

COMPLIANCE AUDIT

Manheim Borough Police Pension Plan Lancaster County, Pennsylvania For the Period January 1, 2012 to December 31, 2015

May 2016



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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EUGENE A. DePASQUALE
AUDITOR GENERAL

The Honorable Mayor and Borough Council
Manheim Borough
Lancaster County
Manheim, PA 17545

We have conducted a compliance audit of the Manheim Borough Police Pension Plan for the period January 1, 2012 to December 31, 2015. 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 findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and 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 findings 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 findings 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 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 the plan member 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 the retired individual and comparing these amounts to supporting documentation evidencing amounts determined and actually paid to the recipient. We also determined whether retirement benefits calculated for the plan member who elected to vest during the current audit period represent payments to and only to the individual entitled to receive it and was properly determined in accordance with the plan's governing document, applicable laws and regulations by recalculating the amount of the pension benefit due and comparing these amounts to supporting documentation evidencing amounts determined.
- × We determined whether the January 1, 2011, January 1, 2013 and January 1, 2015 actuarial valuation reports were prepared and submitted to the Public Employee Retirement Commission (PERC) by March 31, 2012, 2014 and 2016, 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.
- × We determined whether all annual special ad hoc postretirement reimbursements received by the municipality were authorized and appropriately deposited in accordance with Act 147 by tracing information to supporting documentation maintained by plan officials.

Manheim Borough contracted with an independent certified public accounting firm for annual audits of its basic financial statements for the years ending December 31, 2012, 2013 and 2014 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.

Borough officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Manheim Borough Police 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 Manheim Borough Police 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 findings further discussed later in this report:

Finding No. 1 – Noncompliance With Prior Audit Recommendation -
Ordinance Improperly Amended By Resolution

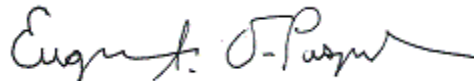
Finding No. 2 – Partial Compliance With Prior Audit Recommendation -
Improper Withholding Of Member Contributions

The findings contained in this audit report repeat conditions that were cited in our previous audit report that have not been corrected by borough officials. We are concerned by the borough's failure to correct these previously reported audit findings and strongly encourage timely implementation of the recommendations noted in this audit report.

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 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.

May 18, 2016



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 Manheim Borough Police Pension Plan is also governed by implementing regulations adopted by the Public Employee Retirement Commission published at Title 16, Part IV of the Pennsylvania Code and applicable provisions of various other state statutes, including, but not limited to, the following:

- Act 147 - Special Ad Hoc Municipal Police and Firefighter Postretirement Adjustment Act, Act of December 14, 1988 (P.L. 1192, No. 147), as amended, 53 P.S. § 896.101 et seq.
- Act 600 - Police Pension Fund Act, Act of May 29, 1956 (P.L. 1804, No. 600), as amended, 53 P.S. § 761 et seq.

The Manheim Borough Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 506, as amended, adopted pursuant to Act 600. The plan is also affected by the provisions of collective bargaining agreements between the borough and its police officers. The plan was established June 28, 1955. Active members are required to contribute 5 percent of their monthly salary to the plan. As of December 31, 2015, the plan had 17 active members, 1 terminated member eligible for vested benefits in the future, and 6 retirees receiving pension benefits from the plan.

BACKGROUND – (Continued)

As of December 31, 2015, selected plan benefit provisions are as follows:

Eligibility Requirements:

- | | |
|-------------------|--|
| Normal Retirement | Age 50 and 25 years of service. |
| Early Retirement | Eligible with 20 years of service. |
| Vesting | A member is 100% vested after 12 years of service. |

Retirement Benefit:

Benefit equals 50% of average monthly salary (average of basic salary received for the last 36 months of employment), plus 2% of average monthly salary per whole year of service completed in excess of 25 years and before attained age 60, up to a maximum of \$100 per month.

Survivor Benefit:

- | | |
|-------------------------------|---|
| Before Retirement Eligibility | Refund of member contributions plus interest. |
| After Retirement Eligibility | A monthly benefit equal to 50% of the pension the member was receiving or was entitled to receive on the day of the member's death. |

Service Related Disability Benefit:

Benefit equals 50% of the member's monthly salary at the time of disability, less any Worker's Compensation benefits.

MANHEIM BOROUGH POLICE PENSION PLAN
STATUS OF PRIOR FINDINGS

Noncompliance With Prior Audit Recommendation

Manheim Borough has not complied with the prior audit recommendation concerning the following as further discussed in the Findings and Recommendations section of this report:

Ordinance Improperly Amended By Resolution

Partial Compliance With Prior Audit Recommendation

Manheim Borough has partially complied with the prior audit recommendation concerning the following:

Improper Withholding Of Member Contributions

During the current audit period, the borough withheld member contributions properly according to the plan's governing document; however, the borough has not reimbursed plan members for their excess member contributions made for the years 2007 to 2011, as disclosed in Finding No. 2 contained in this report.

MANHEIM BOROUGH POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Noncompliance With Prior Audit Recommendation - Ordinance Improperly Amended By Resolution

Condition: As disclosed in the prior audit report, the plan’s governing document, Ordinance No. 506, was restated in its entirety through the adoption of Resolution No. 05-2005.

