

# COMPLIANCE AUDIT

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## Rapho Township Non-Uniformed Pension Plan Lancaster County, Pennsylvania For the Period January 1, 2016 to December 31, 2019

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July 2020



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  
Rapho Township  
Lancaster County  
Manheim, PA 17545

We have conducted a compliance audit of the Rapho Township Non-Uniformed Pension Plan for the period January 1, 2016 to December 31, 2019. We also evaluated compliance with some requirements subsequent to that period when possible. The audit was conducted pursuant to authority derived from the Municipal Pension Plan Funding Standard and Recovery Act (Act 205 of 1984, as amended, 53 P.S. § 895.402(j)), which requires the Auditor General, as deemed necessary, to audit every municipality which receives general municipal pension system state aid and every municipal pension plan and fund in which general municipal pension system state aid is deposited. The audit was not conducted, nor was it required to be, in accordance with Government Auditing Standards issued by the Comptroller General of the United States. We planned and performed 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 that there were no employee contributions required by the plan's governing document and applicable laws and regulations for the years covered by our audit period.
- We determined that there were no benefit calculations prepared for the years covered by our audit period.
- We determined whether the January 1, 2017 and January 1, 2019 actuarial valuation reports were prepared and submitted by March 31, 2018 and 2020, 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.

Township officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Rapho Township Non-Uniformed Pension Plan is administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies. As previously described, we tested transactions, interviewed selected officials, and performed procedures to the extent necessary 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 Rapho Township Non-Uniformed 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 – Failure To Include Eligible Employees In The 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 Rapho 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.

July 9, 2020

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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## **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.

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 Rapho Township Non-Uniformed Pension Plan is also governed by implementing regulations published at Title 16, Part IV of the Pennsylvania Code and applicable provisions of various other state statutes.

The Rapho Township Non-Uniformed Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Resolution No. 01-96, as amended. The plan was established January 1, 1986. Active members are not required to contribute to the plan. As of December 31, 2019, the plan had 9 active members, no terminated members eligible for vested benefits in the future, and 4 retirees receiving pension benefits from the plan.

RAPHO TOWNSHIP NON-UNIFORMED PENSION PLAN  
FINDING AND RECOMMENDATION

**Finding – Failure To Include Eligible Employees In The Pension Plan**

**Condition:** The township failed to properly identify and include three employees eligible for participation in the non-uniformed pension plan in accordance with the plan document. The three employees worked more than the required minimum hours of service during the audit period for participation in the township’s pension plan. The first individual was hired March 16, 1999 and worked 1,264 hours during 2016, 1,148 hours during 2017, 1,244 hours during 2018, and 1,151 hours during 2019. The second employee was hired April 8, 2004 and worked 1,147 hours during 2016. The third employee was hired September 9, 2013 and worked 1,056 hours during 2017, 1,105 hours during 2018, and 1,007 hours during 2019.

**Criteria:** Section 1.02 of Article I of the separately executed plan agreement provides the following definitions:

**Accrual Service** means one year of service for each Plan Year in which an Employee has at least 1,000 hours-of-service with the Employer.

**Eligible Employee** means any Employee of the Employer whose employment classification with the Employer is the following: Non-uniformed class (not employed as a police officer).

**Vesting Service** means one year of service for each Plan Year in which an Employee has at least 1,000 hours-of-service with the Employer.

**Year of Service** means an Employee’s Vesting Service disregarding any modifications, which exclude service.

In addition, Section 2.01(a) of Article II of the separately executed pension plan agreement states:

An Employee shall first become an Active Participant (begin active participation in the Plan) on the earliest Semi-yearly Date on which he is an Eligible Employee. This date is his Entry Date.

**Cause:** Plan officials were unaware of the provisions currently prescribed in the plan document for participation in the non-uniformed pension plan, and the township lacked adequate internal control procedures to timely identify and enroll all eligible participants into the township’s pension plan in accordance with the plan document.

**Effect:** The failure to recognize membership for all eligible employees could result in individuals being denied benefits to which they are entitled under the plan’s governing document.

RAPHO TOWNSHIP NON-UNIFORMED PENSION PLAN  
FINDING AND RECOMMENDATION

**Finding – (Continued)**

Recommendation: We recommend that plan officials take appropriate action to ensure that all employees, including the three aforementioned employees, eligible for participation in the non-uniformed pension plan under the current provisions of the plan document are given the opportunity to participate and be eligible for all the benefits due from the pension plan at their earliest opportunity to do so.

We also recommend that the township establish adequate internal control procedures to ensure the timely identification and enrollment of all subsequently hired employees meeting the eligibility criteria established in the pension plan document into the non-uniformed pension plan accordingly.

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

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



RAPHO 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, 2015, 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)
01-01-15	\$ 720,396	\$ 647,554	\$ (72,842)	111.2%
01-01-17	751,210	704,319	(46,891)	106.7%
01-01-19	788,004	930,351	142,347	84.7%

The Actuarial Accrued Liability as of 01-01-19 reflects a change in the mortality table used in actuarial assumptions and modifications of the Post-Retirement Mortality and Mortality Improvement assumptions.

RAPHO 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.

RAPHO 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
2014	\$ 31,451	100.0%
2015	34,140	100.0%
2016	30,441	100.0%
2017	34,289	100.0%
2018	35,631	100.0%
2019	45,922	100.0%

RAPHO 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, 2019
Actuarial cost method	Level dollar
Amortization method	Entry age normal
Remaining amortization period	12 years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return	6.0%
Projected salary increases	4.0%
Cost-of-living adjustments	None assumed

RAPHO 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. Jere E. Swarr**  
Chairperson, Board of Township Supervisors

**Mr. Lowell Fry**  
Vice-Chairperson, Board of Township Supervisors

**Mr. Mark E. Erb**  
Township Supervisor

**Mr. Jim Caldwell**  
Interim Township Manager

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