

COMPLIANCE AUDIT

City of Corry Non-Uniformed Employees' Pension Plan

Erie County, Pennsylvania

For the Period

January 1, 2020 to December 31, 2022

May 2024



Commonwealth of Pennsylvania
Department of the Auditor General

Timothy L. DeFoor • Auditor General



**Commonwealth of Pennsylvania
Department of the Auditor General
Harrisburg, PA 17120-0018
Facebook: Pennsylvania Auditor General
Twitter: @PAAuditorGen
www.PaAuditor.gov**

**TIMOTHY L. DEFOOR
AUDITOR GENERAL**

The Honorable Mayor and City Council
City of Corry
Erie County
Corry, PA 16407

We have conducted a compliance audit of the City of Corry Non-Uniformed Employees' Pension Plan for the period January 1, 2020 to December 31, 2022. 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 objective. We believe that the evidence obtained provides a reasonable basis for our finding and 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 plan member 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 benefits due to the retired individuals and comparing these amounts to supporting documentation evidencing amounts determined and actually paid to the recipient.
- We determined whether the January 1, 2021 and January 1, 2023 actuarial valuation reports were prepared and submitted by March 31, 2022 and 2024, 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.

The City of Corry 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.

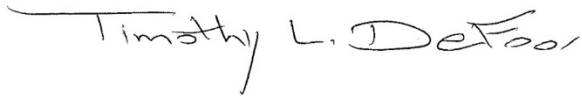
City officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the City of Corry Non-Uniformed Employees' Pension Plan is administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local 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 objective.

The results of our procedures indicated that, in all significant respects, the City of Corry Non-Uniformed Employees' 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 – Pension Benefit Provisions Not In Compliance With Act 362

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 Corry 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.

A handwritten signature in black ink that reads "Timothy L. DeFoor". The signature is written in a cursive style with a long horizontal line extending to the left of the first letter.

Timothy L. DeFoor
Auditor General
April 11, 2024

CONTENTS

	<u>Page</u>
Background.....	1
Finding and Recommendation:	
Finding – Pension Benefit Provisions Not In Compliance With Act 362.....	2
Supplementary Information	7
Report Distribution List	11

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 two 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 Corry Non-Uniformed Employees' 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 362 - The Third Class City Code, Act of May 23, 1945 (P.L. 903, No. 362), Article XLIII-A, Optional Retirement System for Officers and Employees, as amended, 53 P.S. § 42001 et seq.

The City of Corry Non-Uniformed Employees' Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 1638, effective July 17, 2023, adopted pursuant to Act 362. Prior to July 17, 2023, the plan was governed by the provisions of Ordinance No. 1144, as amended, adopted pursuant to Act 362. The plan is also affected by the provisions of collective bargaining agreements between the city and its non-uniformed employees. The plan was established October 19, 1970. Active members are required to contribute 6 percent of compensation to the plan. As of December 31, 2022, the plan had 22 active members, no terminated members eligible for vested benefits in the future, and 24 retirees receiving pension benefits from the plan.

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

Finding – Pension Benefit Provisions Not In Compliance With Act 362

Condition: Subsequent to the current audit period, the pension plan’s governing document was amended and restated in its entirety by Ordinance No. 1638, effective July 17, 2023. Ordinance No. 1638 contains benefit provisions that are not in compliance with or not authorized by Act 362, and also does not provide certain mandatory benefits required by Act 362, as follows:

<u>Benefit Provision</u>	<u>Governing Document</u>	<u>Act 362 (Third Class City Code)</u>
Normal Retirement	<p>Section 5(A)(1):</p> <p>Every member who attains the age of age of 55 years and upwards who shall have so served as an officer or employee of the City for a period of 20 years, or more, shall, upon application to the Board, be retired from service, and shall during the remainder of his life receive the pension benefits prescribed.</p>	<p>Section 4(a) states, in part:</p> <p>That every person now or hereafter elected or appointed to an office of, or employed by, any city which has created such retirement system and such board, as hereinafter provided, of the age of sixty (60) years and upwards who shall have so served as an officer or employe for a period of twenty (20) years, or more, shall, upon application to the board, be retired from service, and shall during the remainder of his life receive the compensation fixed by this act, subject to such qualifications as are hereinafter contained.</p>

