

COMPLIANCE AUDIT

Manchester Township Firefighter's Pension Plan York County, Pennsylvania

January 2025



Commonwealth of Pennsylvania
Department of the Auditor General

Timothy L. DeFoor • Auditor General



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**TIMOTHY L. DEFOOR
AUDITOR GENERAL**

Board of Township Supervisors
Manchester Township
York County
York, PA 17406

We have conducted a compliance audit of the Manchester Township Firefighter's Pension Plan 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 objectives. We believe that the evidence obtained provides a reasonable basis for our finding 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 finding contained in our prior 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 finding contained in our prior 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:

- For the period January 1, 2022 to December 31, 2023, and through the completion of our fieldwork procedures, 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 the period January 1, 2022 to December 31, 2023, 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.
- For the period January 1, 2022 to December 31, 2023, 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 the years in the period noted and examining documents evidencing the deposit of these employee contributions into the pension plan.
- For the period January 1, 2022 to December 31, 2023, we determined whether retirement benefits calculated for plan members who retired and the plan member who elected to vest during the period noted 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 benefits due to the retired individuals and comparing these amounts to supporting documentation evidencing amounts determined and actually paid or payable to the recipients.
- We determined whether the January 1, 2021 and January 1, 2023 actuarial valuation reports were prepared and submitted by March 31, 2022 and 2024, 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.

The Manchester Township Firefighter's Pension Plan participates in the Pennsylvania Municipal Retirement System (PMRS), which is an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for participating municipal pension plans. PMRS issues a separate Annual Comprehensive Financial Report, copies of which are available from the PMRS accounting office. PMRS's 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 Manchester Township Firefighter's 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 objectives.

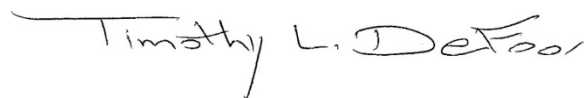
The results of our procedures indicated that, in all significant respects, the Manchester Township Firefighter's Pension Plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies for the periods noted above, except as noted in the following finding further discussed later in this report:

Finding – Noncompliance With Prior Audit Recommendation - Incorrect Data On Certification Form AG 385 Resulting In An Underpayment Of State Aid

The finding contained in this audit report repeats a condition that was cited in our previous report that has not been corrected by township officials. We are concerned by the township's failure to correct the previously reported finding and strongly encourage timely implementation of the recommendation 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 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.



Timothy L. DeFoor
Auditor General
December 12, 2024

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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 two 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 Manchester Township Firefighter's 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 including, but not limited to, the following:

Act 15 - Pennsylvania Municipal Retirement Law, Act of February 1, 1974
(P.L. 34, No. 15), as amended, 53 P.S. § 881.101 et seq.

The Manchester Township Firefighter's Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 2020-02, as amended, and a separately executed plan agreement with the plan's custodian effective January 1, 2020, adopted pursuant to Act 15, for firefighters hired before January 7, 2013. *(It should be noted that the township also adopted a separately executed cash balance pension plan agreement effective July 1, 2020, specifically for accumulating optional, after-tax voluntary member contributions for plan members which does not impact the costs of the defined benefit pension plan or the separately audited firefighter's cash balance plan or the funding requirement of the township.)* Prior to January 1, 2020, the plan was locally controlled by the provisions of Ordinance No. 2013-03 and a separately executed plan agreement with the plan's custodian effective January 7, 2013, adopted pursuant to Act 15. The plan is also affected by the provisions of collective bargaining agreements between the township and its firefighters. The plan was established January 1, 1986. Active members were required to contribute 3 percent of compensation to the plan for the years 2019 and 2020 and 5 percent of compensation to the plan for the years 2021, 2022, and 2023, and may optionally contribute up to 20 percent of compensation to the plan. As of December 31, 2023, the plan had nine active members, six terminated members eligible for vested benefits in the future, and nine retirees receiving benefits.

MANCHESTER TOWNSHIP FIREFIGHTER'S PENSION PLAN
STATUS OF PRIOR FINDING

In the prior audit, the firefighter's defined benefit and firefighter's cash balance plans were combined in one audit report which contained one finding. That prior finding is addressed both in this current audit report and the current audit report of the cash balance pension plan.

Noncompliance With Prior Audit Recommendation

Manchester Township has not complied with the prior audit recommendation concerning the following as further discussed in the Finding and Recommendation section of this report:

- Incorrect Data On Certification Form AG 385 Resulting In An Underpayment Of State Aid

MANCHESTER TOWNSHIP FIREFIGHTER'S PENSION PLAN
FINDING AND RECOMMENDATION

Finding – Noncompliance With Prior Audit Recommendation – Incorrect Data On Certification Form AG 385 Resulting In An Underpayment Of State Aid

Condition: As disclosed in the prior audit report, the township failed to certify eligible non-uniformed employees and firefighters on the Certification Forms AG 385 filed in 2018 and 2019, resulting in an underpayment of state aid in the amount of \$39,657. This amount was subsequently allocated to the township on January 22, 2020.

During the current period subject to audit, the township again failed to comply with the instructions that accompanied Certification Form AG 385 to assist them in accurately reporting the required pension data. The township failed to certify an eligible non-uniformed cash balance employee (1 unit) and two eligible cash balance firefighters (4 units) and certified an ineligible non-uniformed (defined benefit) employee (1 unit) and an ineligible (defined benefit) firefighter (2 units) on the Certification Form AG 385 filed in 2020. The township failed to certify an eligible non-uniformed cash balance employee (1 unit) and a cash balance firefighter (2 units) on the Certification Form AG 385 filed in 2022. The township also failed to certify an eligible non-uniformed cash balance employee (1 unit) on Certification Form AG 385 filed in 2023. Finally, the township failed to certify an eligible non-uniformed cash balance employee (1 unit) on the Certification Form AG 385 filed in 2024. The data contained on these certification forms is based on prior calendar year information.

