

**MANOR TOWNSHIP NONUNIFORMED PENSION PLAN**

**LANCASTER COUNTY**

**COMPLIANCE AUDIT REPORT**

**FOR THE PERIOD**

**JANUARY 1, 2007, TO DECEMBER 31, 2008**





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# CONTENTS

|   | <u>Page</u> |
|---|-------------|
| Background.....   | 1           |
| Letter from the Auditor General .....   | 3           |
| Status of Prior Finding .....   | 5           |
| Finding and Recommendation:   |             |
| Finding – Incorrect Data On Certification Form AG 385 Resulting In An<br>Overpayment Of State Aid ..... | 6           |
| Supplementary Information .....   | 7           |
| Report Distribution List .....  | 11          |



## **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.

Pension plan aid is provided from a 2 percent foreign casualty insurance premium tax, a portion of the foreign 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 Nonuniformed Pension Plan is also governed by implementing regulations adopted by the Public Employee Retirement Commission published at Title 16, Part IV of the Pennsylvania Code and applicable provisions of various other state statutes.

The Manor Township Nonuniformed Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 6-2007 and a separately executed plan agreement with the plan's insurance carrier.





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

We have conducted a compliance audit of the Manor Township Nonuniformed Pension Plan for the period January 1, 2007, to December 31, 2008. The audit was conducted pursuant to authority derived from Section 402(j) of Act 205 and in accordance with *Government Auditing Standards* applicable to performance audits issued by the Comptroller General of the United States. Those standards require that we plan and perform our audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our finding and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for finding and our conclusions 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 audit 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. Manor Township contracted with an independent certified public accounting firm for annual audits of its financial statements which are available at the township's offices. Those 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 Manor Township Nonuniformed 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 with the context of our audit objectives, and assessed whether those significant controls were properly designed and implemented. Additionally, we tested transactions, assessed official actions, performed analytical procedures and interviewed selected officials to the extent necessary to satisfy the audit objectives.

The results of our tests indicated that, in all significant respects, the Manor Township Nonuniformed 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 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.

July 17, 2009

JACK WAGNER  
Auditor General

MANOR TOWNSHIP NONUNIFORMED PENSION PLAN  
STATUS OF PRIOR FINDING

Compliance With Prior Audit Recommendation

Manor Township has complied with the prior audit recommendation concerning the following:

- Restated Plan Document Not Adopted By Ordinance Or Resolution

The township enacted Ordinance No. 6-2007 to adopt the restated plan document.

MANOR TOWNSHIP NONUNIFORMED PENSION PLAN  
FINDING AND RECOMMENDATION

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

Condition: The township certified an ineligible nonuniformed employee (1 unit) and overstated payroll by \$26,281 in 2009 on Certification Form AG 385.

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. In addition, Section 2.01 of Article II of the plan’s separately executed plan agreement requires a one-year waiting period prior to an employee being eligible to participate in the nonuniformed pension plan.

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 plans. Because the township’s state aid allocation will be based on unit value, the incorrect certification of pension data affected the township’s state aid allocation, as identified below:

| <u>Units</u><br><u>Overstated</u> | <u>Unit</u><br><u>Value</u> | <u>State Aid</u><br><u>Overpayment</u> |
|-----------------------------------|-----------------------------|--|
| 1                                 | \$ 3,128                    | \$ 3,128                               |

Recommendation: We recommend that the total excess state aid, in the amount of \$3,128, be returned to the Commonwealth. A check in this amount, should be made payable to: Commonwealth of Pennsylvania and mailed to: Department of the Auditor General, Municipal Pension & Fire Relief Programs Unit, 1205 Pittsburgh State Office Building, 300 Liberty Avenue, Pittsburgh, PA 15222.

We also recommend that, in the future, plan officials comply with the instructions that accompany Certification Form AG 385, and the applicable provisions contained in the plan agreement.

Management’s Response: Municipal officials agreed with the finding without exception.

