

# COMPLIANCE AUDIT

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## Bedford Township Non-Uniformed Pension Plan Bedford County, Pennsylvania For the Period January 1, 2014 to December 31, 2017

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April 2018



Commonwealth of Pennsylvania  
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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EUGENE A. DePASQUALE  
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Board of Township Supervisors  
Bedford Township  
Bedford County  
Bedford, PA 15522

We have conducted a compliance audit of the Bedford Township Non-Uniformed Pension Plan for the period January 1, 2014 to December 31, 2017. 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 conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our 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.

- 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 that there were no employee contributions required by the plan's governing document and applicable laws and regulations for the years covered by our audit period.
- We determined whether retirement benefits calculated for all 3 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 the January 1, 2013, January 1, 2015, and January 1, 2017 actuarial valuation reports were prepared and submitted by March 31, 2014, 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.

Township officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Bedford 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 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 Bedford 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 Bedford 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.

April 16, 2018



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 Bedford 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 including, but not limited to, the following:

Act 69 - The Second Class Township Code, Act of May 1, 1933 (P.L. 103, No. 69), as reenacted and amended, 53 P.S. § 65101 et seq.

The Bedford Township Non-Uniformed Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Resolution No. 95-05, as amended. The plan is also affected by the provisions of collective bargaining agreements between the township and its non-uniformed employees. The plan was established January 1, 1989. Active members are not required to contribute to the plan. As of December 31, 2017, the plan had 6 active members, 1 terminated member eligible for vested benefits in the future, and 4 retirees receiving pension benefits from the plan.

## **BACKGROUND – (Continued)**

As of December 31, 2017, selected plan benefit provisions are as follows:

### Eligibility Requirements:

Normal Retirement	Age 65 and 10 years of service
Early Retirement	Age 60 and 20 years of service. Unreduced benefit at age 62 if in the plan and age 50 or over in 2012.
Vesting	100% after 10 years of service

### Retirement Benefit:

Benefit equals 2.25% of final 2 years average monthly earnings multiplied by years of service on or after January 1, 1989. For members hired after August 31, 2016, benefit equals 2.0% of final 2 years average monthly earnings multiplied by years of service with a 35 year cap.

### Survivor Benefit:

After Retirement Eligibility	A monthly benefit equal to 50% of the accrued benefit payable until death or remarriage of spouse. If survived by minor children and no spouse, benefit paid to minor children in equal shares until age 18. Benefits are payable for a maximum of 20 years.
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### Service Related Disability Benefit:

None

BEDFORD TOWNSHIP NON-UNIFORMED PENSION PLAN  
STATUS OF PRIOR FINDING

Compliance With Prior Audit Recommendation

Bedford Township has complied with the prior audit recommendation concerning the following:

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

During the current audit period, municipal officials complied with the instructions that accompany Certification Form AG 385 and accurately reported the required pension data.



BEDFORD TOWNSHIP NON-UNIFORMED PENSION PLAN  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

The supplementary information contained on pages 4 through 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, 2015 AND 2016

	<u>2015</u>	<u>2016</u>
Total Pension Liability		
Service cost	\$ 46,021	\$ 48,782
Interest	77,926	83,668
Benefit payments, including refunds of member contributions	(28,244)	(39,103)
Net Change in Total Pension Liability	<u>95,703</u>	<u>93,347</u>
Total Pension Liability - Beginning	1,312,825	1,408,528
Total Pension Liability - Ending (a)	<u>\$ 1,408,528</u>	<u>\$ 1,501,875</u>
 Plan Fiduciary Net Position		
Contributions - employer	\$ 102,697	\$ 112,416
Expected Investment Return	59,747	63,015
Additional investment income	(73,581)	6,860
Benefit payments, including refunds of member contributions	(28,244)	(39,103)
Administrative expense	(10,636)	(11,353)
Net Change in Plan Fiduciary Net Position	<u>49,983</u>	<u>131,835</u>
Plan Fiduciary Net Position - Beginning	963,809	1,013,792
Plan Fiduciary Net Position - Ending (b)	<u>\$ 1,013,792</u>	<u>\$ 1,145,627</u>
 Net Pension Liability - Ending (a-b)	<u>\$ 394,736</u>	<u>\$ 356,248</u>
 Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	71.98%	76.28%
 Estimated Covered Employee Payroll	\$ 303,896	\$ 276,065
 Net Pension Liability as a Percentage of Covered Employee Payroll	129.89%	129.04%

BEDFORD 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, 2016, calculated using the discount rate of 6.0%, 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:

	1% Decrease (5.0%)	Current Discount Rate (6.0%)	1% Increase (7.0%)
Net Pension Liability	\$ 515,856	\$ 356,248	\$ 218,724

SCHEDULE OF CONTRIBUTIONS

Year Ended December 31	Actuarially Determined Contribution	Actual Contributions	Contribution Deficiency (Excess)	Covered- Employee Payroll*	Contributions as a Percentage of Covered- Employee Payroll
2008	\$ 61,174	\$ 61,174	\$ -	\$ 214,366	28.54%
2009	64,907	64,907	-		
2010	70,803	70,803	-	221,816	31.92%
2011	74,712	74,712	-		
2012	80,871	80,871	-	247,572	32.67%
2013	84,897	94,897	(10,000)		
2014	101,128	101,128	-	262,164	38.57%
2015	102,697	102,697	-	303,896	33.79%
2016	112,416	112,416	-	276,065	40.72%
2017	99,177	99,177	-		

\* Due to GASB Statement No. 67, *Financial Reporting for Pension Plans*, being implemented only recently, the amount of Covered-Employee Payroll was not provided for odd years prior to 2014. In addition, due to the timing of this audit, covered-employee payroll for 2017 was not provided in this schedule.

BEDFORD TOWNSHIP NON-UNIFORMED PENSION PLAN  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

SCHEDULE OF INVESTMENT RETURNS

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

2016	6.69%
2015	(1.39%)
2014	4.56%
2013	10.81%
2012	8.97%
2011	.71%
2010	3.31%
2009	4.22%
2008	4.13%

BEDFORD 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	\$ 720,858	\$ 1,096,034	\$ 375,176	65.8%
01-01-15	963,809	1,312,825	349,016	73.4%
01-01-17	1,145,627	1,415,812	270,185	80.9%

BEDFORD TOWNSHIP NON-UNIFORMED 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.

BEDFORD 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	9 years
Asset valuation method	Fair value
Actuarial assumptions:	
Investment rate of return	6.0%
Projected salary increases	3.5%

BEDFORD TOWNSHIP NON-UNIFORMED PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

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

**Mr. Gregory L. Crist**  
Chairman, Board of Township Supervisors

**Mr. Dean H. Shuller**  
Vice-Chairman, Board of Township Supervisors

**Mr. Rick P. Fetter**  
Township Supervisor

**Ms. Janie L. McMillen**  
Township Secretary/Treasurer

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