Criteria: In Wynne v. Lower Merion Township, 181 Pa. Superior Ct., 524, the Pennsylvania Superior Court held that an ordinance may be amended only by another ordinance and not by a resolution.

Cause: Plan officials failed to establish adequate internal control procedures to ensure compliance with the prior audit recommendation.

Effect: The restated plan document has not been properly adopted through a properly executed ordinance.

Recommendation: We again recommend that the borough amend the plan’s governing document through the adoption of a properly executed ordinance.

Management’s Response: On May 29, 2012, the borough attempted to rectify this finding; however, the police association did not feel comfortable with the amended ordinance and wanted to wait until the outcome of a pending lawsuit between the borough and a retired member is settled. Borough Council agreed to postpone the adoption of the amended ordinance.

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

Finding No. 2 – Partial Compliance With Prior Audit Recommendation - Improper Withholding Of Member Contributions

Condition: As disclosed in the prior audit report, during the years 2007 to 2011, the borough withheld members’ contributions in excess of the contributions required to fund the pension plan. The borough used plan members’ gross wages less bonuses to determine the members’ contributions that were withheld which was not in accordance with the plan’s governing document. During the current audit period, the borough withheld member contributions according to the provisions contained in the plan’s governing document; however, the borough has not reimbursed plan members for their excess member contributions made for the years 2007 to 2011.

MANHEIM BOROUGH POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Criteria: Resolution No. 05-2005, Article VIII states, in part:

All Members of the Plan shall pay into the fund, monthly, five (5%) percent of their monthly salary.

Monthly salary is defined in Section 1.32 of Article I of the plan agreement as follows:

“Salary” shall mean the Basic salary paid to an Employee by the Borough and does not include overtime or unused annual, personal, or sick leave.

Cause: The borough did not have adequate internal control procedures in place to ensure full compliance with the prior audit recommendation.

Effect: Plan members contributed funds in excess of the contributions required by the plan’s governing document.

Recommendation: We again recommend that the borough, with the assistance of its solicitor, determine the excess member contributions previously withheld from the plan members and reimburse the plan members, with interest, for the excess contributions made.

Management’s Response: Municipal officials agreed with the finding without exception. During the current audit period, member contributions were withheld according to the plan’s governing document. Municipal officials will reimburse members for the excess contributions, with interest, that were withheld during the years 2007 to 2011. However, the borough is awaiting the results of a pending lawsuit involving the borough and a retiree before moving forward with this process.

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

MANHEIM BOROUGH POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

The supplementary information contained on Pages 6 and 7 reflect 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 YEAR ENDED DECEMBER 31, 2014

Total Pension Liability		
Service cost	\$	140,707
Interest		160,437
Difference between expected and actual experience		40,340
Benefit payments, including refunds of member contributions		(160,776)
Net Change in Total Pension Liability		<u>180,708</u>
Total Pension Liability – Beginning		2,301,996
Total Pension Liability - Ending (a)	\$	<u><u>2,482,704</u></u>
Plan Fiduciary Net Position		
Contributions – employer	\$	101,582
Contribution – member		46,591
Net investment income		156,293
Benefit payments, including refunds of member contributions		(160,776)
Administrative expense		(4,500)
Net Change in Plan Fiduciary Net Position		<u>139,190</u>
Plan Fiduciary Net Position - Beginning		2,465,320
Plan Fiduciary Net Position - Ending (b)	\$	<u><u>2,604,510</u></u>
Net Pension Liability - Ending (a-b)	\$	<u><u>(121,806)</u></u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability		104.91%
Estimated Covered Employee Payroll	\$	972,106
Net Pension Liability as a Percentage of Covered Employee Payroll		(12.53%)

MANHEIM BOROUGH POLICE 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, 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	\$ 195,383	\$ (121,806)	\$ (385,636)

SCHEDULE OF INVESTMENT RETURNS

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

2014	6.47%
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MANHEIM BOROUGH POLICE 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, 2011, 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)
01-01-11	\$ 2,163,379	1,986,886	(176,493)	108.9%
01-01-13	2,288,448	2,248,435	(40,013))	101.8%
01-01-15	2,604,510	2,482,704	(121,806)	104.9%

MANHEIM BOROUGH POLICE 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 BOROUGH POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER
AND OTHER CONTRIBUTING ENTITIES

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2010	\$ 42,543	100.0%
2011	41,236	104.4%
2012	38,204	111.1%
2013	89,124	113.0%
2014	100,718	100.9%
2015	103,064	100.0%

MANHEIM BOROUGH POLICE 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, 2015
Actuarial cost method	Entry age normal
Amortization method	N/A
Remaining amortization period	N/A
Asset valuation method	Fair value
Actuarial assumptions:	
Investment rate of return	7.0%
Projected salary increases	4.5%
Cost-of-living adjustments	None assumed

MANHEIM BOROUGH POLICE PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

The Honorable Scot Funk
Mayor

Ms. Carol Phillips
Council President

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Mr. Bradley Roth
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Mr. James Fisher
Borough Manager

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