

# COMPLIANCE AUDIT

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## West Reading Borough Non-Uniformed Cash Balance Pension Plan

Berks 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



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**EUGENE A. DePASQUALE  
AUDITOR GENERAL**

The Honorable Mayor and Borough Council  
West Reading Borough  
Berks County  
West Reading, PA 19611

We have conducted a compliance audit of the West Reading Borough Non-Uniformed Cash Balance Pension Plan for the period January 1, 2015 to December 31, 2018. 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 the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our conclusions based on our audit objective.

The objective of the audit was 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 objective identified above. 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, 2015 to December 31, 2018, are presented on the Summary of Deposited State Aid and Employer Contributions.

- 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 the lone plan member 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 individual and comparing amounts to supporting documentation evidencing amounts determined and actually paid to recipient.
- We determined 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.
- We determined whether the terms of the contractual agreement with the Pennsylvania Municipal Retirement System were in accordance with the plan's governing document, if separately stated, and applicable laws and regulations by comparing the terms of the contractual agreement with the plan's governing document, if separately stated, and applicable laws and regulations.

The West Reading Borough Non-Uniformed Cash Balance 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 West Reading Borough Non-Uniformed Cash Balance 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 objective, 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 objective.

The results of our procedures indicated that, in all significant respects, the West Reading Borough Non-Uniformed Cash Balance 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 West Reading 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.

December 20, 2019

A handwritten signature in black ink, appearing to read "Eugene A. DePasquale", with a long horizontal flourish extending to the right.

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 West Reading Borough Non-Uniformed Cash Balance 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 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 West Reading Borough Non-Uniformed Defined Cash Balance Pension Plan is a single-employer defined contribution pension plan for all non-uniformed employees hired after December 31, 2014, locally controlled by the provisions of Ordinance No. 1042, pursuant to Act 15. 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 1, 2015. Active members are not required to contribute to the plan. The municipality is required to contribute 5 percent of each member's compensation. As of December 31, 2018, the plan had 18 active members, and 1 retiree receiving pension benefits.

WEST READING BOROUGH NON-UNIFORMED CASH BALANCE. PENSION PLAN  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

The supplementary information contained on Pages 2 through 4 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, 2016, AND 2017

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Total Pension Liability				
Service cost	\$ 35,425	\$ 34,612	\$ 42,824	\$ 47,450
Interest	700	2,451	4,331	6,756
Changes of benefits	-	-	-	1,241
Difference between expected and actual experience	-	29	(3,209)	43
Changes of assumptions	-	84	-	-
Transfers	-	(5,430)	-	-
Benefit payments, including refunds of member contributions	-	(201)	(265)	(265)
Net Change in Total Pension Liability	\$ 36,125	31,545	43,681	55,225
Total Pension Liability – Beginning	-	36,125	67,670	111,351
Total Pension Liability - Ending (a)	<u>\$ 36,125</u>	<u>\$ 67,670</u>	<u>\$ 111,351</u>	<u>\$ 166,576</u>
Plan Fiduciary Net Position				
Contributions – employer *	\$ 35,425	\$ 34,591	\$ 41,235	\$ 42,345
Contribution-PMRS assessment	280	340	320	400
Contributions – member	-	-	1,589	1,897
PMRS investment income	700	2,582	4,519	7,047
Market value investment income	(2,568)	(759)	10,308	(16,592)
Transfers	-	(5,409)	-	-
Benefit payments, including refunds of member contributions	-	(201)	(265)	(265)
PMRS Administrative expense	(280)	(280)	(300)	(340)
Additional administrative expenses	(29)	(127)	(208)	(314)
Net Change in Plan Fiduciary Net Position	33,528	30,737	57,198	34,178
Plan Fiduciary Net Position – Beginning	-	33,528	64,265	121,463
Plan Fiduciary Net Position - Ending (b)	<u>\$ 33,528</u>	<u>\$ 64,265</u>	<u>\$ 121,463</u>	<u>\$ 155,641</u>
Net Pension Liability - Ending (a-b)	<u>\$ 2,597</u>	<u>\$ 3,405</u>	<u>\$ (10,112)</u>	<u>\$ 10,935</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	92.81%	94.97%	109.08%	93.44%
Estimated Covered Employee Payroll	\$ 708,495	\$ 693,379	\$ 823,555	\$ 911,062
Net Pension Liability as a Percentage of Covered Employee Payroll	0.37%	0.49%	(1.23%)	1.20%

\* 2016 employer contributions include \$5,409 in terminated employee forfeitures used to offset employer contributions.

WEST READING BOROUGH NON-UNIFORMED CASH BALANCE. 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, 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 – 12/31/15	\$ 9,822	\$ 2,597	\$ (4,628)

The following presents the net pension liability of the borough as of December 31, 2016, 2017 and 2018, 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	\$ 16,606	\$ 3,405	\$ (9,738)
Net Pension Liability – 12/31/17	\$ 11,835	\$ (10,112)	\$ (32,000)
Net Pension Liability – 12/31/18	\$ 43,884	\$ 10,935	\$ (22,007)



WEST READING BOROUGH NON-UNIFORMED CASH BALANCE. PENSION PLAN  
SUMMARY OF DEPOSITED STATE AID AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid	Employer Contributions
2015	None	\$ 35,705
2016	None	29,522
2017	None	41,555
2018	None	42,745

Note: The plan was established January 1, 2015. In 2016, the borough met the plan's \$34,931 funding requirement through the deposit of \$29,522 in employer contributions and allocation of \$5,409 in terminated employee forfeitures. In 2018, the borough met the plan's \$45,953 funding requirement through the deposit of \$42,745 in employer contributions and allocation of \$3,208 in terminated employee forfeitures.

WEST READING BOROUGH NON-UNIFORMED CASH BALANCE. PENSION PLAN  
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This report was initially distributed to the following:

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