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

Finding – (Continued)

Benefit Provision	Governing Document	Act 362 (Third Class City Code)
Early Termination	<p>Section 5(C), (D), and (E):</p> <p>If a member has served for 12 years or more of service, but less than 20 years of service, and his employment is terminated for any reason, then and in that event, he will have the option of having the total amount of the contributions paid into the pension fund by such employee refunded to him in full, without interest, or receiving the portion of the annual pension set forth below.</p> <p>A member who shall have served for 12 years or more and shall have attained age 60 and whose office or employment shall be terminated <i>with or without his voluntary action</i> before the expiration of 20 years of service, he shall, in such event, during the remainder of his life, be entitled to immediately receive such portion of the annual pension benefit as the period of his service up to date of termination bears to the full 20 year period of service. (Emphasis added.)</p> <p>A member who shall have served for 12 years or more and shall not have attained age 60 and whose office or employment shall be terminated <i>with or without his voluntary action</i> before the expiration of 20 years of service, he shall, in such event, during the remainder of his life, after attaining age 60 years, be entitled to immediately receive such portion of the annual pension benefit as the period of his service up to date of termination bears to the full 20 year period of service. (Emphasis added.)</p>	<p>Section 4(b)(1) states, in part:</p> <p>... where an officer or employe shall have served for twelve (12) years, or more, and shall have attained the age of sixty (60) years and his tenure of office or employment shall be terminated <i>without his voluntary action</i> before the expiration of twenty (20) years of service, he shall, in such event, during the remainder of his life, be entitled to receive such portion of the full compensation as the period of his service up to date of its termination bears to the full twenty-year period of service; where an officer or employe shall have served for twelve (12) years, or more, and shall not have attained the age of sixty (60) years, and his tenure of office or employment shall be terminated <i>without his voluntary action</i> before the expiration of twenty (20) years of service, he shall, in such event, during the remainder of his life, after attaining the age of sixty (60) years, be entitled to receive such portion of the full compensation as the period of his service up to date of its termination bears to the full twenty-year period of service; where an officer or employe who has served for twenty (20) years, or more, and his tenure of office or employment shall be terminated without his voluntary action, then he shall be entitled to full compensation for the remainder of his life, after attaining age fifty-five, and conditioned upon his continuing his contributions into the fund at the same rate as when he was dismissed until he attains age fifty-five. (Emphasis added.)</p>

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

Finding – (Continued)

<u>Benefit Provision</u>	<u>Governing Document</u>	<u>Act 362 (Third Class City Code)</u>
Member Contributions	<p>Section 4:</p> <p>All officers and employees of the City who are members of the Fund shall contribute to the Board an amount equal to 6% of each member's gross earnings.</p>	<p>Section 5 states, in part:</p> <p>The officers and employes of any city, creating such fund and board, shall, upon the acceptance of this act, pay unto said board monthly an amount equal to three (3) per centum of their monthly salaries or wages, and if the council elects to make such payments, an additional amount not to exceed one per centum if deemed necessary by the council to provide sufficient funds for payments to widows and widowers of members retired on pension or killed in the service....</p> <p>When employees are covered by Social Security, Section 10.1 states, in part (<i>superseding Section 5, where applicable</i>):</p> <p>Officers and employes shall pay to the board, monthly, an amount equal to three and one-half per centum of that portion of monthly compensation on which social security allowances are payable and five per centum of any monthly compensation in excess of that on which social security allowances are payable.</p>
Social Security Offset	Not provided	<p>Section 4(c) states, in part:</p> <p>Where a city has entered into an agreement with the Commonwealth to place certain employes under the Federal Social Security Act, the compensation to be paid joint coverage members according to the provisions of subsections (a) and (b) of this section payable after the age and upon that portion of annual compensation on which social security benefits are payable, shall be reduced by an amount equal to forty (40) per centum of the primary insurance amount of social security paid or payable to the member.</p>

