

LIMITED PROCEDURES ENGAGEMENT

East Manchester Township Non-Uniformed Pension Plan York County, Pennsylvania For the Period January 1, 2014 and December 31, 2017

September 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
East Manchester Township
York County
Mount Wolf, PA 17347

We conducted a Limited Procedures Engagement (LPE) of the East Manchester Township Non-Uniformed Pension Plan for the period January 1, 2014 and 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.
- 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.

- Whether annual employee contributions were required during the engagement period and, if so, 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 engagement period and examining documents evidencing the deposit of these employee contributions into the pension plan.
- 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 monthly 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.

Based on the results of our procedures performed during our LPE, nothing came to our attention indicating that the East Manchester 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 – Noncompliance With Prior Audit Recommendation – Incorrect Data
On Certification Form AG 385 Resulting In An Underpayment Of
State Aid

The finding contained in this LPE report repeats a condition that was cited in our previous audit report that has not been corrected by township officials. We are concerned by the township's failure to correct this previously reported audit finding and strongly encourage timely implementation of the recommendation noted in this report.

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 East Manchester 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 28, 2018

A handwritten signature in black ink, appearing to read "Eugene A. DePasquale". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

EUGENE A. DEPASQUALE
Auditor General

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EAST MANCHESTER TOWNSHIP NON-UNIFORMED PENSION PLAN
STATUS OF PRIOR FINDING

Noncompliance With Prior Audit Recommendation

East Manchester Township has not complied with the prior audit recommendation concerning the following as further discussed in the Finding and Recommendation section of this report:

- Incorrect Data On Certification Form AG 385 Resulting In An Underpayment Of State Aid

EAST MANCHESTER TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDING AND RECOMMENDATION

Finding – Noncompliance With Prior Audit Recommendation – Incorrect Data On Certification Form AG 385 Resulting In An Underpayment Of State Aid

Condition: As disclosed in the prior audit report, the township certified incorrect data on the Certification Form AG 385 filed in 2013, resulting in an underpayment of 2013 state aid in the amount of \$3,792. This amount was subsequently allocated to the township in April 2015.

During the current engagement period, the township failed to certify 1 eligible non-uniformed employee and understated payroll by \$34,636 on the Certification Form AG 385 filed in 2015, and failed to certify 1 eligible non-uniformed employee and understated payroll by \$18,927 on the Certification Form AG 385 filed in 2017. The data contained on these certification forms is based on prior calendar year information.

Criteria: Pursuant to Act 205, at Section 402(e)(2), an employee who has been employed on a full-time basis for at least six consecutive months and has been participating in a pension plan during the certification year is eligible for certification.

Cause: Plan officials failed to establish adequate internal control procedures to ensure the accuracy of the data certified and to ensure compliance with the prior audit recommendation.

Effect: The data submitted on Certification Form AG 385 is used, in part, to calculate the state aid due to the municipality for distribution to its pension plan. Because East Manchester Township participates in a regional police pension plan, the township's state aid allocation for its non-uniformed pension plan is separately calculated using an alternate method, taking into account the municipality's pension costs and unit value as well as the municipality's percentage of the regional police pension plan's pension costs and unit value. The township's state aid allocations for 2015 and 2017 were \$19,024 and \$30,641, respectively. Based on the corrected information, the township was entitled to allocations of \$22,829 in 2015 and \$35,019 in 2017. Therefore, the township received underpayments of state aid in the amounts of \$3,805 in 2015 and \$4,378 in 2017, totaling \$8,183.

Although the underpayments of state aid resulting from the certification errors will be allocated to the township, the full amounts of the 2015 and 2017 state aid allocations were not available to be deposited timely and therefore were not available to pay operating expenses or for investment.

Recommendation: We again recommend that plan officials establish adequate internal control procedures, such as having at least two 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.

EAST MANCHESTER TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDING AND RECOMMENDATION

Finding - (Continued)

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

Auditor's Conclusion: Compliance will be evaluated during our next engagement of the plan.

