

LIMITED PROCEDURES ENGAGEMENT

City of Corry Firemen's Pension Plan Erie County, Pennsylvania For the Period January 1, 2016 to December 31, 2017

July 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 Corry
Erie County
Corry, PA 16407

We conducted a Limited Procedures Engagement (LPE) of the City of Corry Firemen's Pension Plan for the period January 1, 2016 to December 31, 2017 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 total 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, 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.

Based on the results of our procedures performed during our LPE, nothing came to our attention indicating that the City of Corry Firemen's 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 later in this report:

Finding – Inconsistent Pension Benefit Provision

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

June 13, 2018



EUGENE A. DEPASQUALE
Auditor General

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CITY OF CORRY FIREMEN’S PENSION PLAN
FINDING AND RECOMMENDATION

Finding – Inconsistent Pension Benefit Provision

Condition: The pension plan’s governing document, Ordinance No. 770, as amended by Ordinance Nos. 1122 and 1370, among others, contains a normal retirement benefit provision that conflicts with the collective bargaining agreement between the firefighters and the city for the period January 1, 2015 to December 31, 2017, at Article X (D) as follows:

<u>Benefit Provision</u>	<u>Governing Document</u>	<u>Collective Bargaining Agreement</u>
Normal retirement	Each eligible Fireman may retire from active duty upon his having served as a member of the Fire Department for a minimum period of continuous service of twenty (20) years.	Pensions shall be in accordance with Ordinance No. 770 and all amendments thereto. The City shall, however, subject to the approval of Pension Board, and subject to all State and Federal laws, amend the Firefighter Pension Ordinance to provide for a minimum age requirement of fifty (50) years for Firefighters hired after January 1, 2012.

Criteria: The plan’s governing document and the collective bargaining agreement should contain consistent benefit provisions to ensure the sound administration of retirement benefits.

Cause: Plan officials failed to establish adequate internal control procedures to ensure the plan’s governing document and the collective bargaining agreement contained consistent benefit provisions.

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

Recommendation: We recommend that municipal officials take appropriate action to ensure the plan’s governing document and the collective bargaining agreement contain consistent benefit provisions 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 engagement of the plan.

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

The supplementary information contained on Pages 2 through 4 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, 2015, AND 2016

	<u>2014</u>	<u>2015</u>	<u>2016</u>
Total Pension Liability			
Service cost	\$ 78,030	\$ 73,783	\$ 77,472
Interest	223,294	226,985	239,649
Difference between expected and actual experience	-	(118,433)	-
Benefit payments, including refunds of member contributions	<u>(129,421)</u>	<u>(129,421)</u>	<u>(142,017)</u>
Net Change in Total Pension Liability	171,903	52,914	175,104
Total Pension Liability - Beginning	<u>2,962,753</u>	<u>3,134,656</u>	<u>3,187,570</u>
Total Pension Liability - Ending (a)	<u>\$ 3,134,656</u>	<u>\$ 3,187,570</u>	<u>\$ 3,362,674</u>
Plan Fiduciary Net Position			
Contributions – employer	\$ 96,411	\$ 109,162	\$ 123,453
Contributions – member	9,735	9,986	10,466
Net investment income	152,369	(13,898)	152,394
Benefit payments, including refunds of member contributions	(129,421)	(129,421)	(142,017)
Administrative expense	(25,537)	(26,960)	(15,802)
Interest on Funding Deficiency	<u>-</u>	<u>900</u>	<u>236</u>
Net Change in Plan Fiduciary Net Position	103,557	(50,231)	128,730
Plan Fiduciary Net Position - Beginning	<u>2,676,977</u>	<u>2,780,533</u>	<u>2,730,302</u>
Plan Fiduciary Net Position - Ending (b)	<u>\$ 2,780,534</u>	<u>\$ 2,730,302</u>	<u>\$ 2,859,032</u>
Net Pension Liability - Ending (a-b)*	<u>\$ 354,122</u>	<u>\$ 457,268</u>	<u>\$ 503,642</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	88.7%	85.7%	85.0%
Estimated Covered Employee Payroll	\$ 289,350	\$ 326,300	\$ 338,188
Net Pension Liability as a Percentage of Covered Employee Payroll	122.4%	140.1%	148.9%

* The net pension liability presented in this schedule for the years ended December 31, 2015 and 2016 does not include a \$12,487 funding deficiency for the year 2013 less \$900 interest payable on the funding deficiency.

CITY OF CORRY FIREMEN'S 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, 2015 and 2016, calculated using the discount rate of 7.50%, 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 (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Net Pension Liability - 12/31/15	\$ 927,047	\$ 445,680*	\$ 62,781
Net Pension Liability - 12/31/16	\$ 996,738	\$ 492,054*	\$ 90,423

* The net pension liability presented in this schedule as of December 31, 2015 and 2016 at the current discount rate (7.50%) includes a \$12,487 funding deficiency for the year 2013 less \$900 interest payable on the funding deficiency.

Note: The discount rate of 7.50% was used in the preparation of the city's December 31, 2015 and 2016 GASB 67 schedules. This rate differs from the 7.25% reported in the Notes to Supplementary Schedules on page 7 of this report.

CITY OF CORRY 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
2008	\$ 101,235	\$ 100,666	\$ 569	\$ 276,616	36.4%
2009	93,490	100,708	(7,218)		
2010	98,690	122,829	(24,139)	299,516	41.0%
2011	129,034	115,118	13,916		
2012	128,844	114,928	13,916	311,122	36.9%
2013	97,641	86,365	11,276		
2014	97,709	96,411	1,298	289,350	33.3%
2015	109,161	109,162	(1)	326,300	33.5%
2016	108,568	123,453	(14,884)	338,188	36.5%
2017	111,428	126,469	(15,041)		

* 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 odd years prior to 2014. In addition, due to the timing of this engagement, covered-employee payroll for 2017 was not provided in this schedule.

SCHEDULE OF INVESTMENT RETURNS

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

2016	5.64%
2015	(0.51%)
2014	5.82%

CITY OF CORRY 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, 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	\$ 2,240,915	\$ 2,794,022	\$ 553,107	80.2%
01-01-15	2,652,405	3,016,223	363,818	87.9%
01-01-17	3,029,071	3,442,313	413,242	88.0%

Note: The market values of the plan's assets at 01-01-13, 01-01-15, and 01-01-17 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 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 CORRY 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, 2017
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 *	7.25%
Projected salary increases *	4.50%
Cost-of-living adjustments	2.75%

* Includes inflation at 2.75%

CITY OF CORRY FIREMEN'S PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

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