

COMPLIANCE AUDIT

East Hempfield Township Non-Uniformed Pension Plan Lancaster County, Pennsylvania For the Period January 1, 2015 to December 31, 2018

September 2019



Commonwealth of Pennsylvania
Department of the Auditor General
Eugene A. DePasquale Auditor General



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**EUGENE A. DEPASQUALE
AUDITOR GENERAL**

**Board of Supervisors
East Hempfield Township
Lancaster County
Landisville, PA 17538**

We have conducted a compliance audit of the East Hempfield 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 6 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 determined whether retirement benefits calculated for the two plan members who terminated employment 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, 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.
- We determined whether the terms of the plan's unallocated insurance contract, including ownership and any restrictions, were in compliance with plan provisions, investment policies, and state regulations by comparing the terms of the contract with the plan's provisions, investment policies, and state regulations.

East Hempfield Township contracted with an independent certified public accounting firm for annual audits of its basic financial statements 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 East Hempfield 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

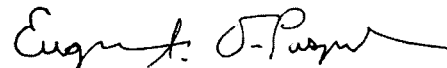
those requirements and that we considered to be significant within the context of our audit objective, and assessed whether those significant controls were properly designed and implemented. Additionally and as previously described, we tested transactions, assessed official actions, performed analytical 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 East Hempfield 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 East Hempfield 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.

September 5, 2019



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 East Hempfield 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 East Hempfield Township Non-Uniformed Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance 07-01, as amended, for non-uniformed employees hired prior to January 1, 2011. The plan was established May 7, 1969. Active members of the defined benefit plan are required to contribute 3 percent of compensation to the plan. As of December 31, 2018, the defined benefit plan had 19 active members, 2 terminated members eligible for vested benefits in the future, and 18 retirees receiving pension benefits from the plan.

For employees hired on or after January 1, 2011, the township enacted a defined contribution component to the township's existing non-uniformed pension plan which is locally controlled by the provisions of Ordinance No. 2011-8, as amended. Active members of the defined contribution portion of the pension plan are not required to contribute to the plan. In 2015, the municipality was required to contribute 5 percent of the members' total compensation to the plan, up to a maximum of \$3,200. In 2016, the municipality was required to contribute 6 percent of the members' total compensation to the plan. In 2017 and 2018, the municipality was required to contribute 7 percent of the members' total compensation to the plan annually. As of December 31, 2018, the defined contribution portion of the plan had 13 active members.

BACKGROUND – (Continued)

As of December 31, 2018, selected plan benefit provisions are as follows:

Eligibility Requirements:

Normal Retirement	Age 60 and 5 years of service.
Early Retirement	None
Vesting	For participants hired prior to January 1, 2011, 100% vesting available after 5 years of service. For participants hired on or after January 1, 2011, 20% vesting available for each completed year of service; 100% after 5 years of service.

Retirement Benefit:

For participants hired prior to January 1, 2011, the monthly pension shall be 2% for each year of service, to a maximum of 60% times the final 36 months average salary.

For participants hired on or after January 1, 2011, the value of the member's cash balance retirement account at the time of retirement.

Survivor Benefit:

For participants hired prior to January 1, 2011, a monthly benefit equal to 50% of the pension the member was entitled to or would have been receiving had the participant been retired at the time of the participant's death.

For participants hired on or after January 1, 2011, the vested value of the member's cash balance retirement account at the time of death.

Disability Benefit:

There is currently no disability pension benefit for this plan.

