

# COMPLIANCE AUDIT

---

## West Manchester Township Non-Uniformed Pension Plan York County, Pennsylvania For the Period January 1, 2015 to December 31, 2018

---

August 2019



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**

Board of Township Supervisors  
West Manchester Township  
York County  
York, PA 17408-8700

We have conducted a compliance audit of the West Manchester Township 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 the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our 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 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 all 3 of the plan members 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 the plan member 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 the retired individual and comparing this amount to supporting documentation evidencing the amount determined.
- We determined whether retirement benefits calculated for the plan member who terminated employment and/or retired and elected a lump-sum form of pension benefit 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 comparing the distributed amounts to supporting documentation evidencing amounts determined and actually paid to recipients.
- We determined 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.

West Manchester Township contracted with an independent certified public accounting firm for annual audits of its basic financial statements for the years ended December 31, 2015, 2016, and 2017, 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 West Manchester Township 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 township's internal controls as they relate to the township's compliance with

those requirements and that we considered to be significant within the context of our audit objective, 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 objective.

The results of our procedures indicated that, in all significant respects, the West Manchester Township 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 West Manchester 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.

August 14, 2019



EUGENE A. DEPASQUALE  
Auditor General

## CONTENTS

	<u>Page</u>
Background.....	1
Supplementary Information .....	3
Report Distribution List .....	9

## 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 West Manchester Township 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 West Manchester Township Non-Uniformed Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 09-02, as amended, and a separately executed plan agreement. The plan was established January 1, 1966. Active members are required to contribute 2 percent of compensation to the plan. As of August 1, 2016, this pension plan was closed to all new non-uniformed employees. As of December 31, 2018, the plan had 21 active members, 4 terminated members eligible for vested benefits in the future, and 7 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 60
Early Retirement	Age 55 and 10 years of service.
Vesting	100% vested after 5 years of service.

### Retirement Benefit:

Lifetime monthly pension with 120 months guaranteed of 2.0% of average monthly pay based on highest 36 months of last 60 months of employment times years of service up to 25 years. Minimum monthly pension is \$60.

### Survivor Benefit:

Pre-retirement:	Accrued benefit to date payable to beneficiary.
Post-retirement:	Life annuity with 120 payments guaranteed.

### Disability Benefit:

None

WEST MANCHESTER 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, 2014, 2015, 2016, 2017, AND 2018

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Total Pension Liability					
Service cost	\$ 124,541	\$ 129,761	\$ 199,462	\$ 209,749	\$ 208,491
Interest	236,551	242,916	240,607	248,871	265,585
Difference between expected and actual experience	(100,124)	(71,086)	(170,129)	(132,436)	(61,044)
Changes of assumptions	-	484,582	-	395,080	-
Benefit payments, including refunds of member contributions	(266,085)	(100,637)	(237,114)	(112,377)	(131,496)
Net Change in Total Pension Liability	(5,117)	685,536	32,826	608,887	281,536
Total Pension Liability – Beginning	2,956,884	2,951,767	3,637,303	3,670,129	4,279,016
Total Pension Liability – Ending (a)	<u>\$ 2,951,767</u>	<u>\$ 3,637,303</u>	<u>\$ 3,670,129</u>	<u>\$ 4,279,016</u>	<u>\$ 4,560,552</u>
Plan Fiduciary Net Position					
Contributions – employer	\$ 143,218	\$ 169,075	\$ 181,237	\$ 241,470	\$ 241,221
Contributions – member	31,290	16,383	23,310	23,281	21,725
Net investment income	91,848	(88,850)	153,558	365,807	(167,971)
Benefit payments, including refunds of member contributions	(266,085)	(100,637)	(237,114)	(112,377)	(131,496)
Administrative expense	(11,285)	(9,735)	(4,297)	(3,881)	(4,988)
Net Change in Plan Fiduciary Net Position	(11,014)	(13,764)	116,694	514,300	(41,509)
Plan Fiduciary Net Position – Beginning	2,731,785	2,720,771	2,707,007	2,823,701	3,338,001
Plan Fiduciary Net Position – Ending (b)	<u>\$ 2,720,771</u>	<u>\$ 2,707,007</u>	<u>\$ 2,823,701</u>	<u>\$ 3,338,001</u>	<u>\$ 3,296,492</u>
Net Pension Liability – Ending (a-b)	<u>\$ 230,996</u>	<u>\$ 930,296</u>	<u>\$ 846,428</u>	<u>\$ 941,015</u>	<u>\$ 1,264,060</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	92.17%	74.42%	76.94%	78.01%	72.28%
Estimated Covered Employee Payroll	\$ 1,136,459	\$ 1,127,808	\$ 1,185,242	\$ 1,070,004	\$ 1,075,934
Net Pension Liability as a Percentage of Covered Employee Payroll	20.33%	82.49%	71.41%	87.94%	117.48%



