

COMPLIANCE AUDIT

Bellefonte Borough Non-Uniformed Cash Balance Pension Plan

Centre County, Pennsylvania
For the Period
January 1, 2015 to December 31, 2018

February 2020



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



Commonwealth of Pennsylvania
Department of the Auditor General
Harrisburg, PA 17120-0018
Facebook: Pennsylvania Auditor General
Twitter: @PAAuditorGen
www.PaAuditor.gov

EUGENE A. DePASQUALE
AUDITOR GENERAL

The Honorable Mayor and Borough Council
Bellefonte Borough
Centre County
Bellefonte, PA 16823

We have conducted a compliance audit of the Bellefonte Borough Non-Uniformed Cash Balance 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 our 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 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 finding 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. State aid allocations that were deposited into the pension plan for the years ended December 31, 2013 to December 31, 2018, are presented on the Summary of Deposited State Aid and Employer Contributions.

- 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. Employer contributions that were deposited into the pension plan for the years ended December 31, 2013 to December 31, 2018, are presented on the Summary of Deposited State Aid and Employer Contributions.
- 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 also tested individual employee contributions for all 17 full-time active employees employed during the audit period amounting to \$25,898, \$36,312, 46,977, and \$58,693, for the years 2015, 2016, 2017 and 2018, respectively, made during the audit period.
- 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.
- We determined whether the terms of the contractual agreement with the Pennsylvania Municipal Retirement System were in accordance with the plan's governing document, if separately stated, and applicable laws and regulations by comparing the terms of the contractual agreement with the plan's governing document, if separately stated, and applicable laws and regulations.

The Bellefonte Borough Non-Uniformed Cash Balance 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 Comprehensive Annual 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.

Borough officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Bellefonte Borough Non-Uniformed Cash Balance 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 Bellefonte Borough Non-Uniformed Cash Balance 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 - 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 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 recommendation noted in this audit report.

The contents of this report were discussed with officials of Bellefonte 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.

January 23, 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 Bellefonte Borough Non-Uniformed Cash Balance 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 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 Bellefonte Borough Non-Uniformed Cash Balance Pension Plan is a single-employer cash balance pension plan locally controlled by the provisions of Ordinance No. 02162015-01, adopted pursuant to Act 15. The plan was established January 1, 2009. The plan is also affected by the provisions of collective bargaining agreements between the borough and its non-uniformed employees hired on or after January 1, 2009. Active members are required to contribute 5 percent of compensation to the plan. The municipality is required to contribute 5 percent of compensation to the plan. As of December 31, 2018, the plan had 17 active members and no terminated members eligible for vested benefits in the future or retirees receiving pension benefits.

BELLEFONTE BOROUGH NON-UNIFORMED CASH BALANCE PENSION PLAN
STATUS OF PRIOR FINDING

Noncompliance With Prior Audit Recommendation

Bellefonte Borough 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 Overpayment Of State Aid

BELLEFONTE BOROUGH NON-UNIFORMED CASH BALANCE 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 borough failed to establish adequate internal control procedures to ensure the accuracy of the data certified on the Certification Form AG 385 submitted during 2014 which resulted in an overpayment of state aid in the amount of \$3,873. As of the date of this report, this overpayment has not been returned to the Commonwealth for redistribution in accordance with Act 205.

A similar condition occurred during the current audit period. The borough failed to certify an eligible non-uniformed employee (1 unit) and understated payroll by \$27,080 and \$31,726, respectively, on the Certification Form AG 385s filed in 2016 and 2018. The data contained on these certification forms is based on prior calendar year information.

Criteria: As previously disclosed, pursuant to Section 402(e)(2) of Act 205, 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: Due to a change in personnel responsible for administration of the pension plan, plan officials again failed to establish and implement adequate internal control procedures to ensure the accuracy of the data certified and 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 borough's state aid allocations were based on unit value, the borough received a total underpayment of state aid as identified below:

Year	Units Overstated (Understated)	Unit Value	State Aid Overpayment (Underpayment)
2016	(1)	\$ 4,375	\$ (4,375)
2018	(1)	\$ 4,685	(4,685)
Total Underpayment of State Aid			\$ (9,060)

BELLEFONTE BOROUGH NON-UNIFORMED CASH BALANCE PENSION PLAN
FINDING AND RECOMMENDATION

Finding - (Continued)

Although the borough will be reimbursed for the underpayment of state aid due to the borough's certification errors, the full amount of the 2016 and 2018 state aid allocations were not available to be deposited timely and therefore resulted in the borough having to make additional municipal contributions in order to meet the plan's funding obligation.

Additionally, as noted in the Condition above, since the borough failed to return the previously disclosed net overpayment of state aid for the year 2014 to the Commonwealth as of the date of this report, the effect of that year's error will be netted with the underpayment errors disclosed for 2016 and 2018, accordingly.

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.

