

LIMITED PROCEDURES ENGAGEMENT

Manheim Township Non-Uniformed Pension Plan York County, Pennsylvania For the Period January 1, 2014 to December 31, 2017

December 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
Manheim Township
York County
Glennville, PA 17329

We conducted a Limited Procedures Engagement (LPE) of the Manheim Township Non-Uniformed Pension Plan for the period January 1, 2014 to 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 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 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 Manheim 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 – Incorrect Data On Certification Form AG 385 Resulting In An Overpayment Of State Aid

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 Manheim 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.

December 10, 2018



EUGENE A. DEPASQUALE
Auditor General

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MANHEIM TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDING AND RECOMMENDATION

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

Condition: Township officials inadvertently overstated the number of eligible non-uniformed employees by 2 units on the Certification Form AG 385 filed in 2015. Although they correctly listed 3 total non-uniformed employees in the total box of the form, they incorrectly listed 5 non-uniformed employees in a box above the total box.

Criteria: The instructions on Certification Form AG 385 state, in part:

Complete PERSONNEL ROSTERS for each pension plan (Uniformed and Non-Uniformed) and return with Certification Form AG-385. Totals from the Personnel Roster MUST EQUAL totals on the Certification Form AG-385.

Cause: Although plan officials correctly listed the 3 eligible non-uniformed employees on the personnel roster which serves as support for Certification Form AG 385, officials inadvertently reported 5 as the number of non-uniformed employees on the Certification Form. In addition, the township lacked adequate internal control procedures to ensure that reporting errors were identified and corrected in a timely manner.

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 Manheim Township participates in a regional police pension plan, the township's state aid allocation for its non-uniformed pension plan is separately calculated by the Department of the Auditor General Comptroller's Office, 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 original state aid allocation for 2015 was \$19,024. Based on the corrected information, the township was entitled to an allocation of \$11,763. Therefore, the township received an overpayment of state aid in 2015 in the amount of \$7,261.

In addition, the township used the overpayment of state aid to pay the minimum municipal obligation (MMO) due to the non-uniformed 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 \$7,261, 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.

MANHEIM TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

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.

In addition, if the reimbursement to the Commonwealth is made from non-uniformed 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: Municipal officials agreed with the finding without exception.

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

MANHEIM TOWNSHIP NON-UNIFORMED PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

The supplementary information contained on Pages 3 through 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, 2015, 2016, AND 2017

	<u>2015</u>	<u>2016</u>	<u>2017</u>
Total Pension Liability			
Normal cost	\$ 13,604	\$ 14,420	\$ 13,208
Interest	32,687	35,464	35,330
Experience (gain) or loss	-	-	(55,039)
Assumption Changes	-	-	2,914
Net Change in Total Pension Liability	<u>46,291</u>	<u>49,884</u>	<u>(3,587)</u>
Total Pension Liability – Beginning	<u>544,776</u>	<u>591,067</u>	<u>640,951</u>
Total Pension Liability – Ending (a)	<u>\$ 591,067</u>	<u>\$ 640,951</u>	<u>\$ 637,364</u>
 Plan Fiduciary Net Position			
Employer Contributions	\$ 19,024	\$ 17,410	\$ 17,879
Employee Contributions	4,501	4,768	4,843
Expected Investment Return	31,941	32,325	35,827
Additional Investment Return	(43,257)	9,508	39,983
Administrative expense	(5,575)	(5,852)	(5,932)
Net Change in Plan Fiduciary Net Position	<u>6,634</u>	<u>58,159</u>	<u>92,600</u>
Plan Fiduciary Net Position – Beginning	<u>526,352</u>	<u>532,986</u>	<u>591,145</u>
Plan Fiduciary Net Position – Ending (b)	<u>\$ 532,986</u>	<u>\$ 591,145</u>	<u>\$ 683,745</u>
 Net Pension Liability – Ending (a-b)	<u>\$ 58,081</u>	<u>\$ 49,806</u>	<u>\$ (46,381)</u>
 Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	90.17%	92.23%	107.28%
 Estimated Covered Employee Payroll	\$ 143,326	\$ 151,073	\$ 154,712
 Net Pension Liability as a Percentage of Covered Employee Payroll	40.52%	32.97%	(29.98%)

MANHEIM 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, 2015, 2016 and 2017, calculated using the discount rate of 6.0%, 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 (5.0%)	Current Discount Rate (6.0%)	1% Increase (7.0%)
Net Pension Liability – 12/31/15	\$ 146,441	\$ 58,081	\$ (22,009)
Net Pension Liability – 12/31/16	\$ 140,753	\$ 49,806	\$ (33,172)
Net Pension Liability – 12/31/17	\$ 43,363	\$ (46,381)	\$ (123,085)

SCHEDULE OF CONTRIBUTIONS

Year Ended December 31	Actuarially Determined Contribution	Employer Contributions	Contribution Deficiency (Excess)	Covered- Employee Payroll*	Contributions as a Percentage of Covered- Employee Payroll
2007	\$ 21,979	\$ 21,979	\$ -	\$ -	-
2008	27,421	27,421	-	212,931	12.88%
2009	27,310	27,310	-	-	-
2010	28,584	28,584	-	227,342	12.57%
2011	29,414	29,414	-	-	-
2012	27,763	27,763	-	210,293	13.20%
2013	27,936	27,936	-	-	-
2014	17,974	17,974	-	156,743	11.47%
2015	17,572	19,024	(1,452)	143,326	13.27%
2016	17,410	17,410	-	151,073	11.52%
2017	17,879	17,879	-	154,712	11.56%

* Due to GASB Statement No. 67, *Financial Reporting for Pension Plans*, being implemented only recently, the amount of Covered-Employee Payroll was not provided for odd years prior to 2014.

MANHEIM TOWNSHIP NON-UNIFORMED PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF INVESTMENT RETURNS

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

2017	12.64%
2016	7.73%
2015	(2.11%)
2014	4.67%
2013	12.76%
2012	10.54%
2011	0.82%
2010	10.08%
2009	14.97%
2008	(20.46%)

MANHEIM 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	\$ 421,208	\$ 462,487	\$ 41,279	91.1%
01-01-15	526,352	544,776	18,424	96.6%
01-01-17	616,356	588,826	(27,530)	104.7%

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 subject to a ceiling of 120 percent of the 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.

MANHEIM 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.

MANHEIM 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	Plan assets are valued using the method described in Section 210 of Act 205, as amended, subject to a ceiling of 120% of the market value of assets.
Actuarial assumptions:	
Investment rate of return	6.0%
Projected salary increases	3.5%
Cost-of-living adjustments	None assumed

MANHEIM TOWNSHIP NON-UNIFORMED PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

Mr. Matthew Muir
Chairman, Board of Township Supervisors

Mr. Loren Reibling
Township Manager

Ms. Michelle Hershey
Chief Administrative Officer

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