

LIMITED PROCEDURES ENGAGEMENT

City of Corry Non-Uniformed Employees' Pension Plan Erie County, Pennsylvania For the Period January 1, 2014 to December 31, 2015

September 2016



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 Corry
Erie County
Corry, PA 16407

We conducted a Limited Procedures Engagement (LPE) of the City of Corry Non-Uniformed Employees' Pension Plan for the period January 1, 2014 to December 31, 2015 to determine its compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies. We also evaluated compliance with some requirements subsequent to that period when possible. The LPE was conducted pursuant to authority derived from Section 402(j) of the Municipal Pension Plan Funding Standard and Recovery Act (P.L. 1005, No. 205, as amended, 53 P.S. § 895.101 *et seq.*) but was not conducted in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States. 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. We believe that the evidence obtained provides a reasonable basis to support our LPE results.

Our LPE was limited to determining the following:

- 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 engagement period.
- 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.
- Whether annual employee contributions were required during the engagement period and, if so, were calculated, deducted, and deposited into the pension plan in accordance with the plan's governing document and applicable laws and regulations by testing members' contributions on an annual basis using the rates obtained from the plan's governing document in effect for all years within the engagement period and examining documents evidencing the deposit of these employee contributions into the pension plan.

- Whether retirement benefits calculated for plan members who retired during the engagement 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.
- Whether the January 1, 2013 and January 1, 2015 actuarial valuation reports were prepared and submitted to the Public Employee Retirement Commission (PERC) by March 31, 2014 and 2016, 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.

Based on the results of our procedures performed during our LPE, nothing came to our attention indicating that the City of Corry Non-Uniformed Employees' Pension Plan was not being 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 subsequent to this letter:


Finding – Pension Benefit Payments Made To Deceased Individual

Our determination to perform a LPE for this engagement period does not preclude the Department from conducting an audit in accordance with *Government Auditing Standards* of the pension plan in subsequent periods. The city should continue to maintain documentation related to this pension plan.

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 letter were discussed with officials of the City of Corry and, where appropriate, their responses have been included in this letter. We would like to thank city officials for the cooperation extended to us during the conduct of this LPE.

September 1, 2016


EUGENE A. DEPASQUALE
Auditor General

CONTENTS

	<u>Page</u>
Finding and Recommendation:	
Finding – Pension Benefit Payments Made To Deceased Individual	1
Supplementary Information	2
Distribution List	6

CITY OF CORRY NON-UNIFORMED EMPLOYEES' PENSION PLAN
FINDING AND RECOMMENDATION

Finding – Pension Benefit Payments Made To Deceased Individual

Condition: The city made improper monthly pension benefit payments from April 2014 through November 2014 from the city's non-uniformed employees' pension plan to a retiree who died on March 31, 2014.

Criteria: The city or the plan's custodian should have procedures in place to monitor the continued eligibility of individuals receiving pension benefits and to ensure that each eligible individual receives only the benefits to which he or she is entitled and that payments to deceased individuals are detected timely and properly terminated.

Cause: Plan officials failed to either establish internal procedures to prevent and detect improper benefit payments or ensure that the agreement with the plan's custodian included the monitoring of all retirees' and beneficiaries' continued eligibility to receive pension benefit payments.

Effect: The city made \$4,290 of improper pension benefit payments from the pension plan to the deceased member.

Recommendation: We recommend that plan officials either implement adequate internal procedures at the city, or ensure the plan's custodial agreement is amended, to provide for the timely detection and cessation of payments to deceased benefit recipients.

Furthermore, regardless of whether the city or the plan's custodian is given the responsibility to monitor continued benefit eligibility, plan officials should implement procedures to monitor either the internally prepared or custodial benefit eligibility reports to ensure their accuracy.

Furthermore, we recommend plan officials review these benefit payments with the city solicitor and determine whether recovery of the improper payments would be appropriate and whether referral to appropriate law enforcement agencies is warranted.

Management's Response: Municipal officials agreed with the finding without exception. Municipal officials stated they are actively trying to collect the improper payments from the deceased retiree's estate. If reimbursement is not received from the estate, the city will pay the full amount due of \$4,290 by December 31, 2016.

Auditor Conclusion: Based on the management response, it appears municipal officials intend to comply with the finding recommendation. Compliance will be evaluated during our engagement.

CITY OF CORRY NON-UNIFORMED EMPLOYEES' 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, 2011, 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)
01-01-11	\$ 5,589,624	\$ 5,348,232	\$ (241,392)	104.5%
01-01-13	6,332,999	5,639,051	(693,948)	112.3%
01-01-15	7,324,640	5,759,380	(1,565,260)	127.2%

Note: The market value of the plan's assets at 01-01-11, 01-01-13, and 01-01-15 have been adjusted to reflect the smoothing of gains and/or losses over a 4-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 CORRY NON-UNIFORMED EMPLOYEES' 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 CORRY NON-UNIFORMED EMPLOYEES' PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER
AND OTHER CONTRIBUTING ENTITIES

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2010	None	N/A
2011	\$ 112,283	100.0%
2012	114,369	100.0%
2013	41,709	100.0%
2014	42,925	100.0%
2015	None	N/A

CITY OF CORRY NON-UNIFORMED EMPLOYEES' 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, 2015
Actuarial cost method	Entry age normal
Amortization method	N/A
Remaining amortization period	N/A
Asset valuation method	Fair value, 4-year smoothing
Actuarial assumptions:	
Investment rate of return	7.5%
Projected salary increases *	5.0%
Cost-of-living adjustments	None assumed

* Includes inflation at 3.0%

CITY OF CORRY NON-UNIFORMED EMPLOYEES' PENSION PLAN
DISTRIBUTION LIST

This letter was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

The Honorable Charles R. Campbell
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Mr. Thomas P. Winchell
Finance Administrator

Ms. Joanne M. Smith
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Mr. Jason T. Biondi
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Mr. Steven G. Bresler
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