

COMPLIANCE AUDIT

Manheim Borough Police Pension Plan Lancaster County, Pennsylvania For the Period January 1, 2016 to December 31, 2018

February 2020



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, 2016 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 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 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 that there were no benefit calculations prepared for the years covered by our audit period.
- 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 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.

Manheim 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.

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 finding further discussed later in this report:

Finding - Noncompliance With Prior Audit Recommendation -
Ordinance Improperly Amended By Resolution

The finding contained in this audit report repeats a condition that was cited in our previous audit report that has not been corrected by borough officials. We are concerned by the borough's failure to correct this previously reported audit finding 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.

February 5, 2020



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 former 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. § 767 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, 2018, 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, 2018, 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	100% vesting available 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 Finding and Recommendation section of this report:

- Ordinance Improperly Amended By Resolution

Status Of Prior Audit Recommendation

- Improper Withholding Of Member Contributions

During the current audit period, the borough properly withheld member contributions according to the plan's governing document; however, the borough has not reimbursed plan members for any excess member contributions withheld for the years 2007 through 2011, as was also recommended. Based on additional documentation provided by borough officials, although the borough has previously offered to refund the additional amounts which were taken out of the withholding of the police officers, the borough has been unsuccessful in its efforts to refund the excess contributions to its police officers and is involved in a legal proceeding regarding these member contributions. The Department will continue to monitor the outcome of these proceedings and the borough's compliance with the prior recommendation to refund excess contributions to members at its earliest opportunity to do so.

MANHEIM BOROUGH POLICE PENSION PLAN
FINDING AND RECOMMENDATION

Finding - Noncompliance With Prior Audit Recommendation - Ordinance Improperly Amended By Resolution

Condition: As disclosed in previous audit reports, 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: The borough cited that the response remains the same as included in the prior audit report, as follows:

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 legal matter between the borough and a retired member is settled. Borough Council agreed to postpone the adoption of the amended ordinance.

Borough officials further indicated that after further inquiry from the attorney handling the situation, upon conclusion of this legal matter, Borough council will immediately proceed to rectify this finding. As of the date of this report, the legal matter has not yet been settled.

Auditor's Conclusion: Although we are concerned that the municipality has not complied with the prior audit recommendation, we understand the ramifications of the legal process and encourage the borough's compliance at its earliest opportunity to do so.

MANHEIM BOROUGH POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

The supplementary information contained on Pages 5 through 7 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	\$ 140,707	\$ 163,864	\$ 188,565	\$ 169,023	\$ 179,763
Interest	160,437	173,567	187,263	214,355	236,283
Difference between expected and actual experience	40,340	15,404	(22,221)	79,774	93,032
Changes of assumptions	-	-	205,260	-	157,303
Benefit payments, including refunds of member contributions	(160,776)	(170,212)	(168,856)	(155,269)	(155,269)
Net Change in Total Pension Liability	<u>180,708</u>	<u>182,623</u>	<u>390,011</u>	<u>307,883</u>	<u>511,112</u>
Total Pension Liability - Beginning	2,301,996	2,482,704	2,665,327	3,055,338	3,363,221
Total Pension Liability - Ending (a)	<u>\$ 2,482,704</u>	<u>\$ 2,665,327</u>	<u>\$ 3,055,338</u>	<u>\$ 3,363,221</u>	<u>\$ 3,874,333</u>
Plan Fiduciary Net Position					
Contributions - employer	\$ 19,698	\$ 11,204	\$ 4,874	\$ 55,167	\$ 33,498
Contributions - member	46,591	56,920	59,729	63,656	66,909
Contributions - state aid	81,884	91,860	132,151	98,634	125,195
Net investment income	156,293	(50,092)	159,970	329,503	(164,669)
Benefit payments, including refunds of member contributions	(160,776)	(170,212)	(168,856)	(155,269)	(155,269)
Administrative expense	(4,500)	-	-	-	-
Net Change in Plan Fiduciary Net Position	<u>139,190</u>	<u>(60,320)</u>	<u>187,868</u>	<u>391,691</u>	<u>(94,336)</u>
Plan Fiduciary Net Position - Beginning	2,465,320	2,604,510	2,544,190	2,732,058	3,123,749
Plan Fiduciary Net Position - Ending (b)	<u>\$ 2,604,510</u>	<u>\$ 2,544,190</u>	<u>\$ 2,732,058</u>	<u>\$ 3,123,749</u>	<u>\$ 3,029,413</u>
Net Pension Liability - Ending (a-b)	<u>\$ (121,806)</u>	<u>\$ 121,137</u>	<u>\$ 323,280</u>	<u>\$ 239,472</u>	<u>\$ 844,920</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	104.91%	95.46%	89.42%	92.88%	78.19%
Estimated Covered Employee Payroll	\$ 972,106	\$ 1,123,650	\$ 1,202,639	\$ 1,273,123	\$ 1,338,122
Net Pension Liability as a Percentage of Covered Employee Payroll	(12.53%)	10.78%	26.88%	18.81%	63.14%

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 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:

	<u>1% Decrease (6.0%)</u>	<u>Current Discount Rate (7.0%)</u>	<u>1% Increase (8.0%)</u>
Net Pension Liability - 12/31/14	\$ 195,383	\$ (121,806)	\$ (385,636)
Net Pension Liability - 12/31/15	\$ 471,870	\$ 121,137	\$ (170,344)
Net Pension Liability - 12/31/16	\$ 761,513	\$ 323,280	\$ (34,943)
Net Pension Liability - 12/31/17	\$ 737,615	\$ 239,472	\$ (166,926)
Net Pension Liability - 12/31/18	\$ 1,463,587	\$ 844,920	\$ 347,199

SCHEDULE OF CONTRIBUTIONS

<u>Year Ended December 31</u>	<u>Actuarially Determined Contribution</u>	<u>Actual Contributions</u>	<u>Contribution Deficiency (Excess)</u>	<u>Covered- Employee Payroll</u>	<u>Contributions as a Percentage of Covered- Employee Payroll</u>
2014	\$ 100,718	\$ 101,582	\$ (864)	\$ 972,106	10.45%
2015	103,064	103,064	-	1,123,650	9.17%
2016	137,025	137,025	-	1,202,639	11.39%
2017	134,891	153,801	(18,910)	1,273,123	12.08%
2018	153,801	158,693	(4,892)	1,338,122	11.86%

MANHEIM BOROUGH POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF INVESTMENT RETURNS

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

2018	(5.30%)
2017	12.14%
2016	6.36%
2015	(1.95%)
2014	6.47%

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, 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	\$ 2,288,448	\$ 2,248,435	\$ (40,013)	101.8%
01-01-15	2,604,510	2,482,704	(121,806)	104.9%
01-01-17	2,732,058	3,055,338	323,280	89.4%

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
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	12 years
Asset valuation method	Fair value
Actuarial assumptions:	
Investment rate of return	7.0%
Projected salary increases	5.0%
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
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