

# COMPLIANCE AUDIT

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## City of Corry Police Pension Plan Erie County, Pennsylvania For the Period January 1, 2020 to December 31, 2022

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May 2024



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 Corry  
Erie County  
Corry, PA 16407

We have conducted a compliance audit of the City of Corry Police 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 findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings 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 plan members 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 recipients.
- 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 Police 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.

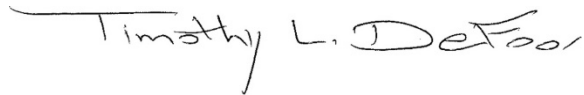
The results of our procedures indicated that, in all significant respects, the City of Corry Police Pension Plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies, except as noted in the following findings further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

Finding No. 1 – Incorrect Data On Certification Form AG 385 Resulting In An Underpayment Of State Aid

Finding No. 2 – Pension Benefit Provisions Not In Compliance With Act 67

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

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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 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 Police 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 Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 1642, effective December 18, 2023, adopted pursuant to Act 67. Prior to December 18, 2023, the plan was governed by Ordinance No. 768, as amended, also adopted pursuant to Act 67. The plan is also affected by the provisions of collective bargaining agreements between the city and its police officers. The plan was established December 31, 1948. Active members are required to contribute 4 percent of compensation, plus \$1 per month for monthly service increments. As of December 31, 2022, the plan had 9 active members, no terminated members eligible for vested benefits in the future, and 20 retirees receiving pension benefits from the plan.

CITY OF CORRY POLICE PENSION PLAN  
STATUS OF PRIOR FINDING

Compliance With Prior Recommendation

The City of Corry has complied with the prior recommendation concerning the following:

· Inconsistent Benefit Provisions

The city adopted Ordinance No. 1624, effective October 31, 2022, to provide a minimum normal retirement age and a cap on service increment payments of \$200 per month for consistency with the collective bargaining agreement in effect from January 1, 2022 to December 31, 2027.

CITY OF CORRY POLICE PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – Incorrect Data On Certification Form AG 385 Resulting In An Underpayment Of State Aid**

Condition: The city understated police payroll by \$93,723 on the Certification Form AG 385 filed in 2022. The data contained on this certification form is based on prior calendar year information.

Criteria: Pursuant to the instructions that accompany Certification Form AG 385, the total payroll eligible to be certified should be Internal Revenue Service Form W-2 earnings pertaining to full-time positions.

Cause: Plan officials failed to ensure the data certified agreed with payroll records.

Effect: The data submitted on this certification form is used, in part, to calculate the state aid due to the municipality for distribution to its pension plans. Because the city’s state aid allocation was based on pension costs, the city received an underpayment of state aid, as identified below:

<u>Year</u>	<u>Normal Cost</u>	<u>Payroll Understated</u>	<u>State Aid Underpayment</u>
2022	11.7687%	\$ 93,723	\$ 11,030

Although the additional state aid will be allocated to the city, the full amount of the 2022 state aid allocation was not available to be deposited timely and therefore was not available to fund benefits, pay operating expenses, or for investment.

Recommendation: We recommend that in the future, plan officials establish adequate internal control procedures, such as having at least two people review the data certified, to ensure compliance with the instructions that accompany Certification Form AG 385 to assist them in accurately reporting the required pension data.

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 POLICE PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 2 – Pension Benefit Provisions Not In Compliance With Act 67**

Condition: During and subsequent to the current audit period, the pension plan’s governing document was amended several times and restated in its entirety twice. The plan’s current governing document, Ordinance No. 1642, effective December 18, 2023, contains benefit provisions that are not in compliance with Act 67.

Section 15B of Ordinance No. 1642 states:

Each eligible Police Officer who shall have served for twelve (12) years or more and shall have attained the age of fifty (50) years and whose office or employment shall be terminated with or without his/her voluntary action before the expiration of twenty (20) years of service shall, in such event, during the remainder of his/her life, be entitled to receive such portion of the annual pension benefit as the period of his/her service up to the date of termination bears to the full twenty (20) year period of service.

Section 15C of Ordinance No. 1642 states:

Each eligible Police Officer who shall have served for twelve (12) years or more, and shall not have attained the age of fifty (50) years, and whose office or employment shall be terminated with or without his or her voluntary action before the expiration of twenty (20) years of service, shall, in such event, during the remainder of her/her life, after attaining the age of sixty (60) years, be entitled to receive such portion of the annual pension benefit as the period of his/her service up to the date of termination bears to the full twenty (20) year period of service.

These provisions are not specified as vested or early retirement benefit provisions; therefore, we cannot determine compliance with Act 67.

If it is the city’s intent to provide a vested benefit, the provision must be in accordance with Section 14302.1 of Act 67. Contrarily, if it is the city’s intent to provide an early retirement benefit through Sections 15B and 15C of Ordinance No. 1642, early retirement benefits are not authorized by Act 67.

CITY OF CORRY POLICE PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 2 – (Continued)**

Criteria: Relative to a vested benefit, Section 14302.1 of Act 67 states:

**Limited vested benefit.**

**(a) Ordinance.** – The ordinance establishing a police pension fund may provide for a limited vested benefit if the benefit would conform to section 305 of the act of December 18, 1984 (P.L.1005, No.205), known as the Municipal Pension Plan Funding Standard and Recovery Act.