Criteria: Pursuant to Act 205, at Section 402(e)(2), an employee who has been employed on a full-time basis for at least six consecutive months and has been participating in a pension plan during the certification year is eligible for certification. The applicable number of units attributable to each eligible recipient city, borough, incorporated town, and township shall be two units for each police officer and firefighter and one unit for each employee other than police officer or firefighter.

Cause: Due to recent turnover in personnel responsible for the administration of the plan, current plan officials did not have a thorough understanding of the Certification Form AG 385 instructions. In addition, plan officials again failed to establish adequate internal control procedures, such as having another individual review the data certified, to ensure the accuracy of the reported data prior to submission and to ensure compliance with the prior audit recommendation.

Effect: The data submitted on these certification forms is used, in part, to calculate the state aid due to the municipality for distribution to its pension plans. Because the township's state aid allocations were based on unit value, the township received an underpayment of state aid as identified below:

MANCHESTER TOWNSHIP FIREFIGHTER'S PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

Year	Type of Plan	Units Overstated (Understated)	Unit Value	State Aid Overpayment (Underpayment)
2020	Non-Uniformed	1	\$ 4,924	\$ 4,924
	Non-Uniformed Cash Balance	(1)	\$ 4,924	(4,924)
	Firefighter's	2	\$ 4,924	9,848
	Firefighter's Cash Balance	(4)	\$ 4,924	<u>(19,696)</u>
			Total	<u>\$ (9,848)</u>
2022	Non-Uniformed Cash Balance	(1)	\$ 5,180	\$ (5,180)
	Firefighter's Cash Balance	(2)	\$ 5,180	<u>(10,360)</u>
			Total	<u>\$ (15,540)</u>
2023	Non-Uniformed Cash Balance	(1)	\$ 5,828	\$ (5,828)
2024	Non-Uniformed Cash Balance	(1)	\$ 6,292	<u>(6,292)</u>
			Total Underpayment of State Aid	<u>\$ (37,508)</u>

Although the additional state aid will be allocated to the township, the full amount of the 2020, 2022, 2023, and 2024 state aid allocations were not available to be deposited timely and therefore resulted in the township having to make additional municipal contributions in order to meet the plans' funding obligations.

Recommendation: We again recommend that in the future, plan officials establish adequate internal control procedures, such as having at least two people review the data certified, to ensure compliance with the instructions that accompany Certification Form AG 385 to assist them in accurately reporting the required pension data.

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.

MANCHESTER TOWNSHIP FIREFIGHTER'S 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, 2019, 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)
01-01-19	\$ 5,463,579	\$ 5,665,803	\$ 202,224	96.4%
01-01-21	6,386,305	7,103,906	717,601	89.9%
01-01-23	7,163,595	7,555,765	392,170	94.8%

MANCHESTER TOWNSHIP FIREFIGHTER'S 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.

MANCHESTER TOWNSHIP FIREFIGHTER'S PENSION PLAN
 SUPPLEMENTARY INFORMATION
 (UNAUDITED)

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	\$ 236,319	\$ 236,319	\$ -	\$1,409,765	16.76%
2015	284,563	284,563	-	1,267,125	22.46%
2016	258,789	262,311	(3,522)	1,248,212	21.01%
2017	250,529	250,529	-	1,344,095	18.64%
2018	274,469	274,469	-	1,193,683	22.99%
2019	206,910	206,910	-	1,155,464	17.91%
2020	201,576	201,576	-	1,228,133	16.41%
2021	198,279	198,279	-	1,184,814	16.74%
2022	178,889	178,889	-	1,089,579	16.42%
2023	229,805	229,805	-	868,617	26.46%

MANCHESTER TOWNSHIP FIREFIGHTER'S 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, 2023
Actuarial cost method	Entry age normal
Amortization method	Level dollar for plan bases and an average for Aggregate Gain/Loss, 10% of surplus is credited against aggregate cost where applicable.
Remaining amortization period	4 years
Asset valuation method	The Actuarial Value of Assets is the sum of all audited reserve accounts as of the valuation date, including Members', Municipal, Retired Members', Disability, and DROP Participants' Reserves, as provided in the December 31, 2022 ACFR, and a one-year administration expense reserve, plus any additional adjustments as made during the year by the Board of Trustees without reflecting any Excess Interest. This asset valuation is based on the unique legislative structure of PMRS and the administrative rules adopted by the PMRS Board in conjunction with Pennsylvania Municipal Retirement Law. ¹

Actuarial assumptions:

Investment rate of return *	5.25%, compounded annually, net of investment and administration expenses.
Projected salary increases *	2.2%-6.22% based on age and service
* Includes inflation at	2.2%
Cost-of-living adjustments	2.2% per year up to plan maximum

¹ The administrative rules adopted by the PMRS Board in conjunction with Pennsylvania Municipal Retirement Law, which are not required to comply with Actuarial Standards of Practice (ASOP) when defining the Actuarial Value of Assets (AVA), do not necessarily meet the requirement of ASOP 44 Selection and Use of Asset Valuation Methods for Pension Valuations. The AVA provided within this report follow the Pennsylvania Municipal Retirement Law and the PMRS policy statement.

MANCHESTER TOWNSHIP FIREFIGHTER'S PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Joshua D. Shapiro
Governor
Commonwealth of Pennsylvania

Mr. Rodney K. Brandstedter
Chairman, Board of Township Supervisors

Mr. Timothy R. James
Township Manager

Ms. Kimberly Hackett
Administrative Director

Mr. Richard Cardamone, CPA, CGMA
Pennsylvania Municipal Retirement System

This report is a matter of public record and is available online at 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.