

LIMITED PROCEDURES ENGAGEMENT

Bedford Borough Cash Balance Pension Plan Bedford County, Pennsylvania For the Period January 1, 2018 to December 31, 2018

January 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
Bedford Borough
Bedford County
Bedford, PA 15522

We conducted a Limited Procedures Engagement (LPE) of the Bedford Borough Cash Balance Pension Plan for the period January 1, 2018 to December 31, 2018 to determine its compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies. We also evaluated compliance with some requirements subsequent to that period when possible. The LPE was conducted pursuant to authority derived from Section 402(j) of the Municipal Pension Plan Funding Standard and Recovery Act (P.L. 1005, No. 205, as amended, 53 P.S. § 895.101 et seq.) but was not conducted in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States. 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. We believe that the evidence obtained provides a reasonable basis to support our LPE results.

Our LPE was limited to determining the following:

- 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 engagement period.
- 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. Employer contributions that were deposited into the pension plan for the year ended December 31, 2018, are presented on the Summary of Deposited State Aid and Employer Contributions.

- Whether annual employee contributions were required during the engagement period and, if so, 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 engagement period and examining documents evidencing the deposit of these employee contributions into the pension plan.

Based on the results of our procedures performed during our LPE, nothing came to our attention indicating that the Bedford Borough Cash Balance Pension Plan was not being 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 – Incorrect Data On Certification Form AG 385 Resulting In An Underpayment Of State Aid

Our determination to perform a LPE for this engagement period does not preclude the Department from conducting an audit in accordance with *Government Auditing Standards* of the pension plan in subsequent periods. The borough should continue to maintain documentation related to this pension plan.

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 Bedford Borough and, where appropriate, their responses have been included in this report. We would like to thank borough officials for the cooperation extended to us during the conduct of this LPE.

January 3, 2020



EUGENE A. DEPASQUALE
Auditor General

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BEDFORD BOROUGH
CASH BALANCE PENSION PLAN
FINDING AND RECOMMENDATION

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

Condition: The borough failed to certify two eligible non-uniformed municipal employees participating in its cash balance pension plan and understated payroll by \$58,323 on the Certification Form AG 385 filed in 2019. The data contained on this certification form 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.

Cause: Plan officials were unsure of the certification eligibility requirements of Act 205 at the time of preparation of the AG 385 form submitted during 2019 for these recently hired individuals.

Effect: Since the data submitted on this certification form is used, in part, to calculate the state aid due to the municipality for distribution to its pension plans and the borough’s state aid allocation was based on unit value, the borough received an underpayment of state aid during 2019 as identified below:

<u>Year</u>	<u>Units Understated</u>	<u>Unit Value</u>	<u>State Aid Underpayment</u>
2019	2	\$ 5,120	\$ 10,240

Although the borough will be reimbursed for the underpayment of state aid due to the borough’s certification error, the full amount of the 2019 state aid allocation was not available for timely deposit and therefore resulted in the borough having to make additional municipal contributions from its general municipal operating fund in order to meet the plan’s funding obligation.

Recommendation: We 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.

BEDFORD BOROUGH
CASH BALANCE PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

The supplementary information contained on Pages 2 and 3 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 YEAR ENDED DECEMBER 31, 2018

	<u>2018</u>
Total Pension Liability	
Service cost	\$ 2,556
Interest	13
	2,569
Net Change in Total Pension Liability	2,569
Total Pension Liability – Beginning	-
Total Pension Liability – Ending (a)	\$ 2,569
Plan Fiduciary Net Position	
Contributions – employer *	\$ 793
Contributions – PMRS assessment	40
Contributions – employee	1,562
Net investment income	(183)
Administrative expense	(1)
Other	-
	2,211
Net Change in Plan Fiduciary Net Position	2,211
Plan Fiduciary Net Position – Beginning	-
Plan Fiduciary Net Position – Ending (b)	\$ 2,211
Net Pension Liability – Ending (a-b)	\$ 358
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	86.06%
Estimated Covered Employee Payroll	\$ 28,398
Net Pension Liability as a Percentage of Covered Employee Payroll	1.26%

* 2018 employer contributions do not include transfers from current municipal reserve amounting to \$161 for 2018.

BEDFORD BOROUGH
 CASH BALANCE 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, 2018, calculated using the discount rate of 5.25%, 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 (4.25%)	Current Discount Rate (5.25%)	1% Increase (6.25%)
Net Pension Liability	\$ 872	\$ 358	\$ (156)

BEDFORD BOROUGH CASH BALANCE PENSION PLAN
SUMMARY OF DEPOSITED STATE AID AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid	Employer Contributions
2018	None	\$ 994

The cash balance plan was recently established for new employees hired on or after October 1, 2017. The Department typically presents this data for the past six consecutive fiscal years. Since six years of data were not yet available, this will be done prospectively.

BEDFORD BOROUGH CASH BALANCE PENSION PLAN
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This report was initially distributed to the following:

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Ms. Charity Rosenberry, CPA
Pennsylvania Municipal Retirement System

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