

# COMPLIANCE AUDIT

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## City of Lebanon Police Pension Plan Lebanon County, Pennsylvania For the Period January 1, 2016 to December 31, 2017

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September 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 City Council  
City of Lebanon  
Lebanon County  
Lebanon, PA 17042

We have conducted a compliance audit of the City of Lebanon Police 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 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.

- We determined whether annual employee contributions 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 period under audit and examining documents evidencing the deposit of these employee contributions into the pension plan.
- We determined whether retirement benefits calculated for the two plan members 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 benefit due to retired individuals and comparing these amounts to supporting documentation evidencing amounts determined and actually paid to recipients.
- 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 all annual special ad hoc postretirement reimbursements received by the municipality were authorized and appropriately deposited in accordance with Act 147 by tracing information to supporting documentation maintained by plan officials.
- We determined whether provisions of the Deferred Retirement Option Plan (DROP) were in accordance with the provisions of Act 205 by examining provisions stated in the plan's governing documents.

The City of Lebanon contracted with an independent certified public accounting firm for an audit of its basic financial statements for the year ended December 31, 2016 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 Lebanon Police 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 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 City of Lebanon Police 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 the City of Lebanon 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.

September 12, 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 Lebanon Police 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

Act 67 - The Third Class City Code, Act of November 24, 2015 (P.L. 242, No. 67), as amended, 11 Pa. C.S. § 10101 et seq.

Act 177 - General Local Government Code, Act of December 19, 1996 (P.L. 1158, No. 177), as amended, 53 Pa.C.S. § 101 et seq.

The City of Lebanon Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 21 of Sessions 2008-2009, as amended, adopted pursuant to Act 67 (formerly Act 317). The plan is also affected by the provisions of collective bargaining agreements between the city and its police officers. The plan was established January 4, 1932. Active members are required to contribute 5 percent of base salary to the plan. As of December 31, 2017, the plan had 37 active members, 1 terminated member eligible for vested benefits in the future, and 51 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 50 and 25 years of service.
Early Retirement	None
Vesting	100% after 12 years of service

### Retirement Benefit:

50% of average monthly pay based on high consecutive 60 months average salary or rate of pay at retirement, if higher, plus an incremental pension of 1/40<sup>th</sup> of such pension amount times years of service in excess of 20 years and before age 65, up to a maximum of \$100 per month.

### Survivor Benefit:

100% of benefit to surviving spouse or 50% of benefit to child under 18.

### Service Related Disability Benefit:

50% of average monthly pay, reduced by Worker's Compensation.

### Non-Service Related Disability Benefit:

After 10 years of service - 50% of average monthly pay, multiplied by the ratio of actual service to date to minimum years of service for normal retirement, reduced by Worker's Compensation.

CITY OF LEBANON POLICE PENSION PLAN  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

The supplementary information contained on Pages 3 through 6 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

Total Pension Liability	<u>2014</u>	<u>2015</u>
Service cost	\$ 401,230	\$ 365,275
Interest	1,511,035	1,536,177
Difference between expected and actual experience	-	(469,365)
Changes of assumptions	-	(8,976)
Benefit payments, including refunds of member contributions	<u>(1,028,301)</u>	<u>(1,139,095)</u>
Net Change in Total Pension Liability	883,964	284,016
Total Pension Liability - Beginning	<u>19,000,864</u>	<u>19,884,828</u>
Total Pension Liability - Ending (a)	<u>\$ 19,884,828</u>	<u>\$ 20,168,844</u>
 Plan Fiduciary Net Position		
Contributions – employer	\$ 998,520	\$ 1,201,085
Contributions – member	138,165	146,783
Net investment income	969,692	(29,616)
Benefit payments, including refunds of member contributions	(1,033,149)	(1,139,095)
Administrative expense	<u>(8,926)</u>	<u>(7,200)</u>
Net Change in Plan Fiduciary Net Position	1,064,302	171,957
Plan Fiduciary Net Position - Beginning	<u>15,105,454</u>	<u>16,169,935</u>
Plan Fiduciary Net Position - Ending (b)	<u>\$ 16,169,756</u>	<u>\$ 16,341,892</u>
 Net Pension Liability - Ending (a-b)	<u>\$ 3,715,072</u>	<u>\$ 3,826,952</u>
 Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	81.32%	81.03%
 Estimated Covered Employee Payroll	\$ 2,629,816	\$ 2,987,438
 Net Pension Liability as a Percentage of Covered Employee Payroll	141.27%	128.10%

Note: 2014 Benefit payments presented in Total Pension Liability were from actuarial valuation report, and Benefit payments presented in Plan Net Fiduciary Position were actual payments.