BELLEFONTE BOROUGH NON-UNIFORMED CASH BALANCE PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

The supplementary information contained on Pages 5 and 6 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, 2018, 2017, 2016, 2015, AND 2014

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total Pension Liability					
Service cost	\$ 100,818	\$ 82,833	\$ 65,304	\$ 50,173	\$ 47,047
Interest	21,842	16,282	12,391	9,079	7,085
Change of benefit terms	4,114	-	-	-	-
Difference between expected and actual experience	-	-	(1,478)	1	(9,144)
Benefit payments, including refunds of member contributions	-	-	(1,479)	(9,145)	-
Net Change in Total Pension Liability	<u>126,774</u>	<u>99,115</u>	<u>74,738</u>	<u>50,108</u>	<u>44,988</u>
Total Pension Liability - Beginning	<u>380,132</u>	<u>281,017</u>	<u>206,279</u>	<u>156,171</u>	<u>111,183</u>
Total Pension Liability - Ending (a)	<u>\$ 506,906</u>	<u>\$ 380,132</u>	<u>\$ 281,017</u>	<u>\$ 206,279</u>	<u>\$ 156,171</u>
Plan Fiduciary Net Position					
Contributions - employer *	\$ 30,585	\$ 35,876	\$ 27,479	\$ 15,350	\$ 22,711
Contributions - PMRS assessment	320	320	40	260	-
Contributions - employee	58,693	46,977	36,312	25,898	24,295
PMRS investment income	22,014	16,519	12,655	9,527	7,221
Market value investment income	(51,547)	37,113	1,407	(12,128)	(974)
Benefit payments, including refunds of member contributions	-	-	(1,479)	(9,145)	-
PMRS Administrative expense	(300)	(260)	(220)	(260)	(200)
Additional administrative expense	(982)	(760)	(620)	(397)	(277)
Net Change in Plan Fiduciary Net Position	<u>58,783</u>	<u>135,785</u>	<u>75,574</u>	<u>29,105</u>	<u>52,776</u>
Plan Fiduciary Net Position - Beginning	<u>403,433</u>	<u>267,648</u>	<u>192,074</u>	<u>162,969</u>	<u>110,193</u>
Plan Fiduciary Net Position - Ending (b)	<u>\$ 462,216</u>	<u>\$ 403,433</u>	<u>\$ 267,648</u>	<u>\$ 192,074</u>	<u>\$ 162,969</u>
Net Pension Liability - Ending (a-b)	<u>\$ 44,690</u>	<u>\$ (23,301)</u>	<u>\$ 13,369</u>	<u>\$ 14,205</u>	<u>\$ (6,798)</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	91.18%	106.13%	95.24%	93.11%	104.35%
Estimated Covered Employee Payroll	\$ 842,509	\$ 719,311	\$ 579,844	\$ 485,484	\$ 410,476
Net Pension Liability as a Percentage of Covered Employee Payroll	5.30%	(3.24%)	2.31%	2.93%	(1.66%)

* The employer contributions for 2015 and 2016 do not include forfeitures or administrative expenses. The employer contributions for 2017 also do not include administrative expenses. For 2018, employer contributions do not include municipal contributions received during January 2019.

BELLEFONTE BOROUGH NON-UNIFORMED 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, 2014 and 2015, calculated using the discount rate of 5.50%, 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 (4.50%)</u>	<u>Current Discount Rate (5.50%)</u>	<u>1% Increase (6.50%)</u>
Net Pension Liability - 12/31/14	\$ 24,436	\$ (6,798)	\$ (38,032)
Net Pension Liability - 12/31/15	\$ 55,460	\$ 14,205	\$ (27,051)

The following presents the net pension liability of the borough as of December 31, 2016, 2017 and 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:

	<u>1% Decrease (4.25%)</u>	<u>Current Discount Rate (5.25%)</u>	<u>1% Increase (6.25%)</u>
Net Pension Liability - 12/31/16	\$ 69,573	\$ 13,369	\$ (42,834)
Net Pension Liability - 12/31/17	\$ 52,725	\$ (23,301)	\$ (99,327)
Net Pension Liability - 12/31/18	\$ 146,072	\$ 44,690	\$ (56,691)

BELLEFONTE BOROUGH NON-UNIFORMED CASH BALANCE PENSION PLAN
SUMMARY OF DEPOSITED STATE AID AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid	Employer Contributions
2013	None	\$ 17,603
2014	None	22,953
2015	None	15,130
2016	None	27,514
2017	None	35,856
2018	None	42,126

Note: In 2013, the borough met the plan's \$20,187 funding requirement through the deposit of \$17,063 in employer contributions and \$2,584 in terminated employee forfeitures.

In 2015, the borough met the plan's \$24,274 funding requirement through the deposit of \$15,130 in employer contributions and \$9,144 in terminated employee forfeitures.

In 2016, the borough met the plan's \$28,992 funding requirement through the deposit of \$27,514 in employer contributions and \$1,478 in terminated employee forfeitures.

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This report was initially distributed to the following:

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Pension Coordinator

Ms. Charity Rosenberry, CPA
Pennsylvania Municipal Retirement System

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