**(b) Requirements.** – Under a limited vested benefit, a member of the police pension fund who has not completed the minimum period of continuous service requirement and satisfied an applicable minimum age requirement but who has completed 12 years of full-time service shall be entitled to vest the member's retirement benefits subject to the following conditions:

(1) The member must file with the management board of the police pension fund a written notice of the member's intention to vest.

(2) The member must include in the notice the date the member intends to terminate the member's service as a full-time police officer.

(3) The termination date shall be at least 30 days later than the date of notice to vest.

(4) The member must be in good standing with the police department on the date of the notice to vest.

(5) The board shall indicate on the notice to vest the rate of the monthly pay of the member as of the date of the notice to vest or the highest average annual salary which the member received during any five years of service preceding that date, whichever is higher.

**(c) Notification.** – Upon reaching the date that would have been the member's retirement date if the member continued full-time employment with the police department, the member shall notify the board, in writing, that the member desires to collect the member's pension.

**(d) Amount of retirement benefits.** – The amount of retirement benefits the member is entitled to receive under this section shall be computed as follows:

(1) The initial determination of the member's base retirement benefits shall be computed on the salary indicated on the notice to vest.

(2) The portion of the base retirement benefits due the member shall be determined by applying to the base amount the percentage that the member's years of service rendered bears to the years of service that would have been rendered if the member continued to be employed by the department until the member's minimum retirement date.

CITY OF CORRY POLICE PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 2 – (Continued)**

Section 14302.1(c) cited above provides that the vested benefit is payable upon reaching the date that would have been the member's retirement date if the member continued full-time employment with the police department (*age 50 and the attainment of what would have been 20 years of service, based on the pension plan's provision for a normal retirement benefit*).

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 67.

Cause: Municipal officials restated the governing plan document 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 67.

Effect: Maintaining a benefit structure that is not in compliance with Act 67 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 police pension plan's benefit structure into compliance with Act 67 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 POLICE 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	\$ 6,053,369	\$ 6,172,789	\$ 119,420	98.1%
01-01-21	6,855,386	6,504,001	(351,385)	105.4%
01-01-23	7,242,356	6,983,834	(258,522)	103.7%

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 POLICE 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 POLICE PENSION PLAN  
 SUPPLEMENTARY INFORMATION  
 (UNAUDITED)

SCHEDULE OF CONTRIBUTIONS

<u>Year Ended December 31</u>	<u>Actuarially Determined Contribution</u>	<u>Actual Contributions</u>	<u>Contribution Deficiency (Excess)</u>	<u>Covered- Employee Payroll</u>	<u>Contributions as a Percentage of Covered- Employee Payroll</u>
2013	\$ 102,062	\$ 102,062	\$ -	*	
2014	112,959	112,959	-	717,102	15.8%
2015	88,748	88,748	-	710,421	12.5%
2016	41,856	41,856	-	751,242	5.6%
2017	39,957	39,957	-	678,493	5.9%
2018	39,145	50,506	(11,361)	739,931	6.8%
2019	65,980	65,980	-	759,010	8.7%
2020	84,947	84,947	-	748,272	11.4%
2021	69,819	69,819	-	631,032	11.1%
2022	66,902	66,902	-	775,248	8.6%

\* 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 POLICE 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	Not applicable
Remaining amortization period	None
Asset valuation method	Fair value, 4-year smoothing
Actuarial assumptions:	
Investment rate of return	7.0%
Projected salary increases *	4.5%
Cost-of-living adjustments	None assumed

\* Includes inflation at 2.75%

CITY OF CORRY POLICE PENSION PLAN  
COMMENT

Salary Increases Prior To Retirement

On February 23, 2021, city and police department officials signed a Memorandum of Understanding between the city and its police officers offering a select group of police officers a voluntary early retirement offer. The early retirement offer was afforded to police officers who already satisfied the requirements for retirement eligibility on or before May 14, 2021, and who elected retirement effective on or before such date. The memorandum provided that on the day prior to the effective date of retirement, police officers who elected to participate in the early retirement offer would be promoted to the rank of Lieutenant and receive a seven (7.0) percent increase of their current base salary, enabling the officer to receive retirement benefits based on the increased salary. A cost estimate of the impact of the early retirement offer on the pension plan was not provided. Two police officers elected to retire pursuant to the offer.

The city's methodology for basing retirement benefits on the rate of monthly pay at the date of retirement is in accordance with the Third Class City Code (Act 67); however, it is important to consider the funding standard for municipal pension plans. The overarching principle of Act 205 is undermined when a plan is funded based on an established plan benefit structure and an important piece of the overall underlying accrued liability (*i.e. the rate of monthly pay*) is abruptly changed and, therefore, cannot be funded over time in accordance with Act 205. While city officials may promote and pay police officers at their discretion, promoting an employee the day before retirement prohibits the plan actuary from properly determining and forecasting the costs of the retirement offer, prohibits employees from contributing to the plan on the increased earnings, and prohibits proper funding of the pension plan, accordingly. Early retirement offers to select individuals increases the pension benefits for certain retirees, increases required future municipal contributions to the plan, and jeopardizes the fiscal soundness of the pension plan.



CITY OF CORRY POLICE 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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