CITY OF LEBANON POLICE 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

	<u>2016</u>	<u>2017</u>
Total Pension Liability		
Service cost	\$ 383,539	\$ 362,545
Interest	1,596,665	1,703,187
Change of benefit terms	483,994	-
Difference between expected and actual experience	-	(316,238)
Changes of assumptions	-	389,332
Benefit payments, including refunds of member contributions	(1,188,131)	(1,141,720)
Net Change in Total Pension Liability	<u>1,276,067</u>	<u>997,106</u>
Total Pension Liability - Beginning	<u>20,168,844</u>	<u>21,444,911</u>
Total Pension Liability - Ending (a)	<u>\$ 21,444,911</u>	<u>\$ 22,442,017</u>
 Plan Fiduciary Net Position		
Contributions - employer	\$ 668,402	\$ 629,410
Contributions - member	138,509	135,512
Net investment income	882,284	2,361,667
Benefit payments, including refunds of member contributions	(1,188,131)	(1,141,720)
Administrative expense	(5,000)	(6,718)
Net Change in Plan Fiduciary Net Position	<u>496,064</u>	<u>1,978,151</u>
Plan Fiduciary Net Position - Beginning	<u>16,341,892</u>	<u>16,837,956</u>
Plan Fiduciary Net Position - Ending (b)	<u>\$ 16,837,956</u>	<u>\$ 18,816,107</u>
 Net Pension Liability - Ending (a-b)	<u>\$ 4,606,955</u>	<u>\$ 3,625,910</u>
 Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	78.52%	83.84%
 Estimated Covered Employee Payroll	\$ 2,561,105	\$ 2,650,719
 Net Pension Liability as a Percentage of Covered Employee Payroll	179.88%	136.79%

CITY OF LEBANON POLICE 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 8.0%, 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 (7.0%)	Current Discount Rate (8.0%)	1% Increase (9.0%)
Net Pension Liability - 12/31/14	\$ 5,971,035	\$ 3,715,072	\$ 1,815,883
Net Pension Liability - 12/31/15	\$ 6,094,576	\$ 3,826,952	\$ 1,869,231
Net Pension Liability - 12/31/16	\$ 6,983,564	\$ 4,606,955	\$ 2,551,962
Net Pension Liability - 12/31/17	\$ 6,164,784	\$ 3,625,910	\$ 1,493,150

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	\$ 650,940	\$ 650,940	\$ -		
2009	823,905	823,905	-	\$2,516,550	32.74%
2010	827,932	827,932	-		
2011	834,634	834,634	-	2,452,990	34.03%
2012	818,503	818,503	-		
2013	974,213	974,213	-	2,612,769	37.29%
2014	998,520	998,520	-	2,629,816	37.97%
2015	1,201,085	1,201,085	-	2,987,438	40.20%
2016	668,402	668,402	-	2,561,105	26.10%
2017	629,410	629,410	-	2,650,719	23.74%

\* 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 even years prior to 2013.

CITY OF LEBANON POLICE PENSION PLAN  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

SCHEDULE OF INVESTMENT RETURNS

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

2016	6.15%
2015	0.34%
2014	3.64%

CITY OF LEBANON POLICE 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	\$ 12,920,518	\$ 18,127,703	\$ 5,207,185	71.3%
01-01-15	16,169,935	19,406,487	3,236,552	83.3%
01-01-17	16,837,956	21,518,005	4,680,049	78.3%

CITY OF LEBANON POLICE 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 LEBANON POLICE 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	Market value
Actuarial assumptions:	
Investment rate of return	8.0%
Projected salary increases	5.0%
Cost-of-living adjustments	3.0% per year

CITY OF LEBANON POLICE PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

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