COMPLIANCE AUDIT

Hanover Borough Non-Uniformed Pension Plan

York County, Pennsylvania

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

November 2019

EUGENE A. DEPASQUALE AUDITOR GENERAL

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

The Honorable Mayor and Borough Council
Hanover Borough
York County
Hanover, PA 17331

We have conducted a compliance audit of the Hanover Borough Non-Uniformed 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 our audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for 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. To determine if municipal officials took appropriate corrective action to address the finding contained in our prior audit 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:

- 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 7 of 12 of the plan members[1] 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 also determined whether retirement benefits calculated for both of the plan members who elected to vest during the current audit period represent payments to all (and only) those entitled to receive them and were properly determined in accordance with the plan's governing document, applicable laws and regulations by recalculating the amount of the pension benefit due to retired individuals and comparing these amounts to supporting documentation evidencing amounts determined.

- We determined whether the January 1, 2015 and January 1, 2017 actuarial valuation reports were prepared and submitted by March 31, 2016 and 2018, respectively, in accordance with Act 205 and whether selected information provided on these report 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.

Hanover Borough contracted with an independent certified public accounting firm for annual audits of its basic financial statements which are available at the borough's offices. Those financial statements were not audited by us and, accordingly, we express no opinion or other form of assurance on them.

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[1] We selected plan members randomly from the population of plan members who retired during the current audit period in order to obtain a representative selection for the purpose of our testing to achieve the audit objective. While representative selection is a required factor of audit sampling methodologies, audit sampling methodology was not applied to achieve this test objective; accordingly, the results of this audit procedure are not, and should not be, projected to the population.

Borough officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Hanover Borough Non-Uniformed 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 borough's internal controls as they relate to the borough's compliance with those requirements and that we considered to be significant within the context of our audit objectives, 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 objectives.

The results of our procedures indicated that, in all significant respects, the Hanover Borough Non-Uniformed Pension Plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies.

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 Hanover Borough and, where appropriate, their responses have been included in the report. We would like to thank borough officials for the cooperation extended to us during the conduct of the audit.

October 9, 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 Hanover Borough Non-Uniformed 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.

The Hanover Borough Non-Uniformed Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 2145, as amended. The plan is also affected by the provisions of collective bargaining agreements between the borough and its non-uniformed employees. The plan was established July 1, 1966. Active members are required to contribute 3 percent of compensation to the plan. As of December 31, 2018, the plan had 102 active members, 3 terminated members eligible for vested benefits in the future, and 60 retirees receiving pension benefits from the plan.

BACKGROUND – (Continued)

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

Eligibility Requirements:

Normal Retirement	Age 55 and 25 years of service but not later than 62 and 10 years of service. For non-union, non-uniformed employees hired on or after July 1, 2014, age 60 and 25 years of service but not later than age 65 and 10 years of service.
Early Retirement	None
Vesting	100% vesting available after 10 years of service

Retirement Benefit:

Benefit equals 1.50% of average monthly salary based on the highest 36 consecutive months of compensation out of the final 60 months preceding retirement times years of benefit service rounded to the nearest one-half year.

For non-union, non-uniformed employees hired on or after July 1, 2014, benefit equals 1.0% of average monthly compensation multiplied by years of benefit service rounded to the nearest one-half year.

Survivor Benefit:

If 10 years of service and age plus service equals 60 or more, a monthly benefit equal to 50% of benefit accrued to date is payable to the surviving spouse or child under 19.

Service Related Disability Benefit:

Pension is equal to the projected normal retirement based upon years of service that would be credited to the member until attainment of age 62.

Non-Service Related Disability Benefit:

If age 45 and completed 15 years of service, an accrued benefit is payable after 6 months of disability.

HANOVER BOROUGH NON-UNIFORMED PENSION PLAN
STATUS OF PRIOR FINDING

Compliance With Prior Audit Recommendation

Hanover Borough has complied with the prior audit recommendation concerning the following:

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

  The borough returned the overpayment of state aid received during the prior audit period to the Commonwealth and included interest. In addition, municipal officials complied with the instructions that accompanied Certification Form AG 385 and accurately reported the required data.