WEST 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, calculated using the discount rate of 8.00%, 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 (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
Net Pension Liability – 12/31/14	\$ 545,755	\$ 230,966	\$ (39,737)

In addition, the following presents the net pension liability of the township as of December 31, 2015 and 2016, calculated using the discount rate of 6.50%, 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:

	1% Decrease (5.50%)	Current Discount Rate (6.50%)	1% Increase (7.50%)
Net Pension Liability – 12/31/15	\$ 1,355,690	\$ 930,296	\$ 568,516
Net Pension Liability – 12/31/16	\$ 1,260,640	\$ 846,428	\$ 493,010

Furthermore, the following presents the net pension liability of the township as of December 31, 2017 and 2018, calculated using the discount rate of 6.00%, 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 (5.00%)	Current Discount Rate (6.00%)	1% Increase (7.00%)
Net Pension Liability – 12/31/17	\$ 1,468,937	\$ 941,015	\$ 497,975
Net Pension Liability – 12/31/18	\$ 1,818,460	\$ 1,264,060	\$ 797,865

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

SCHEDULE OF CONTRIBUTIONS

Year Ended December 31	Actuarially Determined Contribution	Actual Contributions	Contribution Deficiency (Excess)	Covered- Employee Payroll* used for MMO	Contributions as a Percentage of Covered- Employee Payroll
2009	\$ 77,791	\$ 77,791	\$ -		
2010	79,596	79,596	-		
2011	99,224	153,628	(54,404)	\$1,076,836	14.27%
2012	101,460	101,460	-	1,088,386	9.32%
2013	137,242	137,242	-	1,089,434	12.60%
2014	143,218	143,218	-	1,149,333	12.46%
2015	169,648	169,075	573	1,146,812	14.74%
2016	181,237	181,237	-	1,191,567	15.21%
2017	241,470	241,470	-	1,227,899	19.67%
2018	241,221	241,221	-	1,208,116	19.97%

\* 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 years prior to 2011.

SCHEDULE OF INVESTMENT RETURNS

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

2018	(5.03%)
2017	12.91%
2016	5.92%
2015	(3.27%)
2014	2.82%

WEST 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 Liability (AAL) - Entry Age (b)	Unfunded (Assets in Excess of) Actuarial Liability (b) - (a)	Funded Ratio (a)/(b)
01-01-13	\$ 2,430,215	\$ 2,970,645	\$ 540,430	81.8%
01-01-15	2,800,253	3,232,679	432,426	86.6%
01-01-17	3,033,565	3,813,352	779,787	79.6%

Note: The market value of the plan's assets at 01-01-13 has been adjusted to reflect the smoothing of gains and/or losses over a five-year averaging period subject to a corridor between 80 to 120 percent of the market value of assets. The market values of the plan's assets at 01-01-15 and 01-01-17 have been adjusted to reflect the smoothing of gains and/or losses over a 4-year averaging period subject to a corridor between 80 to 120 percent of the market value of assets. These methods 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.

WEST 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.

WEST 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	Level dollar
Remaining amortization period	8 years
Asset valuation method	4-year smoothing, subject to a corridor between 80-120% of market value
Actuarial assumptions:	
Investment rate of return	6.5%
Projected salary increases	4.5%

WEST MANCHESTER 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

**Ms. Rosa Hickey**  
Chairperson, Board of Township Supervisors

**Mr. Steve Harlacker**  
Vice-Chairperson, Board of Township Supervisors

**Mr. Dave Markel**  
Township Supervisor

**Mr. Kelly Kelch**  
Township Manager

**Mr. Keith Whittaker**  
Finance Director

This report is a matter of public record and is available online at [www.PaAuditor.gov](http://www.PaAuditor.gov). Media questions about the report can be directed to the Pennsylvania Department of the Auditor General, Office of Communications, 229 Finance Building, Harrisburg, PA 17120; via email to: [news@PaAuditor.gov](mailto:news@PaAuditor.gov).