including refunds of member contributions	(341,768)	(400,676)	(437,265)
Administrative expense	(5,875)	(5,875)	(5,875)
Net Change in Plan Fiduciary Net Position	296,871	943,639	(558,981)
Plan Fiduciary Net Position – Beginning	6,754,980	7,051,851	7,995,490
Plan Fiduciary Net Position – Ending (b)	$ 7,051,851	$ 7,995,490	$ 7,436,509
Net Pension Liability – Ending (a-b)	$ 714,507	$ 97,876	$ 1,080,021
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	90.8%	98.8%	87.3%
Estimated Covered Employee Payroll	$ 1,598,192	$ 1,877,074	$ 1,800,630
Net Pension Liability as a Percentage of Covered Employee Payroll	44.7%	5.2%	60.0%

MANOR 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, 2015, 2016, 2017 and 2018, calculated using the discount rate of 7.75%, 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 (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Net Pension Liability – 12/31/15	$ 1,420,506	$ 571,505	$ (146,147)
Net Pension Liability – 12/31/16	$ 1,604,576	$ 714,507	$ (38,179)
Net Pension Liability – 12/31/17	$ 1,025,001	$ 97,876	$ (687,608)
Net Pension Liability – 12/31/18	$ 2,052,168	$ 1,080,021	$ 256,157

SCHEDULE OF CONTRIBUTIONS

Year Ended December 31	Actuarially Determined Contribution	Actual Contributions	Contribution Deficiency (Excess)	Covered-Employee Payroll	Contributions as a Percentage of Covered-Employee Payroll
2009	$ 178,900	$ 178,900	$ -	$1,492,690	12.0%
2010	284,024	284,024	-	1,544,935	18.4%
2011	193,049	193,049	-	1,402,230	13.8%
2012	193,131	193,131	-	1,501,632	12.9%
2013	194,904	194,905	(1)	1,523,395	12.8%
2014	230,082	230,082	-	1,459,024	15.8%
2015	229,924	229,924	-	1,456,868	15.8%
2016	191,806	191,806	-	1,598,192	12.0%
2017	215,790	215,790	-	1,877,074	11.5%
2018	228,307	228,307	-	1,800,630	12.7%

MANOR TOWNSHIP POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF INVESTMENT RETURNS

Annual Money-Weighted Rate of Return, Net of Investment Expense:

2018	(5.37%)
2017	15.40%
2016	5.70%
2015	(0.84%)
2014	5.37%

MANOR 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 Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded (Assets in Excess of) Actuarial Accrued Liability (b) - (a)	Funded Ratio (a)/(b)
01-01-13	$ 5,383,810	$ 6,261,306	$ 877,496	86.0%
01-01-15	6,620,860	6,839,559	218,699	96.8%
01-01-17	7,498,555	7,676,420	177,865	97.7%

Note: The market values of the plan's assets at 01-01-13, 01-01-15, and 01-01-17 have been adjusted to reflect the smoothing of gains and/or losses over a 5-year averaging period which will be limited to a maximum of 120 percent and a minimum of 80 percent of the fair market value of assets. This method will lower contributions in years of less than expected returns and increase contributions in years of greater than expected returns. The net effect over long periods of time is to have less variance in contribution levels from year to year.

MANOR 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.

MANOR 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	4 years
Asset valuation method	5-year smoothing, the actuarial value of assets will be limited to a maximum of 120% and a minimum of 80% of the fair market value of assets.
Actuarial assumptions:	
Investment rate of return	7.75%
Projected salary increases	5.0%
Cost-of-living adjustments	None assumed

MANOR TOWNSHIP POLICE PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

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