

COMPLIANCE AUDIT

City of Lancaster Firemen's Pension Plan Lancaster County, Pennsylvania For the Period January 1, 2020 to December 31, 2021

February 2023



Commonwealth of Pennsylvania
Department of the Auditor General

Timothy L. DeFoor • Auditor General



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**TIMOTHY L. DEFOOR
AUDITOR GENERAL**

The Honorable Mayor and City Council
City of Lancaster
Lancaster County
Lancaster, PA 17602

We have conducted a compliance audit of the City of Lancaster Firemen's Pension Plan for the period January 1, 2020 to December 31, 2021. We also evaluated compliance with some requirements subsequent to that period when possible. The audit was conducted pursuant to authority derived from the Municipal Pension Plan Funding Standard and Recovery Act (Act 205 of 1984, as amended, 53 P.S. § 895.402(j)), which requires the Auditor General, as deemed necessary, to audit every municipality which receives general municipal pension system state aid and every municipal pension plan and fund in which general municipal pension system state aid is deposited. The audit was not conducted, nor was it required to be, in accordance with Government Auditing Standards issued by the Comptroller General of the United States. We planned and performed the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our finding and conclusions 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 were:

1. To determine if municipal officials took appropriate corrective action to address the finding contained in our prior 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. To determine if municipal officials took appropriate corrective action to address the finding contained in our prior report, we inquired of plan officials and evaluated supporting documentation provided by officials evidencing that the suggested corrective action has been appropriately taken. 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 plan members 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 benefits due to the retired individuals and comparing these amounts to supporting documentation evidencing amounts determined and actually paid to the recipients.
- We determined whether the January 1, 2019 and January 1, 2021 actuarial valuation reports were prepared and submitted by March 31, 2020 and 2022, in accordance with Act 205 and whether selected information provided on this report 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 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 Firemen's Pension Plan is administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies. As previously described, we tested transactions, interviewed selected officials, and performed procedures to the extent necessary 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.

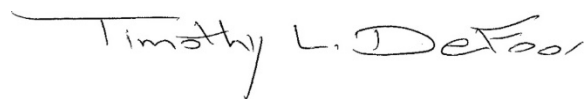
The results of our procedures indicated that, in all significant respects, the City of Lancaster Firemen's Pension Plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies, except as noted in the following finding further discussed later in this report:

Finding – Noncompliance With Prior Recommendation – Inconsistent Pension Benefits

The finding contained in this audit report repeats a condition that was cited in our previous report that has not been corrected by city officials. We are concerned by the city's failure to correct this previously reported finding and strongly encourage timely implementation of the recommendation noted in this audit report.

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 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.



Timothy L. DeFoor
Auditor General
January 12, 2023

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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.

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 Firemen's Pension Plan is also governed by implementing regulations 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 plan was established January 1, 1966. Active members are required to contribute five (5.0) percent of base rate compensation one rank higher, plus five (5.0) percent of current base rate longevity, plus \$5 per month to the plan. As of December 31, 2021, the plan had 55 active members, no terminated members eligible for vested benefits in the future, and 134 retirees receiving pension benefits.

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

Noncompliance With Prior Recommendation

The City of Lancaster has not complied with the prior recommendation concerning the following as further discussed in the Finding and Recommendation section of this report:

- Inconsistent Pension Benefits

CITY OF LANCASTER FIREMEN'S PENSION PLAN
FINDING AND RECOMMENDATION

Finding – Noncompliance With Prior Recommendation – Inconsistent Pension Benefits

Condition: As disclosed in the five most recent audit reports, the collective bargaining agreement between the city and its firefighters contains a revised service increment benefit provision for plan members entitled to a pension after January 1, 2008; however, the plan's governing document has not been amended to reflect the amended provision contained in the collective bargaining agreement.

Article 35, Section 7 of the collective bargaining agreement states:

Service Increments: Each member entitled to a pension after January 1, 2003 shall be entitled to receive a service increment (in accordance with and subject to the terms described in the Pennsylvania 3rd Class City Code) to the member's monthly pension equal to 2.5% of the basic monthly pension to which the member was entitled times the number of full years of service in excess of twenty (20); provided that no years of service after the member has reached age sixty shall be counted and provided further that the maximum service increment payable hereunder shall be \$300 per month. Member contributions towards service increments shall be \$3.00 per month.

Effective January 1, 2006 the maximum service increment shall be \$400 per month. The member's contribution shall also increase from \$3.00 per month to \$4.00 per month. Effective January 1, 2008 the service increment shall increase from \$400 to \$500 and the member's contribution shall also increase from \$4.00 per month to \$5.00 per month.

In addition, the actuarial valuation reports with valuation dates of January 1, 2009, January 1, 2011, January 1, 2013, January 1, 2015, January 1, 2017, January 1, 2019, and January 1, 2021 reported the service increment benefit provision included in the collective bargaining agreement.

