COMPLIANCE AUDIT

City of Lancaster
Non-Uniformed Pension Plan

Lancaster County, Pennsylvania

For the Period

January 1, 2016 to December 31, 2017

December 2018

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 Members of City Council
City of Lancaster
Lancaster County
Lancaster, PA 17608

We have conducted a compliance audit of the City of Lancaster Non-Uniformed Pension Plan for the period January 1, 2016 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 finding and conclusion based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our finding and conclusions based on our audit objectives.

The objectives 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 objectives 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.

- 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 14 of 52 of the plan members[1] who retired during the current audit period , and through the completion of our fieldwork procedures, 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 the retired individuals and comparing these amounts to supporting documentation evidencing amounts determined and actually paid to the recipients. We also determined whether retirement benefits calculated for the plan member who elected to vest during the current audit period, and through the completion of our fieldwork procedures, represent payments to all (and only) those entitled to receive them and were properly determined 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.

- 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.

City of Lancaster contracted with an independent certified public accounting firm for annual audits of its basic financial statements which are available at the city's offices. Those financial statements were not audited by us and, accordingly, we express no opinion or other form of assurance on them.

City officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the City of Lancaster 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 city's internal controls as they relate to the city'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.

[1] We selected plan members randomly from the population of plan members who retired during the current audit period in order to obtain a representative selection for the purpose of our testing to achieve the audit objective. While representative selection is a required factor of audit sampling methodologies, audit sampling methodology was not applied to achieve this test objective; accordingly, the results of this audit procedure are not, and should not be, projected to the population.

The results of our procedures indicated that, in all significant respects, the City of Lancaster 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 finding further discussed later in this report:

Finding – Incorrect Data On Certification Form AG 385 Resulting In A Net Underpayment Of State Aid

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 City of Lancaster and, where appropriate, their responses have been included in the report. We would like to thank city officials for the cooperation extended to us during the conduct of the audit.

December 4, 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 City of Lancaster 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 399 - Optional Third Class City Charter Law, Act of July 15, 1957 (P.L. 901, No. 399), as amended, 53 P.S. § 41101 et seq.

The City of Lancaster Non-Uniformed Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Resolution No. 17-2004, which adopted the provisions of a separately executed cash balance plan agreement, as amended and restated effective January 1, 2004. The plan is also affected by the provisions of collective bargaining agreements between the city and its non-uniformed employees. The plan was established January 1, 1957. Active members are not required to contribute to the plan. As of December 31, 2017, the plan had 307 active members, 29 terminated members eligible for vested benefits in the future, and 55 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 55 and 10 years of service.
Vesting	A member is 100% vested after 5 years of service.

Retirement Benefit:

Benefit equals 0.80% of the average monthly pay based on the high 5 years of last 10 years times years of service or 4% of earnings plus 5.5% interest compounded annually, plus benefit accrued as of 11-30-86.

Survivor Benefit:

After 5 years of service – 50% of accrued pension payable at the earliest retirement date. Death benefit cannot be less than the participant's account balance or lump sum value of vested accrued benefit.

Disability Benefit:

After 10 years of service – 30% of final average monthly salary payable after 6 months of disability.

Finding – Incorrect Data On Certification Form AG 385 Resulting In A Net Underpayment Of State Aid

Condition: The city failed to certify an eligible police officer (2 units) and understated payroll by $49,132 on the Certification Form AG 385 filed in 2016. Similarly, the city failed to certify 2 eligible firefighters (4 units) and understated payroll by $78,988 on the Certification Form AG 385 filed in 2017. Furthermore, subsequent to the current audit period, the city failed to certify 3 eligible firefighters (6 units) and understated payroll by $244,640, and certified an ineligible non-uniformed employee (1 unit) and overstated payroll by $19,781 on the Certification Form AG 385 filed in 2018. The data contained on these certification forms is used on prior calendar year information.

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

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

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 city's state aid allocations for the current audit period were based on unit value, the city received an underpayment of state aid allocation, as identified below:

Year	Type Of Plan	Unit Value	Units Overstated (Understated)	State Aid Overpayment (Underpayment)
2016	Police	$ 4,374.64	(2)	$ (8,749)
2017	Firemen's	$ 4,588.25	(4)	(18,353)
			Subtotal	$ (27,102)

Finding – (Continued)

Furthermore, subsequent to the current audit period, the city received its state aid allocation for 2018 based on unit value, and therefore; the incorrect certification of pension data effected the city's state aid allocation, as follows:

Year	Type Of Plan	Unit Value	Units Overstated (Understated)	State Aid Overpayment (Underpayment)
2018	Firemen's	$ 4,684.39	(6)	$ (28,106)
2018	Non-Uniformed	$ 4,684.39	1	4,684
			Subtotal	$ (23,422)

The total net underpayment of state aid allocation to the city amounted to $50,524. Although the city will be reimbursed for the underpayment of state aid due to the city's certification errors, the full amount of the 2016, 2017, and 2018 state aid allocations were not available to be deposited timely and therefore were not available to pay operating expenses or for investment.

Recommendation: We 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.

Auditor's Conclusion: Compliance will be evaluated during our next audit of the plan.