EAST MANCHESTER TOWNSHIP NON-UNIFORMED PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

The supplementary information contained on Pages 4 and 5 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	\$ 41,457	\$ 38,179	\$ 44,560
Interest	82,195	82,267	83,485
Difference between expected and actual experience	(12,349)	(633)	41,237
Changes of assumptions	-	1,515	40,798
Benefit payments, including refunds of member contributions	(105,956)	(106,205)	(106,205)
Net Change in Total Pension Liability	<u>5,347</u>	<u>15,123</u>	<u>103,875</u>
Total Pension Liability - Beginning	<u>1,505,267</u>	<u>1,510,614</u>	<u>1,525,737</u>
Total Pension Liability - Ending (a)	<u>\$ 1,510,614</u>	<u>\$ 1,525,737</u>	<u>\$ 1,629,612</u>
Plan Fiduciary Net Position			
Contributions - employer*	\$ 26,794	\$ 22,753	\$ 29,186
Contributions - PMRS assessment	-	20	20
Contributions - member	7,794	9,827	11,484
Net investment income	83,372	82,951	83,785
Market value investment income	(2,216)	(81,381)	53,354
Benefit payments, including refunds of member contributions	(105,956)	(106,205)	(106,205)
Administrative expense	(380)	(340)	(360)
Additional administrative expense	(3,197)	(3,458)	(4,105)
Net Change in Plan Fiduciary Net Position	<u>6,211</u>	<u>(75,833)</u>	<u>67,159</u>
Plan Fiduciary Net Position - Beginning	<u>1,523,703</u>	<u>1,529,914</u>	<u>1,454,081</u>
Plan Fiduciary Net Position - Ending (b)	<u>\$ 1,529,914</u>	<u>\$ 1,454,081</u>	<u>\$ 1,521,240</u>
Net Pension Liability - Ending (a-b)	<u>\$ (19,300)</u>	<u>\$ 71,656</u>	<u>\$ 108,372</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	101.28%	95.30%	93.35%
Estimated Covered Employee Payroll	\$ 304,120	\$ 280,768	\$ 328,102
Net Pension Liability as a Percentage of Covered Employee Payroll	(6.35%)	25.52%	33.03%

* 2014 employer contributions include \$380 administrative expenses and \$115 allocated insurance premiums. 2015 employer contributions include \$3,729 additional 2013 state aid received by the township in 2015.

EAST MANCHESTER TOWNSHIP NON-UNIFORMED 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, 2014 and 2015, calculated using the discount rate of 5.50%, 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:

	<u>1% Decrease (4.50%)</u>	<u>Current Discount Rate (5.50%)</u>	<u>1% Increase (6.50%)</u>
Net Pension Liability - 12/31/14	\$ 139,151	\$ (19,300)	\$ (154,276)
Net Pension Liability - 12/31/15	\$ 233,024	\$ 71,656	\$ (65,576)

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:

	<u>1% Decrease (4.25%)</u>	<u>Current Discount Rate (5.25%)</u>	<u>1% Increase (6.25%)</u>
Net Pension Liability - 12/31/16	\$ 289,782	\$ 108,372	\$ (45,277)

EAST MANCHESTER TOWNSHIP NON-UNIFORMED 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	\$ 1,514,950	\$ 1,476,838	\$ (38,112)	102.6%
01-01-15	1,577,008	1,510,614	(66,394)	104.4%
01-01-17	1,654,562	1,629,612	(24,950)	101.5%

EAST MANCHESTER TOWNSHIP NON-UNIFORMED 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.

EAST MANCHESTER TOWNSHIP NON-UNIFORMED PENSION PLAN
 SUPPLEMENTARY INFORMATION
 (UNAUDITED)

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER
 AND OTHER CONTRIBUTING ENTITIES

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2012	\$ 19,072	144.9%
2013	21,083	123.8%
2014	21,150	124.6%
2015	14,625	130.2%
2016	26,473	110.3%
2017	26,803	114.4%

EAST MANCHESTER TOWNSHIP NON-UNIFORMED 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	N/A
Remaining amortization period	N/A
Asset valuation method	The Actuarial Value of Assets equals the plan's member, municipal, DROP (if applicable) reserve accounts plus the retiree actuarial liability. This asset smoothing is based on the unique legislative structure of PMRS and the administrative rules adopted by the PMRS Board in conjunction with Pennsylvania Municipal Retirement Law, all of which are subject to comply with the Actuarial Standards of Practice No. 44, Selection and Use of Asset Valuation Methods when defining the actuarial Value of Assets.
Actuarial assumptions:	
Investment rate of return	5.25%, compounded annually, net of investment and administration expenses
Salary scale	Total rate (including inflation) (e.g. age 25 – 7.05%; age 35 – 4.55%; age 45 – 3.97%; age 55 – 3.44%; age 65 – 2.80%)
Cost-of-living adjustments	2.8% per year, subject to plan limitations

EAST MANCHESTER TOWNSHIP NON-UNIFORMED PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

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