Criteria: As disclosed in previous audit reports, the plan's governing document and the collective bargaining agreement should contain consistent benefit provisions to ensure the sound administration of retirement benefits.

Cause: Municipal officials were awaiting the completion of all changes made through the collective bargaining process before making amendments to the plan's governing ordinance. However, due to disputes with the union, the process has been delayed.

Effect: Inconsistent plan documents could result in inconsistent or improper benefit calculations and incorrect benefit payments from the pension plan.

CITY OF LANCASTER FIREMEN'S PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

Recommendation: We again recommend that municipal officials take appropriate action to ensure the plan's governing document contains the service increment provision that is included in the collective bargaining agreement at their earliest opportunity to do so.

Management's Response: The city provided the following response:

Several of the most recent Collective Bargaining Agreements (CBA) with the Lancaster Professional Firefighters' Association (IAFF Local 319) contained pension benefit modifications. Prior to 2020, the most recently negotiated CBA, which had an effective date of January 1, 2018, did not include any modifications to pension benefits. An ongoing dispute with the IAFF Local 319 regarding a certain provision of a previous Act 111 arbitration award significantly delayed the signing of a consolidated CBA until May 2019 for an agreement that expired on December 31, 2020. In 2020, the City and IAFF Local 319 agreed to a 3-year labor agreement covering 2021-2023 and the parties finally signed this new CBA only in January 2022.

The City has been administering the Fire Pension Plan consistently under the changes to the Plan's provisions as modified by Collective Bargaining and/or Act 111 arbitration awards. However, we agree that the Plan modifications have not been codified in the City's Codified Ordinances (City Code). Rather than make changes to the City's Codified Ordinances piecemeal, it was decided that we would wait until all Fire and Police Pension changes were completed through the collective bargaining process in order to write one comprehensive ordinance to cover all Fire and Police Pension changes.

The City had previously engaged Conrad Siegel Actuaries to rewrite the Police and Fire Pension Plan Documents to bring them up to date with all changes to each Plan. For a variety of reasons, including impacts of the COVID-19 pandemic, this effort has not yet moved forward with completed Plan Documents agreed to by the City and the bargaining units representing the Police and Fire Unions. However, the City (Business Administrator and City Solicitor) are now actively reviewing the City Code (Chapter 64) provisions compared to changes that have occurred in the CBAs, including the Service Increment provisions. The plan now is to have an Ordinance introduced to City Council in the first quarter of 2023 that would make the City Code pension provisions consistent with all pension related provisions in the Police and Fire CBAs.

Auditor's Conclusion: Based on the management response, it appears municipal officials are striving to comply with the finding recommendation. Compliance will be evaluated during our next audit 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. The historical information, beginning as of January 1, 2017, 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)
01-01-17	\$ 45,345,315	\$ 51,122,650	\$ 5,777,335	88.7%
01-01-19	47,043,385	53,407,399	6,364,014	88.1%
01-01-21	50,294,086	58,121,258	7,827,172	86.5%

Note: The market value of the plan's assets at 01-01-17, 01-01-19, and 01-01-21 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. 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.

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

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
2012	\$ 1,075,765	\$ 1,075,765	\$ -		
2013	1,623,453	1,623,453	-		
2014	1,623,658	1,623,658	-	\$ 4,122,312	39.39%
2015	2,059,043	2,059,043	-	4,521,715	45.54%
2016	2,153,346	2,153,346	-	4,832,626	44.56%
2017	2,257,853	2,257,853	-	4,822,392	46.82%
2018	2,315,107	2,315,107	-	4,947,462	46.79%
2019	1,983,633	1,983,633	-	5,412,936	36.65%
2020	2,047,022	2,047,022	-	5,074,808	40.34%
2021	2,200,532	2,200,532	-	5,830,372	37.74%

* This schedule is presented pursuant to the implementation of GASB Statement No. 67, *Financial Reporting for Pension Plans* by reporting entities responsible for administering the pension plan to improve financial reporting by state and local governmental pension plans. Due to the statement being implemented only recently, the amount of Covered-Employee Payroll was not provided for years prior to 2014.

CITY OF LANCASTER FIREMEN'S 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, 2021
Actuarial cost method	Entry age normal
Amortization method	Level dollar closed
Remaining amortization period	11 years
Asset valuation method	Plan assets are valued using the method described in Section 210 of Act 205, as amended, subject to a corridor of 80-120% of the market value of assets.
Actuarial assumptions:	
Investment rate of return*	7.75%
Projected salary increases *	5.00%
Cost-of-living adjustments	None assumed

* Includes inflation at 3.0%

CITY OF LANCASTER FIREMEN'S PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Joshua D. Shapiro

Governor
Commonwealth of Pennsylvania

The Honorable Danene Sorace

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