**EAST HEMPFIELD 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	\$ 180,729	\$ 144,231	\$ 151,443	\$ 85,247	\$ 89,509
Interest	406,502	404,002	431,101	458,213	483,825
Defined Contribution Balance	-	-	64,168	-	-
Change of benefit terms	-	-	-	5,569	-
Difference between expected and actual experience	-	(353,226)	-	(201,359)	-
Change of Assumptions	-	93,318	-	189,385	-
Benefit payments, including refunds of member contributions	<u>(138,428)</u>	<u>(197,767)</u>	<u>(235,640)</u>	<u>(234,786)</u>	<u>(220,363)</u>
Net Change in Total Pension Liability	448,803	90,558	411,072	302,269	352,971
Total Pension Liability – Beginning	<u>4,815,780</u>	<u>5,264,583</u>	<u>5,355,141</u>	<u>5,766,213</u>	<u>6,068,482</u>
Total Pension Liability – Ending (a)	<u>\$ 5,264,583</u>	<u>\$ 5,355,141</u>	<u>\$ 5,766,213</u>	<u>\$ 6,068,482</u>	<u>\$ 6,421,453</u>
Plan Fiduciary Net Position					
Contributions – employer	\$ 95,255	\$ 131,666	\$ 120,785	\$ 75,886	\$ 64,358
Contributions – state aid	120,053	125,467	139,989	142,236	159,269
Contributions – member	42,971	39,529	37,099	36,944	36,508
Net investment income	193,023	(88,037)	266,051	765,320	(431,373)
Other	1,835	-	-	-	-
Benefit payments, including refunds of member contributions	<u>(138,428)</u>	<u>(197,767)</u>	<u>(235,640)</u>	<u>(234,786)</u>	<u>(220,363)</u>
Net Change in Plan Fiduciary Net Position	314,709	10,858	328,284	785,600	(391,601)
Plan Fiduciary Net Position – Beginning	<u>4,411,554</u>	<u>4,726,263</u>	<u>4,737,121</u>	<u>5,065,405</u>	<u>5,851,005</u>
Plan Fiduciary Net Position – Ending (b)	<u>\$ 4,726,263</u>	<u>\$ 4,737,121</u>	<u>\$ 5,065,405</u>	<u>\$ 5,851,005</u>	<u>\$ 5,459,404</u>
Net Pension Liability – Ending (a-b)	<u>\$ 583,320</u>	<u>\$ 618,020</u>	<u>\$ 700,808</u>	<u>\$ 217,477</u>	<u>\$ 962,049</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	89.8%	88.5%	87.8%	96.4%	85.0%
Estimated Covered Employee Payroll	\$ 1,415,000	\$ 1,400,000	\$ 1,250,000	\$ 1,193,000	\$ 1,218,000
Net Pension Liability as a Percentage of Covered Employee Payroll	38.0%	44.1%	56.1%	18.2%	79.0%

**EAST HEMPFIELD 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, 2017 and 2018, 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:

	<u>1% Decrease (7.00%)</u>	<u>Current Discount Rate (8.00%)</u>	<u>1% Increase (9.00%)</u>
Net Pension Liability – 12/31/15	\$ 1,077,211	\$ 618,020	\$ 215,920
Net Pension Liability – 12/31/16	\$ 1,166,548	\$ 700,808	\$ 292,682
Net Pension Liability – 12/31/17	\$ 702,975	\$ 217,477	\$ (207,625)
Net Pension Liability – 12/31/18	\$ 1,440,074	\$ 962,049	\$ 543,460

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	\$ 203,332	\$ 203,332	\$ -	\$ 1,415,000	14.37%
2015	242,662	242,662	-	1,400,000	17.33%
2016	229,893	229,893	-	1,250,000	18.39%
2017	175,115	175,115	-	1,193,000	14.68%
2018	177,033	177,033	-	1,218,000	14.53%

**EAST HEMPFIELD TOWNSHIP NON-UNIFORMED PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)**

SCHEDULE OF INVESTMENT RETURNS

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

2018	(7.38%)
2017	15.19%
2016	6.47%
2015	(1.20%)

**EAST HEMPFIELD 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	\$ 3,789,756	\$ 4,403,058	\$ 613,301	86.1%
01-01-15	4,726,263	5,025,138	298,875	94.1%
01-01-17	5,065,405	5,759,808	694,403	87.9%

Note: The market value of the plan's assets at 01-01-13 have been adjusted to reflect the smoothing of gains and/or losses over a four-year averaging period with a 120% market value cap. 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.

**EAST HEMPFIELD 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	3 years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return	8.00%
Projected salary increases *	5.00%
Cost-of-living adjustments	None assumed

* Includes inflation at 3.00%

**EAST HEMPFIELD TOWNSHIP NON-UNIFORMED PENSION PLAN
SUMMARY OF DEPOSITED STATE AID AND EMPLOYER CONTRIBUTIONS**

Year Ended December 31	State Aid	Employer Contributions
2013	None	\$ 6,294
2014	None	11,976
2015	None	15,389
2016	None	29,963
2017	None	32,880
2018	None	46,594

Note: In 2015, the township met the plan's \$20,443 funding requirement through the deposit of \$15,389 in employer contributions and \$5,182 in terminated employee forfeitures.

Note: In 2016, the township met the plan's \$30,694 funding requirement through the deposit of \$29,963 in employer contributions and \$918 in terminated employee forfeitures.

Note: In 2017, the township met the plan's \$42,982 funding requirement through the deposit of \$32,880 in employer contributions and \$10,127 in terminated employee forfeitures.

EAST HEMPFIELD TOWNSHIP NON-UNIFORMED PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

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