

# LIMITED PROCEDURES ENGAGEMENT

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## Bowmanstown Borough Non-Uniformed Pension Plan Carbon County, Pennsylvania For the Period January 1, 2015 to December 31, 2018

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January 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  
Bowmanstown Borough  
Carbon County  
Bowmanstown, PA 18030

We conducted a Limited Procedures Engagement (LPE) of the Bowmanstown Borough Non-Uniformed Pension Plan for the period January 1, 2015 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. 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.
- 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.

- 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.
- Whether retirement benefits calculated for the plan member 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 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, 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.

Based on the results of our procedures performed during our LPE, nothing came to our attention indicating that the Bowmanstown Borough Non-Uniformed 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:

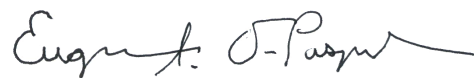
#### Finding – Receipt Of State Aid In Excess Of Entitlement

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 Bowmanstown 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.

December 5, 2019



EUGENE A. DEPASQUALE  
Auditor General

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BOWMANSTOWN BOROUGH NON-UNIFORMED PENSION PLAN  
FINDING AND RECOMMENDATION

**Finding – Receipt Of State Aid In Excess Of Entitlement**

Condition: The borough received state aid in excess of the non-uniformed pension plan’s annual pension costs in the years 2015 and 2017, as illustrated below:

	<u>2015</u>	<u>2017</u>
State aid allocation	\$ 3,671	\$ 3,774
Actual municipal pension costs	(3,462)	(3,660)
Excess state aid	\$ 209	\$ 114

In addition, as of the date of this report, the excess state aid remains in the borough’s general fund and has not been deposited into the pension plan according to municipal records.

Criteria: Section 402(f)(2) of Act 205 states:

No municipality shall be entitled to receive an allocation of general municipal pension system State aid in an amount which exceeds the aggregate actual financial requirements of any municipal pension plans for police officers, paid firefighters or employees other than police officers or paid firefighters maintained by the municipality, less the amount of any aggregate annual member or employee contributions during the next succeeding plan year, as reported in the most recent complete actuarial report filed with the commission.

Cause: Plan officials failed to establish adequate internal control procedures to reconcile the borough’s annual state aid allocations with the plan’s actual annual pension costs and reimburse any excess state aid received to the Commonwealth.

Effect: It is this department’s opinion that because the entire proceeds of the insurance premium tax on foreign casualty insurance companies are distributed annually to each eligible recipient municipality, it is inappropriate to use state aid in one year to offset pension costs in other years. Consequently, the overpayment of state aid in the years 2015 and 2017 must be returned to the Commonwealth for redistribution.

BOWMANSTOWN BOROUGH NON-UNIFORMED PENSION PLAN  
FINDING AND RECOMMENDATION

**Finding – (Continued)**

Recommendation: We recommend that the municipality return the \$323 of excess state aid received in the years 2015 and 2017 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 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 evidence of payment.

Furthermore, we recommend that, in the future, plan officials reconcile the borough's annual state aid allocation with the plan's annual pension costs and reimburse any excess state aid received to the Commonwealth.

Management's Response: Municipal officials agreed with the finding without exception.

Auditor's Conclusion: The borough's compliance with the finding recommendation will be monitored subsequent to the release of the report and through our next engagement of the pension plan.

BOWMANSTOWN BOROUGH NON-UNIFORMED PENSION PLAN  
 SUPPLEMENTARY INFORMATION  
 (UNAUDITED)

The supplementary information contained on Pages 3 through 5 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, 2014 AND 2015

	<u>2014</u>	<u>2015</u>
Total Pension Liability		
Service cost	\$ 9,687	\$ 9,066
Interest	6,129	6,966
Difference between expected and actual experience	-	1
Net Change in Total Pension Liability	<u>15,816</u>	<u>16,033</u>
Total Pension Liability – Beginning	107,582	123,398
Total Pension Liability – Ending (a)	<u><u>\$ 123,398</u></u>	<u><u>\$ 139,431</u></u>
 Plan Fiduciary Net Position		
Contributions – employer *	\$ 3,753	\$ 3,355
Contributions – PMRS assessment	-	160
Contributions – member	6,034	5,759
PMRS investment income	6,114	6,952
Market value investment income	(457)	(7,978)
Administrative expense	(100)	(160)
Additional administrative expense	(234)	(290)
Net Change in Plan Fiduciary Net Position	<u>15,110</u>	<u>7,798</u>
Plan Fiduciary Net Position – Beginning	106,487	121,597
Plan Fiduciary Net Position – Ending (b)	<u><u>\$ 121,597</u></u>	<u><u>\$ 129,395</u></u>
 Net Pension Liability – Ending (a-b)	<u><u>\$ 1,801</u></u>	<u><u>\$ 10,036</u></u>
 Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	98.54%	92.80%
Estimated Covered Employee Payroll	\$ 121,766	\$ 110,235
 Net Pension Liability as a Percentage of Covered Employee Payroll	1.48%	9.10%

\* 2014 does not include an additional municipal contribution of \$100.

