

# COMPLIANCE AUDIT

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## City of Corry Firemen's Pension Plan Erie County, Pennsylvania For the Period January 1, 2018 to December 31, 2019

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September 2020



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 have conducted a compliance audit of the City of Corry Firemen's Pension Plan for the period January 1, 2018 to December 31, 2019. 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 member who retired subsequent to 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 individual and comparing these amounts to supporting documentation evidencing amounts determined and actually paid to the recipient.
- We determined whether the January 1, 2017 and January 1, 2019 actuarial valuation reports were prepared and submitted by March 31, 2018 and 2020, 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 an audit of its basic financial statements, for the year ended December 31, 2018, 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 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 Corry 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 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.

September 16, 2020



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.

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 Corry 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 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.

The City of Corry Firemen's Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance 770, as amended, adopted pursuant to Act 67. The plan is also affected by the provisions of collective bargaining agreements between the city and its firefighters. The plan was established December 31, 1948. Active members hired prior to January 1, 2018 are required to contribute 4 percent of compensation, plus \$1 per month for monthly service increment, to the plan. Active members hired after January 1, 2018 are required to contribute 5 percent of compensation, plus \$1 per month for monthly service increment, to the plan. As of December 31, 2019, the plan had 8 active members and 8 retirees receiving pension benefits.

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

Noncompliance With Prior Recommendation

The City of Corry 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 CORRY FIREMEN’S PENSION PLAN  
FINDING AND RECOMMENDATION

**Finding – Noncompliance With Prior Recommendation – Inconsistent Pension Benefits**

Condition: As indicated in the prior report, 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. A similar condition existed during the current audit period. The collective bargaining agreement between the city and its firefighters covering the period January 1, 2018 to December 31, 2020, remains inconsistent with the plan’s governing document, 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: The city, along with assistance from the city’s solicitor and labor attorney, began reviewing the pension ordinances with an internal committee to comply with the prior recommendation. However, due to the COVID 19 pandemic, the process was interrupted and inconsistencies remain as of the date of this report.

Effect: As previously disclosed, inconsistent plan documents could result in inconsistent or improper benefit calculations and incorrect benefit payments from the pension plan.

Recommendation: We again 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.



CITY OF CORRY FIREMEN'S PENSION PLAN  
FINDING AND RECOMMENDATION

**Finding – (Continued)**

Management's Response: Municipal officials agreed with the finding and indicated the following:

The City began reviewing our pension ordinances with an internal committee as well as assistance from our City solicitor. Then, in late 2019, the city also got its labor attorney involved for assistance. This process continued through early 2020 but stalled quickly due to COVID 19 and has not been revisited to date. The City plans to update the police, fire and non-uniformed plans to align with the labor agreements and any updates and/or findings, which have been revealed previously. Additionally, the City plans to update the plans in relation to the option for vesting after 12 years of service. The City intends to bring the plans current and ensure compliance. This project will resume as soon as possible in relation to attempts to limit in person meetings due to the Covid protocols.

Auditor's Conclusion: We are concerned that the municipality has not complied with the prior audit recommendation and encourage compliance at the earliest opportunity to do so. Although, based on the management response, it appears municipal officials intend to comply with the finding recommendation. Compliance will be evaluated during the next plan engagement.

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, 2015, 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)
01-01-15	\$ 2,652,405	\$ 3,016,223	\$ 363,818	87.9%
01-01-17	3,029,071	3,442,313	413,242	88.0%
01-01-19	3,281,831	3,444,836	163,005	95.3%

Note: The market values of the plan's assets at 01-01-15, 01-01-17, and 01-01-19 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 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  
 (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
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)	353,560	35.8%
2018	101,043	112,404	(11,361)	351,777	32.0%
2019	116,573	116,573	-		

\* 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 odd years prior to 2014. In addition, due to the timing of this audit, covered-employee payroll for 2019 was not provided in this schedule.

CITY OF CORRY FIREMEN'S PENSION PLAN  
SUPPLEMENTARY INFORMATION  
NOTES TO SUPPLEMENTARY INFORMATION  
(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, 2019
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:

**The Honorable Tom W. Wolf**  
Governor  
Commonwealth of Pennsylvania

**The Honorable David E. Mitchell**  
Mayor

**Mr. Jason T. Biondi**  
City Manager

**Ms. Joanne M. Smith**  
City Clerk

**Mr. William Roche**  
Finance Director

**Ms. Diane L. Cowles**  
City Controller

**Ms. Donna M. Huffman**  
City Treasurer

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