

# COMPLIANCE AUDIT

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## Bridgeport Borough Non-Uniformed Pension Plan Montgomery County, Pennsylvania For the Period January 1, 2017 to December 31, 2019

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July 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  
Bridgeport Borough  
Montgomery County  
Bridgeport, PA 19405

We have conducted a compliance audit of the Bridgeport Borough Non-Uniformed Pension Plan for the period January 1, 2017 to December 31, 2019. We also evaluated compliance with some requirements subsequent to that period when possible. The audit was conducted 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 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 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 findings 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:

- 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. Employer contributions that were deposited into the pension plan for the years ended December 31, 2017 to December 31, 2019, 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 determined whether retirement benefits calculated for 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 benefits due to the retired individuals and comparing these amounts to supporting documentation evidencing amounts determined and actually paid to the recipients.
- We determined whether the January 1, 2015, January 1, 2017, and January 1, 2019 actuarial valuation reports were prepared and submitted by March 31, 2016, 2018, and 2020, 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 and methodologies of the issuance of pension obligation bonds by the municipality, and any restrictions, were in compliance with plan provisions and Act 205 through inquiry of plan officials and examination of supporting documentation for pension obligation bonds issued during the current audit period and through the completion of our fieldwork procedures.

Bridgeport Borough contracted with an independent certified public accounting firm for annual audits of the Bridgeport Borough Police Pension Plan's financial statements, for the years ended December 31, 2017 and 2018, 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.

Bridgeport Borough contracted with an independent certified public accounting firm for annual audits of its financial statements prepared in conformity with the accounting practices prescribed or permitted by the Department of Community and Economic Development of the Commonwealth of Pennsylvania, for the year ended December 31, 2019, 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 Bridgeport Borough Non-Uniformed 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 Bridgeport Borough Non-Uniformed 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 findings further discussed later in this report:

Finding No. 1 – Failure To Maintain An Adequate Record-Keeping System

Finding No. 2 – Failure To Properly Fund Member Accounts

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 Bridgeport 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.

July 21, 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.

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 Bridgeport Borough Non-Uniformed 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.

The Bridgeport Borough Non-Uniformed Pension Plan is a single-employer hybrid pension plan locally controlled by the provisions of Ordinance No. 20-2000, as most recently amended by Ordinance No. 2017-002 on February 2, 2017. For employees hired prior to January 1, 2016, the plan is a defined benefit pension plan and for members hired after January 1, 2016, the plan is a defined contribution pension plan. The plan is also affected by the provisions of collective bargaining agreements between the borough and its non-uniformed employees. The plan was established January 10, 1972. Active members are required to contribute 3.5 percent of compensation to the plan. As of December 31, 2019, the plan had 14 active members, no terminated members eligible for vested benefits in the future, and 10 retirees receiving pension benefits.

BRIDGEPORT BOROUGH NON-UNIFORMED PENSION PLAN  
STATUS OF PRIOR FINDING

Compliance With Prior Recommendation

Bridgeport Borough has complied with the prior recommendation concerning the following:

- **Failure To Fully Pay The Minimum Municipal Obligation Of The Plan**

The municipality paid the outstanding MMO due to the non-uniformed pension plan for the year 2012 in the amount of \$27,473 as previously recommended.

BRIDGEPORT BOROUGH NON-UNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – Failure To Maintain An Adequate Record-Keeping System**

Condition: The pension plan’s record-keeping system did not provide effective control over assets, revenues and expenses or allow plan officials to effectively monitor the plan’s financial operations. The deficiencies are as follows:

- Annual individual members’ account statements summarizing account balances and activity in individual members’ accounts were not maintained;
- Annual municipal account statements evidencing effective monitoring of the activity of the pension plan account were not maintained; and
- Active members’ rosters detailing reconciliations of annual payroll and required contribution amounts to actual contribution amounts allocated to individual members’ accounts evidencing compliance with the plan’s governing document were not maintained (*also see Finding No. 2*).

Criteria: An adequate system of accounting and record keeping is a prerequisite for sound administration of pension plans. In addition, assets held in a custodial account for the purpose of plan management are to be governed by the terms and provisions of the account contract, provided that the terms and provisions of the contract are within the parameters of all prevailing pension legislation. Although the municipality may contract with a trustee to administer the financial management of the plan, the fiduciary responsibility for the plan remains with the municipality.

Cause: Plan officials indicated that the former plan consultant failed to provide the borough with adequate documentation relative to the defined contribution provisions of the plan. In addition, the municipality did not maintain a separate detailed accounting of pension plan transactions, which among other things, helps assure the effective monitoring of the annual activity of the pension plan.

Effect: Although we were able to obtain copies from a third-party source in order to complete our audit procedures, the failure to maintain adequate records prohibits municipal officials from effectively monitoring the plan’s financial operations. Additionally, inadequate monitoring of the pension plan account could lead to undetected errors or improprieties in account transactions (*see Finding No. 2*).



BRIDGEPORT BOROUGH NON-UNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – (Continued)**

Recommendation: We recommend that plan officials establish and maintain a financial record-keeping system that allows plan officials to effectively monitor the plan’s financial operations. Plan officials should refer to the Auditor General’s Bulletin No. 2-88 entitled “Preparation, Maintenance and Auditability of Financial Records,” for further guidance in establishing adequate accounting and record-keeping procedures.

Management’s Response: Municipal officials agreed with the finding without exception. In addition, the borough has contracted with a new plan consultant to provide services for the pension plan.

Auditor’s Conclusion: Compliance will be evaluated during our next audit of the plan.

