



**BRIDGEWATER BOROUGH NON-UNIFORMED  
PENSION PLAN**

**BEAVER COUNTY**

**COMPLIANCE AUDIT REPORT**

**FOR THE PERIOD**

**JANUARY 1, 2010 TO DECEMBER 31, 2012**

**COMMONWEALTH OF PENNSYLVANIA**

**EUGENE A. DEPASQUALE - AUDITOR GENERAL**

**DEPARTMENT OF THE AUDITOR GENERAL**



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**EUGENE A. DePASQUALE  
AUDITOR GENERAL**

The Honorable Mayor and Borough Council  
Bridgewater Borough  
Beaver County  
Bridgewater, PA 15009

We have conducted a compliance audit of the Bridgewater Borough Non-Uniformed Pension Plan for the period January 1, 2010 to December 31, 2012. 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 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 findings 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. Our methodology addressed determinations about the following:

- Whether state aid was properly determined and deposited in accordance with Act 205 requirements. State aid allocations that were deposited into the pension plan for the years ended December 31, 2007 to December 31, 2012, are presented on the Summary of Deposited State Aid and Employer Contributions.
- Whether employer contributions are determined and deposited in accordance with the plan's governing document and applicable laws and regulations. Employer contributions that were deposited into the pension plan for the years ended December 31, 2007 to December 31, 2012, are presented on the Summary of Deposited State Aid and Employer Contributions.

- Whether employee contributions are required and, if so, are determined, deducted and deposited into the pension plan and are in accordance with the plan provisions and applicable laws and regulations.
- Whether benefit payments, if any, represent payments to all (and only) those entitled to receive them and are properly determined in accordance with applicable laws and regulations.
- Whether obligations for plan benefits are accurately determined in accordance with plan provisions and based on complete and accurate participant data; and whether actuarial valuation reports are prepared and submitted to the Public Employee Retirement Commission (PERC) in accordance with state law and 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.
- Whether the terms of the allocated insurance contracts, including ownership and any restrictions, are in compliance with plan provisions, investment policies and state regulations.
- Whether transfers were properly authorized, accurate, timely and properly recorded.
- Whether the terms of the contractual agreement with the Pennsylvania Municipal Retirement System are in accordance with the plan's governing document, if separately stated, and applicable laws and regulations.

Bridgewater Borough contracted with an independent certified public accounting firm for annual audits of its basic financial statements 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.

The Bridgewater Borough Non-Uniformed 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 Bridgewater Borough 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 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

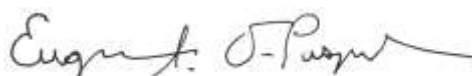
implemented. Additionally, we tested transactions, assessed official actions, performed analytical procedures and interviewed selected officials to provide reasonable assurance of detecting instances of noncompliance with legal and regulatory requirements or noncompliance with provisions of contracts, administrative procedures, and local ordinances and policies that are significant within the context of the audit objectives.

The results of our tests indicated that, in all significant respects, the Bridgewater 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 – Noncompliance With Prior Audit Recommendation – Failure To Fund Members’ Accounts.
- Finding No. 2 – Incorrect Data On Certification Form AG 385 Resulting In An Overpayment Of State Aid.
- Finding No. 3 – Improper Transfer Of Assets.

The contents of this report were discussed with officials of Bridgewater Borough and, where appropriate, their responses have been included in the report.

January 7, 2014



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 Bridgewater Borough Non-Uniformed Pension Plan is also governed by implementing regulations adopted by the 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 Bridgewater Borough Non-Uniformed Pension Plan is a single-employer cash balance pension plan locally controlled by the provisions of Ordinance No 447, effective January 1, 2011, adopted pursuant to Act 15. Prior to January 1, 2011, the non-uniformed pension plan was a single-employer defined contribution pension plan locally controlled by the provisions of Ordinance No. 421, as amended. The plan was established January 1, 2000. Active members are not required to contribute to the plan. The municipality is annually required to contribute \$2,300 per participant. As of December 31, 2012, the plan had 2 active members, no terminated members eligible for vested benefits in the future and no retirees receiving pension benefits.

BRIDGEWATER BOROUGH NON-UNIFORMED PENSION PLAN  
STATUS OF PRIOR FINDINGS

Compliance With Prior Audit Recommendations

Bridgewater Borough has complied with the prior audit recommendations concerning the following:

- Allocation Of State Aid In Excess Of Entitlement

Municipal officials allocated \$4,342 to the police pension plan; however, an additional amount was improperly transferred to the police pension plan as noted in Finding No. 3.

