

# LIMITED PROCEDURES ENGAGEMENT

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## Birdsboro Borough Police Pension Plan Berks County, Pennsylvania For the Period January 1, 2016 to December 31, 2018

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March 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  
Birdsboro Borough  
Berks County  
Birdsboro, PA 19508

We conducted a Limited Procedures Engagement (LPE) of the Birdsboro Borough Police Pension Plan for the period January 1, 2016 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 municipal officials took appropriate corrective action to address the finding contained in our prior audit report, by inquiring of plan officials and evaluating supporting documentation provided by officials evidencing that the suggested corrective action has been appropriately taken.
- 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.

- Whether retirement benefits calculated for plan members who retired during the engagement 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.
- Whether the January 1, 2017 actuarial valuation report was prepared and submitted in accordance with Act 205 and whether selected information provided on the report 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 provisions of the Deferred Retirement Option Plan (DROP) were in accordance with the provisions of Act 205 by examining provisions stated in the plan's governing documents.

The results of our procedures indicated that, in all significant respects, the Birdsboro Borough Police 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 - Incorrect Data On Certification Form AG 385 Resulting In An Overpayment 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 Birdsboro 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.

March 6, 2020



EUGENE A. DEPASQUALE  
Auditor General

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BIRDSBORO BOROUGH POLICE PENSION PLAN  
STATUS OF PRIOR FINDING

Compliance With Prior Audit Recommendation

Birdsboro Borough has complied with the prior audit report recommendation concerning the following:

- Inconsistent Members Contribution Provisions

The borough eliminated the inconsistent members contribution provision among the plan's governing document and the collective bargaining agreement (January 1, 2018 through December 31, 2022) in accordance with Act 600.

BIRDSBORO BOROUGH POLICE PENSION PLAN  
FINDING AND RECOMMENDATION

**[ Finding - Incorrect Data On Certification Form AG 385 Resulting In An Overpayment Of State Aid**

Condition: The borough certified an ineligible police officer and overstated payroll by \$101,868 on Certification Form AG 385 submitted during 2019. The individual retired effective July 1, 2017 and entered the borough’s Deferred Retirement Option Program (DROP) and therefore was ineligible for certification according to Act 205. The data contained on the certification form is based on prior calendar year information.

Criteria: Pursuant to Act 205, at Section 402(e)(2), in order to be eligible for certification, an employee must have been employed on a full-time basis for at least six consecutive months and must have been participating in a pension plan during the certification year.

In addition, Section 402(e)(2) of Act 205 states, in part:

For the purpose of computing and reporting the applicable number of units, a DROP participant shall not be reported to the Auditor General as an active employee.

Cause: The borough’s internal control procedures, such as having at least two people review the data certified, were not operating effectively to ensure compliance with the instructions accompanying Certification Form AG 385 in accurately reporting the required pension data for 2019. Although plan officials indicated that they notified the Auditor General’s Office that an error was inadvertently made by including the employee on the Form AG 385, the error was not corrected prior to the release of the state aid.

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 cost value, the incorrect certification of pension data affected the borough’s state aid allocations as identified below:

<u>Year</u>	<u>Type Of Plan</u>	<u>Normal Cost</u>	<u>Payroll Overstated</u>	<u>State Aid Overpayment</u>
2019	Police	11.98%	\$ 101,868	\$ 12,204

In addition, the borough used the overpayment of state aid to pay the minimum municipal obligations (MMOs) due to the police pension plan; therefore, if the reimbursement to the Commonwealth is made from the pension plan, the plan’s MMOs will not be fully paid.

Furthermore, the borough’s future state aid allocations may be withheld until the finding recommendation is complied with.

BIRDSBORO BOROUGH POLICE PENSION PLAN  
FINDING AND RECOMMENDATION

**Finding - (Continued)**

Recommendation: We recommend that the overpayment of state aid, in the amount of \$12,204, plus interest, be returned to the Commonwealth. A check in this amount, with interest compounded annually from date of receipt to date of repayment, at a rate earned by the pension plan, should be made payable to: Commonwealth of Pennsylvania and mailed to: Department of the Auditor General, Municipal Pension & Fire Relief Programs Unit, 321 Finance Building, Harrisburg, PA 17120. A copy of the interest calculation must be submitted along with the check.

We also recommend that in the future, plan officials implement 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.

In addition, if the reimbursement to the Commonwealth is made from police pension plan funds, we recommend that any resulting MMO deficiency be paid to the pension plan with interest, at a rate earned by the pension plan.

Management's Response: Municipal officials agreed with the finding without exception and indicated that it is the borough's intention to return the overpayment to the Commonwealth in an amount determined by the Department of the Auditor General and make an attempt to submit correct data suitable to prevent future overpayments.

Auditor's Conclusion: Due to potential withhold of state aid the borough's compliance with the finding recommendation will be monitored subsequent to the release of the audit report and through our next plan engagement.

BIRDSBORO BOROUGH POLICE PENSION PLAN  
POTENTIAL WITHHOLD OF STATE AID

The finding contained in this audit report cites an overpayment of state aid to the borough in the amount of \$12,204, plus interest. A condition of this nature may lead to a total withholding of state aid in the future unless that finding is corrected. A check in this amount with interest, at a rate earned by the pension plan, should be made payable to: Commonwealth of Pennsylvania, and mailed to: Department of the Auditor General, Municipal Pension & Fire Relief Programs Unit, 321 Finance Building, Harrisburg, PA 17120.



BIRDSBORO BOROUGH POLICE 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	\$ 2,334,987	\$ 1,957,506	\$ (377,481)	119.3%
01-01-15	2,710,124	2,305,727	(404,397)	117.5%
01-01-17	2,814,135	2,659,690	(154,445)	105.8%

BIRDSBORO BOROUGH POLICE 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.

BIRDSBORO BOROUGH POLICE PENSION PLAN  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER  
AND OTHER CONTRIBUTING ENTITIES

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2013	\$ 26,116	102.2%
2014	27,133	164.8%
2015	35,658	119.6%
2016	45,671	100.0%
2017	45,705	100.0%
2018	60,444	100.0%

BIRDSBORO BOROUGH POLICE 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	N/A
Remaining amortization period	N/A
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return	7.75%
Projected salary increases	5.0%
Cost-of-living adjustments	Not to exceed Act 600 limitations at the discretion of borough council

BIRDSBORO BOROUGH POLICE PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

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

**The Honorable Joseph A. Peterson**  
Mayor

**Mr. Neil McCauley**  
Council President

**Ms. Mary Ann Cotter**  
Council Vice President

**Mr. Richard Happel**  
Councilman

**Mr. Robert Myers**  
Councilman

**Mr. Anthony Scioli**  
Councilman

**Mr. Michael Welch**  
Councilman

**Ms. Kelly J. Yanos**  
Borough Manager

**Ms. Bonnie L. Frisco**  
Secretary/Treasurer

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