BRIDGEPORT BOROUGH NON-UNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 2 – Failure To Properly Fund Member Accounts**

**Condition:** The borough did not properly fund the accounts of 2 plan members during 2017, 4 plan members in 2018 and 4 plan members in 2019, as illustrated below:

2017 Employee	Required Municipal Contributions	Actual Municipal Contributions	Municipal Contributions Due/(Excess)	Required Members' Contributions	Actual Members' Contributions	Members' Contributions Due/(Excess)
1	\$ 2,084	\$ 1,860	\$ 224	\$ 1,459	\$ 1,304	\$ 154
2	2,021	1,551	470	1,414	1,086	329
		Total	<u>\$ 694</u>		Total	<u>\$ 483</u>

2018 Employee	Required Municipal Contributions	Actual Municipal Contributions	Municipal Contributions Due/(Excess)	Required Members' Contributions	Actual Members' Contributions	Members' Contributions Due/(Excess)
1	\$ 1,728	\$ 1,658	\$ 70	\$ 1,209	\$ 1,142	\$ 67
2	2,388	2,467	(78)	1,672	1,727	(55)
3	1,442	1,030	412	1,009	721	288
4	2,558	2,375	183	1,790	1,627	163
		Total	<u>\$ 587</u>		Total	<u>\$ 463</u>

2019 Employee	Required Municipal Contributions	Actual Municipal Contributions	Municipal Contributions Due/(Excess)	Required Members' Contributions	Actual Members' Contributions	Members' Contributions Due/(Excess)
1	\$ 1,831	\$ 1,969	\$ (138)	\$ 1,282	\$ 1,378	\$ (96)
2	1,631	1,843	(212)	1,142	1,291	(149)
3	5,082	6,003	(921)	3,557	4,167	(610)
4	2,647	2,830	(183)	1,853	1,981	(128)
		Total	<u>\$ (1,454)</u>		Total	<u>\$ (983)</u>

BRIDGEPORT BOROUGH NON-UNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 2 – (Continued)**

Criteria: The plan’s governing document, Ordinance No. 2017-002, which adopted a separately executed plan agreement with the plan’s custodian, established the municipal contribution rate at 5 percent of compensation on a yearly basis and an employee contributions rate of 3.5 percent, accordingly.

Cause: Prior to 2017, the borough’s non-uniformed pension plan was a defined benefit pension plan. Effective February 28, 2017, the borough enacted Ordinance No. 2017-002, which established defined contribution features for its employees hired after January 1, 2016. However, plan officials indicated that the former plan consultant failed to provide the borough with adequate documentation ensuring compliance with the defined contribution features of its plan. Additionally, the borough failed to establish adequate internal control procedures to ensure that eligible plan members’ accounts were properly funded in accordance with the provisions contained in the plan’s governing documents and that adequate documentation was maintained to evidence monitoring of required contributions made to individual members’ accounts as disclosed in Finding No. 1.

Effect: The failure to establish adequate procedures to monitor required contributions and properly fund the members’ accounts could result in plan members being denied benefits to which they are entitled in accordance with the plan’s governing document.

Furthermore, due to the borough’s failure to properly fund the accounts of several members, the borough must now pay interest on the delinquent contributions.

Recommendation: We recommend that the township review the applicable members’ accounts and make the adjustments deemed necessary to ensure they are funded in accordance with the provisions contained in the plan’s governing document.

We also recommend that plan officials implement adequate internal control procedures to ensure that the members’ accounts are properly funded in accordance with the provisions contained in the plan’s governing document.

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.

BRIDGEPORT BOROUGH NON-UNIFORMED PENSION PLAN  
 SUPPLEMENTARY INFORMATION  
 DEFINED BENEFIT FEATURES  
 (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, 2015, 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)
01-01-15	\$ 1,964,180	\$ 1,834,181	\$ (129,999)	107.1%
01-01-17	1,978,592	2,092,103	113,511	94.6%
01-01-19	2,138,930	2,294,331	155,401	93.2%

BRIDGEPORT BOROUGH NON-UNIFORMED PENSION PLAN  
SUPPLEMENTARY INFORMATION  
DEFINED BENEFIT FEATURES  
(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.

BRIDGEPORT BOROUGH NON-UNIFORMED PENSION PLAN  
 SUPPLEMENTARY INFORMATION  
 DEFINED BENEFIT FEATURES  
 (UNAUDITED)

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER  
 AND OTHER CONTRIBUTING ENTITIES

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2014	\$ 38,543	100.0%
2015	41,817	100.0%
2016	36,660	120.8%
2017	52,937	101.9%
2018	66,362	100.0%
2019	62,108	100.0%

BRIDGEPORT BOROUGH NON-UNIFORMED PENSION PLAN  
SUPPLEMENTARY INFORMATION  
NOTES TO SUPPLEMENTARY SCHEDULES  
DEFINED BENEFIT FEATURES  
(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, 2019
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	16 years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return	7.5%
Projected salary increases	5.0%
Cost-of-living adjustments	None assumed

BRIDGEPORT BOROUGH NON-UNIFORMED PENSION PLAN  
SUMMARY OF DEPOSITED STATE AID AND EMPLOYER CONTRIBUTIONS  
DEFINED CONTRIBUTION FEATURES

Year Ended December 31	State Aid	Employer Contributions
2017	None	\$3,410
2018	None	7,863
2019	None	17,073



BRIDGEPORT BOROUGH NON-UNIFORMED PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

**The Honorable Tom W. Wolf**  
Governor  
Commonwealth of Pennsylvania

**The Honorable Mark Barbee**  
Mayor

**Mr. Kyle Shenk**  
Council President

**Mr. Keith Truman**  
Borough Manager

**Ms. Angela Madle Long**  
Assistant Borough Manager

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