- Failure To Deposit State Aid Into An Eligible Pension Plan

Municipal officials deposited the 2008 and 2009 state aid allocations into the police pension plan, plus interest.

Status Of Prior Audit Recommendation

- Failure To File Actuarial Valuation Report

The borough filed the plan's January 1, 2009, actuarial valuation report with PERC as previously recommended. However, the borough did not file the plan's January 1, 2011, actuarial valuation report until after the March 31, 2012, deadline, although it did not result in a reduced state aid allocation. The Department will continue to monitor the filing of the plan's actuarial valuation reports during future audits of the plan.

Noncompliance With Prior Audit Recommendation

Bridgewater Borough has not complied with the prior audit recommendation concerning the following as further discussed in the Findings and Recommendations section of this report:

- Failure To Fund Members' Accounts

BRIDGEWATER BOROUGH NON-UNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – Noncompliance With Prior Audit Recommendation – Failure To Fund Members’ Accounts**

Condition: As disclosed in the prior audit report, for the years 2005, 2008 and 2009, the borough did not fund the accounts of 2 employees who became eligible plan members on January 1, 2005, and January 1, 2009, respectively, and overfunded one member’s account in 2007. In addition, during the current audit period, the borough failed to fund the accounts of 2 eligible members in 2010 and 2011, as illustrated below:

| <u>2005<br/>Employees</u> | <u>Required<br/>Contributions</u> | <u>Actual<br/>Contributions</u> | <u>Contributions<br/>Due</u>          |
|---------------------------|-----------------------------------|---------------------------------|---------------------------------------|
| 1                         | \$ 2,300                          | \$ -                            | \$ 2,300                              |
| <u>2007<br/>Employees</u> | <u>Required<br/>Contributions</u> | <u>Actual<br/>Contributions</u> | <u>Contributions<br/>Due/(Excess)</u> |
| 1                         | \$ 2,300                          | \$ 2,560                        | \$ (260)                              |
| <u>2008<br/>Employees</u> | <u>Required<br/>Contributions</u> | <u>Actual<br/>Contributions</u> | <u>Contributions<br/>Due</u>          |
| 1                         | \$ 2,300                          | \$ -                            | \$ 2,300                              |
| <u>2009<br/>Employees</u> | <u>Required<br/>Contributions</u> | <u>Actual<br/>Contributions</u> | <u>Contributions<br/>Due</u>          |
| 1                         | \$ 2,300                          | \$ -                            | \$ 2,300                              |
| 2                         | 2,300                             | -                               | 2,300                                 |
|                           |                                   |                                 | <u>\$ 4,600</u>                       |
| <u>2010<br/>Employees</u> | <u>Required<br/>Contributions</u> | <u>Actual<br/>Contributions</u> | <u>Contributions<br/>Due</u>          |
| 1                         | \$ 2,300                          | \$ -                            | \$ 2,300                              |
| 2                         | 2,300                             | -                               | 2,300                                 |
|                           |                                   |                                 | <u>\$ 4,600</u>                       |



BRIDGEWATER BOROUGH NON-UNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – Noncompliance With Prior Audit Recommendation – Failure To Fund Members’ Accounts – (Continued)**

| 2011<br>Employees | Required<br>Contributions | Actual<br>Contributions | Contributions<br>Due |
|-------------------|---------------------------|-------------------------|----------------------|
| 1                 | \$ 2,300                  | \$ 1,150                | \$ 1,150             |
| 2                 | 2,300                     | 1,150                   | 1,150                |
|                   |                           |                         | 2,300                |
|                   |                           | Due to<br>members       | \$ 15,840            |

Criteria: Ordinance No. 421, at Section 5, states:

“Participant” shall mean any individual appointed as a full-time Non-Uniformed employee by council of the Borough of Bridgewater.

While Ordinance No. 447, Section 3.1, states:

Membership for full-time officers and employees of the Municipality is mandatory.

In addition, Ordinance No. 421, at Section 7, states, in part:

Annual municipal contributions shall be based on a fixed dollar amount of \$2,300 per year per participant...

Furthermore, Ordinance No. 447, Section 9.1, states:

The Municipality shall contribute \$575 to each member’s account per quarter...

Cause: Borough officials failed to establish adequate internal control procedures to ensure compliance with the prior audit recommendation.