CITY OF LANCASTER NON-UNIFORMED PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

The supplementary information contained on Pages 5 through 8 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

	2014	2015
Total Pension Liability		
Service cost	$ 533,032	$ 542,160
Interest	1,048,689	1,096,819
Difference between expected and actual experience	-	(184,304)
Benefit payments, including refunds of member contributions	(595,063)	(934,559)
Net Change in Total Pension Liability	986,658	520,116
Total Pension Liability – Beginning	13,747,018	14,733,676
Total Pension Liability - Ending (a)	$ 14,733,676	$ 15,253,792
Plan Fiduciary Net Position		
Contributions – employer	$ 697,517	$ 900,704
Net investment income	854,651	139,124
Benefit payments, including refunds of member contributions	(595,063)	(934,559)
Administrative expense	(24,140)	(27,730)
Net Change in Plan Fiduciary Net Position	932,965	77,539
Plan Fiduciary Net Position – Beginning	9,807,550	10,740,515
Plan Fiduciary Net Position - Ending (b)	$ 10,740,515	$ 10,818,054
Net Pension Liability - Ending (a-b)	$ 3,993,161	$ 4,435,738
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	72.90%	70.92%
Estimated Covered Employee Payroll	$ 13,618,505	$ 14,312,665
Net Pension Liability as a Percentage of Covered Employee Payroll	29.32%	30.99%

CITY OF LANCASTER 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 2017

	2016	2017
Total Pension Liability		
Service cost	$ 569,268	$ 617,998
Interest	1,168,991	1,270,257
Change for experience	-	(208,366)
Changes of assumptions	-	372,079
Benefit payments, including refunds of member contributions	(473,019)	(727,961)
Net Change in Total Pension Liability	1,265,240	1,324,007
Total Pension Liability - Beginning	15,253,792	16,519,032
Total Pension Liability - Ending (a)	$ 16,519,032	$ 17,843,039
Plan Fiduciary Net Position		
Contributions - employer	$ 931,774	$ 1,050,161
Net investment income	722,581	1,419,263
Benefit payments, including refunds of member contributions	(473,019)	(727,961)
Administrative expense	(26,770)	(28,655)
Net Change in Plan Fiduciary Net Position	1,154,566	1,712,808
Plan Fiduciary Net Position - Beginning	10,818,054	11,972,620
Plan Fiduciary Net Position - Ending (b)	$ 11,972,620	$ 13,685,428
Net Pension Liability - Ending (a-b)	$ 4,546,412	$ 4,157,611
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	72.48%	76.70%
Estimated Covered Employee Payroll	$ 15,105,036	$ 16,203,075
Net Pension Liability as a Percentage of Covered Employee Payroll	30.10%	25.66%

CITY OF LANCASTER 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 city as of December 31, 2014, 2015, 2016, and 2017 calculated using the discount rate of 7.5%, as well as what the city'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 (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
Net Pension Liability - 12/31/14	$ 5,684,083	$ 3,993,161	$ 2,182,649
Net Pension Liability - 12/31/15	$ 6,415,359	$ 4,435,738	$ 2,783,696
Net Pension Liability - 12/31/16	$ 6,647,839	$ 4,546,412	$ 2,792,326
Net Pension Liability - 12/31/17	$ 6,698,890	$ 4,157,611	$ 2,040,691

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	$ 459,603	$ 459,603	$ -	$ -	-
2009	475,248	475,248	-	-	-
2010	499,125	499,125	-	-	-
2011	504,280	504,280	-	-	-
2012	516,512	516,512	-	-	-
2013	658,895	658,895	-	-	-
2014	697,516	697,517	(1)	13,618,505	5.12%
2015	900,704	900,704	-	14,312,665	6.29%
2016	931,774	931,774	-	15,105,036	6.17%
2017	1,050,161	1,050,161	-	16,203,075	6.48%

* 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 years prior to 2014.

CITY OF LANCASTER NON-UNIFORMED PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF INVESTMENT RETURNS

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

2017	12.15%
2016	6.86%
2015	1.23%
2014	8.89%

CITY OF LANCASTER 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	$ 10,106,397	$ 12,781,267	$ 2,674,870	79.1%
01-01-15	11,378,965	14,549,372	3,170,407	78.2%
01-01-17	13,176,339	16,682,745	3,506,406	79.0%

Note: The market value of the plan's assets at 01-01-13, 01-01-15 and 01-01-17 have been adjusted to reflect the smoothing of gains and/or losses subject to a corridor between 80 to 120 percent of the market value of assets. These methods will lower contributions in years of less than expected returns and increase contributions in years of greater than expected returns. The net effect over long periods of time is to have less variance in contribution levels from year to year.

CITY OF LANCASTER 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.

CITY OF LANCASTER 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	13 years
Asset valuation method	Plan assets are valued using the method described in Section 210 of Act 205, as amended, subject to a corridor between 80-120% of the market value of assets
Actuarial assumptions:	
Investment rate of return	7.5% - Preretirement, 6.5% - Postretirement
Projected salary increases	4.50%
Cost-of-living adjustments	None assumed

CITY OF LANCASTER NON-UNIFORMED PENSION PLAN
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