

**CITY OF LANCASTER FIREMEN'S PENSION PLAN**

**LANCASTER COUNTY**

**COMPLIANCE AUDIT REPORT**

**FOR THE PERIOD**

**JANUARY 1, 2007, TO DECEMBER 31, 2008**





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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.

Pension plan aid is provided from a 2 percent foreign casualty insurance premium tax, a portion of the foreign 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 Firemen's 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 147 - Special Ad Hoc Municipal Police and Firefighter Postretirement Adjustment Act, Act of December 14, 1988 (P.L. 1192, No. 147), as amended, 53 P.S. § 896.101 et seq.
- 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 Firemen's Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Chapter 64 of the Lancaster City Code, adopted as Article 168 of the city's codified ordinances. The plan is also affected by the provisions of collective bargaining agreements between the city and its firefighters.



The Honorable Mayor and City Council  
City of Lancaster  
Lancaster County  
Lancaster, PA 17603

We have conducted a compliance audit of the City of Lancaster Firemen's Pension Plan for the period January 1, 2007, to December 31, 2008. The audit was conducted pursuant to authority derived from Section 402(j) of Act 205 and in accordance with *Government Auditing Standards* applicable to performance audits 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 conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our 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 finding 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. The City of Lancaster contracted with an independent certified public accounting firm for annual audits of the City of Lancaster Firemen's Pension Plan's 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 Firemen's 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, we tested transactions, assessed official actions, performed analytical procedures and interviewed selected officials to the extent necessary to satisfy the audit objectives.

The results of our tests indicated that, in all significant respects, the City of Lancaster Firemen's 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 and, accordingly, express no form of assurance on it.

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

February 16, 2010

JACK WAGNER  
Auditor General

CITY OF LANCASTER FIREMEN'S PENSION PLAN  
STATUS OF PRIOR FINDING

Rescission Of Prior Audit Recommendation

The following prior audit recommendation has been rescinded:

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

As a result of recent appellate court decisions in *City of Erie, et. al. v. Department of Auditor General*, 983A.2d 1250 (Pa. Cmwlth. 2009), the Department will be rescinding the finding set forth in the prior audit report. Despite the courts' rulings in the *Erie* cases, this decision has been superseded by the passage of Act 44 of 2009, which establishes the parameters within which a Deferred Retirement Option Plan (DROP) may exist. Specifically, Act 44 amends Section 607 of Act 205 and prohibits members of a DROP plan from being listed as active members for purposes of receiving state aid. While the City of Lancaster will not be permitted to certify any DROP participants on its Certification Forms AG 385 for state aid purposes going forward, because this Act did not go into effect until late 2009, we believe the appropriate course is to rescind the prior recommendation with respect to audit periods prior to the effective date of Act 44 and monitor the City's continued compliance during subsequent audits of the plan.

CITY OF LANCASTER FIREMEN'S 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, except for distressed pension plans, for which annual reporting was required through January 1, 2003. The historical information, beginning as of January 1, 2003, is as follows:

	(1)	(2)	(3)	(4)	(5)	(6)
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)	Covered Payroll (c)	Unfunded (Assets in Excess of) Actuarial Accrued Liability as a % of Payroll [(b-a)/(c)]
01-01-03	\$ 30,524,894	\$ 31,585,434	\$ 1,060,540	96.6%	\$ 4,183,863	25.3%
01-01-05	29,180,004	34,820,561	5,640,557	83.8%	4,479,703	125.9%
01-01-07	34,806,993	38,446,351	3,639,358	90.5%	4,329,634	84.1%

Note: The market values of the plan's assets at 01-01-03, 01-01-05 and 01-01-07, have been adjusted to reflect the smoothing of gains and/or losses over a 5-year averaging period. This method 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 FIREMEN'S 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.

Trends in unfunded (assets in excess of) actuarial accrued liability and annual covered payroll are both affected by inflation. Expressing the unfunded (assets in excess of) actuarial accrued liability as a percentage of annual covered payroll (Column 6) approximately adjusts for the effects of inflation and aids analysis of the plan's progress made in accumulating sufficient assets to pay benefits when due. Generally, where there is an unfunded actuarial accrued liability, the smaller this percentage, the stronger the plan. However, when assets are in excess of the actuarial accrued liability, the higher the bracketed percentage, the stronger the plan.

CITY OF LANCASTER FIREMEN'S PENSION PLAN  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

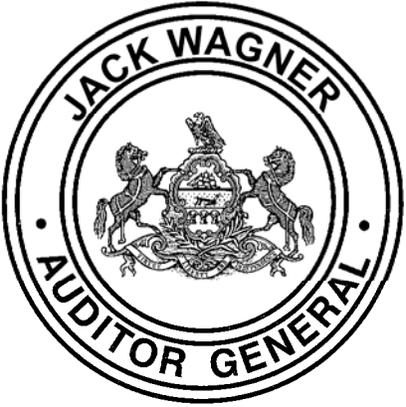
SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER  
AND OTHER CONTRIBUTING ENTITIES

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2003	\$ 89,497	100.0%
2004	107,379	100.0%
2005	501,768	143.8%
2006	643,594	121.4%
2007	527,673	100.0%
2008	980,923	100.0%

CITY OF LANCASTER FIREMEN'S PENSION PLAN  
 SUPPLEMENTARY INFORMATION  
 NOTES TO SUPPLEMENTARY SCHEDULES  
 (UNAUDITED)

The information presented in the required 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, 2007
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	14 years
Asset valuation method	Market value, 5-year smoothing
Actuarial assumptions:	
Investment rate of return *	8.5%
Projected salary increases *	5.5%
* Includes inflation at	Not disclosed
Cost-of-living adjustments	None assumed



CITY OF LANCASTER FIREMEN'S PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell  
Governor  
Commonwealth of Pennsylvania

City of Lancaster Firemen's Pension Plan  
Lancaster County  
120 North Duke Street  
Lancaster, PA 17603

The Honorable J. Richard Gray	Mayor
Ms. Louise B. Williams	Council President
Mr. Patrick Hopkins	Business Administrator
Ms. Julie Cenera	Chief of Accounting

This report is a matter of public record. Copies of this report may be obtained from the Pennsylvania Department of the Auditor General, Office of Communications, Room 318 Finance Building, Harrisburg, PA 17120. If you have any questions regarding this report or any other matter, you may contact the Department of the Auditor General by accessing our website at [www.auditorgen.state.pa.us](http://www.auditorgen.state.pa.us).