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

Finding – (Continued)

<u>Benefit Provision</u>	<u>Governing Document</u>	<u>Act 362 (Third Class City Code)</u>
Intervening Military Service	Not provided	Section 1 states, in part: “Years of Service” shall include any time not exceeding six years spent by the employee on active duty with the armed forces of the United States, providing that he received an honorable discharge or certificate of satisfactory service and he pays to the board an amount equal to three per centum of his last monthly salary or wage prior to entering on active duty for each month the member is not employed by the city because of his active duty with the armed forces.
Optional Membership	Not provided	Section 6 states: No person holding a position in any city as a laborer, at a per diem wage, shall be compelled to pay or contribute toward the fund herein provided for, but he shall have the option or choice of so doing, and shall only, upon electing to contribute to the fund, become entitled to the compensation provided by this act: Provided, however, That he shall be required to contribute three (3) per centum of his wages and the same percentage upon any amount of compensation he receives after his retirement.

Criteria: A governing document which contains clearly defined and updated benefit provisions is a prerequisite for the consistent, sound administration of retirement benefits and should be in compliance with Act 362.

Cause: Municipal officials restated the governing plan documents in an effort to adopt provisions in one governing ordinance and were unaware that the changes made to the plan document were not in compliance with Act 362.

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

Finding – (Continued)

Effect: Providing unauthorized pension benefits increases the plan's pension costs and reduces the amount of funds available for investment purposes or for the payment of authorized benefits or administrative expenses. In addition, maintaining a benefit structure which is not in compliance with Act 362 could result in plan members or their beneficiaries receiving incorrect benefit amounts or being denied benefits to which they are statutorily entitled.

Recommendation: We recommend that municipal officials, after consulting with their solicitor, take whatever action is necessary to bring the non-uniformed pension plan's benefit structure into compliance with Act 362 at their earliest opportunity to do so.

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 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, 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)
01-01-19	\$ 7,635,877	\$ 6,372,671	\$ (1,263,206)	119.8%
01-01-21	8,379,973	6,816,599	(1,563,374)	122.9%
01-01-23	8,927,450	6,688,177	(2,239,273)	133.5%

Note: The market values of the plan's assets at 01-01-19, 01-01-21, and 01-01-23 have been adjusted to reflect the smoothing of gains and/or losses over a four-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

Year Ended December 31	Actuarially Determined Contribution	Actual Contributions	Contribution Deficiency (Excess)	Covered- Employee Payroll	Contributions as a Percentage of Covered- Employee Payroll
2013	\$ 41,709	\$ 41,709	\$ -	*	
2014	42,925	42,925	-	\$1,048,853	4.1%
2015	-	-	-	1,120,952	N/A
2016	-	-	-	1,137,904	N/A
2017	-	-	-	1,054,568	N/A
2018	-	11,361	(11,361)	1,134,518	1.0%
2019	-	-	-	1,252,598	N/A
2020	-	-	-	1,117,155	N/A
2021	-	17,361	(17,361)	1,093,375	1.6%
2022	-	-	-	1,115,315	N/A

N/A – Not applicable

* 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 the year 2013.

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, 2023
Actuarial cost method	Entry age normal
Amortization method	Not applicable
Remaining amortization period	None
Asset valuation method	Fair value, 4-year smoothing
Actuarial assumptions:	
Investment rate of return	7.00%
Projected salary increases *	4.25%
Cost-of-living adjustments	None assumed

* Includes inflation at 2.75%

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

This report was initially distributed to the following:

The Honorable Joshua D. Shapiro
Governor
Commonwealth of Pennsylvania

The Honorable Michael E. Baker
Mayor

Mr. William W. Hammond
Finance Director

Mr. Levi G. Kelly
Treasurer

Ms. Joanne Smith
City Administrator

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