MANOR TOWNSHIP NONUNIFORMED 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, except for distressed pension plans, for which annual reporting was required through January 1, 2003. The historical information, beginning as of January 1, 2003, is as follows:

|                                | (1)                                    | (2)  | (3)  | (4)                        | (5)                       | (6)   |
|--------------------------------|--|--|--|----------------------------|---------------------------|---|
| Actuarial<br>Valuation<br>Date | Actuarial<br>Value of<br>Assets<br>(a) | Actuarial<br>Accrued<br>Liability<br>(AAL) -<br>Entry Age<br>(b) | Unfunded<br>(Assets in<br>Excess of)<br>Actuarial<br>Accrued<br>Liability<br>(b) - (a) | Funded<br>Ratio<br>(a)/(b) | Covered<br>Payroll<br>(c) | Unfunded<br>(Assets in<br>Excess of)<br>Actuarial<br>Accrued<br>Liability as a %<br>of Payroll<br>[(b-a)/(c)] |
| 01-01-03                       | \$ 1,771,366                           | \$ 2,648,847   | \$ 877,481   | 66.9%                      | \$ 620,262                | 141.5%  |
| 01-01-05                       | 2,363,420                              | 3,132,124  | 768,704  | 75.5%                      | 728,065                   | 105.6%  |
| 01-01-07                       | 2,987,524                              | 3,299,935  | 312,411  | 90.5%                      | 775,226                   | 40.3%   |

MANOR TOWNSHIP NONUNIFORMED 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.

Trends in unfunded (assets in excess of) actuarial accrued liability and annual covered payroll are both affected by inflation. Expressing the unfunded (assets in excess of) actuarial accrued liability as a percentage of annual covered payroll (Column 6) approximately adjusts for the effects of inflation and aids analysis of the plan's progress made in accumulating sufficient assets to pay benefits when due. Generally, where there is an unfunded actuarial accrued liability, the smaller this percentage, the stronger the plan. However, when assets are in excess of the actuarial accrued liability, the higher the bracketed percentage, the stronger the plan.

MANOR TOWNSHIP NONUNIFORMED PENSION PLAN  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER  
AND OTHER CONTRIBUTING ENTITIES

| Year Ended December 31 | Annual Required Contribution | Percentage Contributed |
|------------------------|------------------------------|------------------------|
| 2003                   | \$ 173,475                   | 100.0%                 |
| 2004                   | 213,571                      | 100.0%                 |
| 2005                   | 216,432                      | 100.0%                 |
| 2006                   | 247,399                      | 100.0%                 |
| 2007                   | 250,056                      | 100.0%                 |
| 2008                   | 200,627                      | 100.0%                 |

MANOR TOWNSHIP NONUNIFORMED PENSION PLAN  
SUPPLEMENTARY INFORMATION  
NOTES TO SUPPLEMENTARY SCHEDULES  
(UNAUDITED)

The information presented in the required 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, 2007   |
| Actuarial cost method         | Entry age normal  |
| Amortization method           | Level dollar  |
| Remaining amortization period | 5 years   |
| Asset valuation method        | Market value  |
| Actuarial assumptions:        |   |
| Investment rate of return *   | 7.75%   |
| Projected salary increases *  | 4.75%   |
| * Includes inflation at       | 3.0%  |
| Cost-of-living adjustments    | Related to Consumer Price Index (up to 3% annually) with an overall benefit limit of 130% of the normal retirement benefit. |



MANOR TOWNSHIP NONUNIFORMED PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell  
Governor  
Commonwealth of Pennsylvania

Manor Township Nonuniformed Pension Plan  
Lancaster County  
950 West Fairway Drive  
Lancaster, PA 17603

|                     |   |
|---------------------|---|
| Mr. John May        | Chairman, Board of Township Supervisors |
| Mr. Barry Smith     | Township Manager                        |
| Mr. Ryan Strohecker | Financial Director                      |

This report is a matter of public record. Copies of this report may be obtained from the Pennsylvania Department of the Auditor General, Office of Communications, Room 318 Finance Building, Harrisburg, PA 17120. If you have any questions regarding this report or any other matter, you may contact the Department of the Auditor General by accessing our website at [www.auditorgen.state.pa.us](http://www.auditorgen.state.pa.us).