BOWMANSTOWN BOROUGH NON-UNIFORMED PENSION PLAN  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

SCHEDULE OF CHANGES IN THE NET PENSION  
LIABILITY AND RELATED RATIOS  
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2018

	<u>2016</u>	<u>2017</u>	<u>2018</u>
Total Pension Liability			
Service cost	\$ 10,409	\$ 9,481	\$ 11,111
Interest	7,868	8,433	9,318
Change of benefit terms	-	-	1,873
Difference between expected and actual experience	(282)	-	(19)
Benefit payments, including refunds of member contributions	(266)	(1,507)	(119)
Net Change in Total Pension Liability	<u>17,729</u>	<u>16,407</u>	<u>22,164</u>
Total Pension Liability – Beginning	<u>139,431</u>	<u>157,160</u>	<u>175,567</u>
Total Pension Liability – Ending (a)	<u>\$ 157,160</u>	<u>\$ 173,567</u>	<u>\$ 195,731</u>
Plan Fiduciary Net Position			
Contributions – employer *	\$ 3,758	\$ 3,540	\$ 4,135
Contributions – PMRS assessment	120	120	140
Contributions – member	6,410	5,941	6,976
PMRS investment income	7,856	8,424	9,307
Market value investment income	2,566	18,342	(21,382)
Benefit payments, including refunds of member contributions	(266)	(1,507)	(119)
PMRS administrative expense	(120)	(120)	(120)
Additional administrative expense	(385)	(387)	(415)
Net Change in Plan Fiduciary Net Position	<u>19,939</u>	<u>34,353</u>	<u>(1,478)</u>
Plan Fiduciary Net Position – Beginning	<u>129,395</u>	<u>149,334</u>	<u>183,687</u>
Plan Fiduciary Net Position – Ending (b)	<u>\$ 149,334</u>	<u>\$ 183,687</u>	<u>\$ 182,209</u>
Net Pension Liability – Ending (a-b)	<u>\$ 7,826</u>	<u>\$ (10,120)</u>	<u>\$ 13,522</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	95.02%	105.83%	93.09%
Estimated Covered Employee Payroll	\$ 133,287	\$ 118,013	\$ 137,833
Net Pension Liability as a Percentage of Covered Employee Payroll	5.87%	(8.58%)	9.81%



BOWMANSTOWN BOROUGH 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 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	\$ 26,481	\$ 1,801	\$ (22,878)
Net Pension Liability – 12/31/15	\$ 37,922	\$ 10,036	\$ (17,850)

In addition, the following presents the net pension liability of the borough as of December 31, 2016 and 2017, 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	\$ 39,258	\$ 7,826	\$ (23,606)
Net Pension Liability – 12/31/17	\$ 24,437	\$ (10,120)	\$ (44,658)
Net Pension Liability – 12/31/18	\$ 52,499	\$ 13,522	\$ (25,465)

BOWMANSTOWN BOROUGH NON-UNIFORMED PENSION PLAN  
SUMMARY OF DEPOSITED STATE AID AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid	Employer Contributions
2013	\$ 3,692	\$ 230
2014	3,753	100
2015	3,462	53
2016	3,104	774
2017	3,660	None
2018	3,546	729

Note: In 2016, the borough met the plan's funding requirement through the deposit of \$3,104 in state aid, \$281 in terminated employee forfeitures, and \$774 in employer contributions.

BOWMANSTOWN BOROUGH NON-UNIFORMED PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

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Commonwealth of Pennsylvania

**The Honorable Zachary Snyder**  
Mayor

**Mr. William Ravert**  
Council President

**Ms. Tracy Burbage**  
Secretary

**Ms. Tara Takerer**  
Treasurer

**Ms. Charity Rosenberry, CPA**  
Pennsylvania Municipal Retirement System

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