HANOVER BOROUGH NON-UNIFORMED PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

The supplementary information contained on Pages 4 through 6 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, 2016, 2017, AND 2018

	2014	2015	2016	2017	2018
Total Pension Liability					
Service cost	$ 551,759	$ 503,375	$ 528,544	$ 341,342	$ 358,409
Interest	1,795,624	1,822,241	1,928,172	2,026,083	2,122,719
Difference between expected and actual experience	-	(1,160,455)	-	(1,148,834)	-
Changes of assumptions	-	-	-	1,189,911	-
Benefit payments, including refunds of member contributions	(715,865)	(800,748)	(874,219)	(949,487)	(1,058,472)
Net Change in Total Pension Liability	1,631,518	364,413	1,582,497	1,459,015	1,422,656
Total Pension Liability – Beginning	25,457,946	27,089,464	27,453,877	29,036,374	30,495,389
Total Pension Liability – Ending (a)	$ 27,089,464	$ 27,453,877	$ 29,036,374	$ 30,495,389	$ 31,918,045
Plan Fiduciary Net Position					
Contributions – employer	$ 448,010	$ 423,936	$ 263,766	$ 268,797	$ 249,949
Contribution – member	160,897	157,438	156,153	151,420	150,915
Net investment income	722,392	(91,891)	1,308,135	4,891,289	(1,976,195)
Benefit payments, including refunds of member contributions	(715,865)	(800,748)	(874,219)	(949,487)	(1,058,472)
Administrative expense	(7,900)	(10,600)	(7,600)	(10,500)	(6,600)
Net Change in Plan Fiduciary Net Position	607,534	(321,865)	846,235	4,351,519	(2,640,403)
Plan Fiduciary Net Position – Beginning	27,470,418	28,077,952	27,756,087	28,602,322	32,953,841
Plan Fiduciary Net Position – Ending (b)	$ 28,077,952	$ 27,756,087	$ 28,602,322	$ 32,953,841	$ 30,313,438
Net Pension Liability – Ending (a-b)	$ (988,488)	$ (302,210)	$ 434,052	$ (2,458,452)	$ 1,604,607
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	103.65%	101.10%	98.51%	108.06%	94.97%
Estimated Covered Employee Payroll	$ 5,239,612	$ 5,586,454	$ 5,462,803	$ 5,507,764	$ 5,614,113
Net Pension Liability as a Percentage of Covered Employee Payroll	(18.87%)	(5.41%)	7.95%	(44.64%)	28.58%

HANOVER BOROUGH 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 borough as of December 31, 2014, 2015, 2016, 2017 and 2018, calculated using the discount rate of 7.0%, as well as what the borough'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 (6.0%)	Current Discount Rate (7.0%)	1% Increase (8.0%)
Net Pension Liability – 12/31/14	$ 1,726,279	$ (988,488)	$ (3,183,798)
Net Pension Liability – 12/31/15	$ 2,415,996	$ (302,210)	$ (2,622,296)
Net Pension Liability – 12/31/16	$ 3,172,489	$ 434,052	$ (1,898,774)
Net Pension Liability – 12/31/17	$ 585,313	$ (2,458,452)	$ (5,044,020)
Net Pension Liability – 12/31/18	$ 4,634,337	$ 1,604,607	$ (957,314)

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	$ 461,088	$ 461,088	$ -	$4,896,417	9.42%
2010	460,768	460,768	-	5,082,520	9.07%
2011	458,651	458,651	-	4,982,663	9.20%
2012	482,645	482,645	-	5,364,775	9.00%
2013	574,943	574,943	-	5,294,038	10.86%
2014	448,010	448,010	-	5,239,612	8.55%
2015	423,936	423,936	-	5,586,454	7.59%
2016	263,766	263,766	-	5,462,803	4.83%
2017	268,797	268,797	-	5,507,764	4.88%
2018	249,949	249,949	-	5,614,113	4.45%

HANOVER BOROUGH NON-UNIFORMED PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF INVESTMENT RETURNS

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

2018	(6.04%)
2017	17.20%
2016	4.74%
2015	(0.33%)
2014	2.38%

HANOVER BOROUGH 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	$ 24,143,044	$ 23,834,834	$ (308,210)	101.3%
01-01-15	28,077,952	25,929,009	(2,148,943)	108.3%
01-01-17	28,602,322	29,077,451	475,129	98.4%

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.

HANOVER BOROUGH 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	Level dollar
Remaining amortization period	15 years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return	7.0%
Projected salary increases	5.0%

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