Effect: The failure to properly fund the members’ accounts will result in plan members being denied benefits to which they are entitled in accordance with the plan’s governing document.

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

BRIDGEWATER BOROUGH NON-UNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – Noncompliance With Prior Audit Recommendation – Failure To Fund Members’ Accounts – (Continued)**

Recommendation: We again recommend that plan officials consult with PMRS to ensure that the members’ accounts are properly funded, with appropriate interest. A copy of the interest calculation must be maintained by the borough for examination during our next audit of the plan.

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

**Finding No. 2 – Incorrect Data On Certification Form AG 385 Resulting In An Overpayment Of State Aid**

Condition: The borough certified 1 ineligible non-uniformed employee and overstated payroll by \$26,103 on the Certification Form AG 385 filed in 2011. The data contained on this 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.

Cause: Plan officials failed to establish adequate internal control procedures to ensure the accuracy of the data certified.

Effect: The data submitted on this certification form 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 allocation was based on pension costs, the incorrect certification of pension data affected the borough’s state aid allocation, as identified below:

| <u>Normal<br/>Cost</u> | <u>Payroll<br/>Overstated</u> | <u>State Aid<br/>Overpayment</u> |
|------------------------|-------------------------------|----------------------------------|
| 7.75415%               | \$ 26,103                     | \$ 2,024                         |

BRIDGEWATER BOROUGH NON-UNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 2 – Incorrect Data On Certification Form AG 385 Resulting In An Overpayment Of State Aid - (Continued)**

Recommendation: We recommend that the total excess state aid, in the amount of \$2,024, be returned to the Commonwealth from the borough's general fund. 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, 320 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 establish adequate internal control procedures, such as having at least 2 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.

**Finding No. 3 – Improper Transfer Of Assets**

Condition: The prior audit report of the non-uniformed pension plan contained a finding that \$4,342 should have been transferred from the non-uniformed pension plan to the police pension plan due to an excess state aid allocation to the non-uniformed pension plan in 2006; however, during the current audit period, the total amount of an unallocated insurance contract in the amount of \$7,643 was transferred from the non-uniformed pension plan to the police pension plan; therefore, the police pension plan needs to transfer \$3,301 back to the non-uniformed pension plan.

Criteria: The police pension was only entitled to a transfer in the amount of \$4,342.

Cause: Plan officials failed to establish adequate internal control procedures to ensure the correct amount was transferred to the police pension plan to ensure compliance with the prior audit recommendation.

Effect: The police pension now maintains funds that belong to the non-uniformed pension plan.

Recommendation: We recommend that plan officials review the situation with PMRS to ensure that the transfer of \$3,301, plus interest, from the police plan account to the non-uniformed plan account is handled appropriately.

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

BRIDGEWATER BOROUGH NON-UNIFORMED PENSION PLAN  
POTENTIAL WITHHOLD OF STATE AID

Finding No. 2 contained in this audit report cites an overpayment of state aid to the borough in the amount of \$2,024. 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, 320 Finance Building, Harrisburg, PA 17120.

A condition of a repeat finding such as that reported by Finding No. 1 and a condition such as that reported by Finding No. 3 contained in this audit report may lead to a total withholding of state aid in the future unless those findings are corrected. However, such action will not be considered if sufficient written documentation is provided to verify compliance with this department's recommendations. Such documentation should be submitted to: Department of the Auditor General, Bureau of Municipal Pension Audits, 402-D Finance Building, Harrisburg, PA 17120.

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

| Year Ended December 31 | State Aid | Employer Contributions |
|------------------------|-----------|------------------------|
| 2007                   | \$ 2,560  | None                   |
| 2008                   | None      | None                   |
| 2009                   | None      | None                   |
| 2010                   | None      | None                   |
| 2011                   | None      | \$ 2,340               |
| 2012                   | 4,600     | 40                     |

BRIDGEWATER BOROUGH NON-UNIFORMED PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett  
Governor  
Commonwealth of Pennsylvania

Bridgewater Borough Non-Uniformed Pension Plan  
Beaver County  
199 Boundary Lane  
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|                          |  |
|--------------------------|--|
| The Honorable Heidi Paul | Mayor                                    |
| Mr. Dennis Benington     | Council President                        |
| Ms. Vicki L. McDaniels   | Secretary                                |
| Ms. Kristine M. Cline    | Pennsylvania Municipal Retirement System |

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