

# COMPLIANCE AUDIT

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## City of Oil City Employees' Pension Plan Venango County, Pennsylvania For the Period January 1, 2022 to December 31, 2024

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June 2025



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 Oil City  
Venango County  
Oil City, PA 16301

We have conducted a compliance audit of the City of Oil City Employees' Pension Plan for the period January 1, 2022 to December 31, 2024. 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 plan members who retired and the plan member who elected to vest 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 or payable to the recipients.
- We determined whether the January 1, 2023 actuarial valuation report was prepared and submitted by March 31, 2024 in accordance with Act 205 and whether selected information provided on this report 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 Oil City contracted with an independent certified public accounting firm for annual audits of its basic financial statements for the years ended December 31, 2022 and 2023, 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.

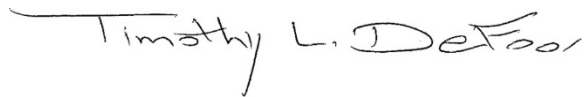
City officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the City of Oil City Employees' Pension Plan is administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances 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 Oil City 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 – Incorrect Pension Benefit Calculations

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 Oil City 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 dark ink, reading "Timothy L. DeFoor". The signature is written in a cursive style with a horizontal line above the first name.

Timothy L. DeFoor  
Auditor General  
May 29, 2025

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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 Oil City 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 399 - Optional Third Class City Charter Law, Act of July 15, 1957 (P.L. 901, No. 399), as amended, 53 P.S. § 41101 et seq.

The City of Oil City Employees' Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 2611, as amended, and Article IV of Chapter 55 of the city's codified ordinances. The plan is also affected by the provisions of collective bargaining agreements between the city and its non-uniformed employees. The plan was established May 25, 1942. Active members are required to contribute 5 percent of base wages, plus 0.5% for service increment eligibility; or 3.5 percent of base wages if hired before January 1, 1993 and elect the Social Security offset, plus 0.5% for service increment eligibility. As of December 31, 2024, the plan had 39 active members, 2 terminated members eligible for vested benefits in the future, and 52 retirees receiving pension benefits from the plan.

CITY OF OIL CITY EMPLOYEES' PENSION PLAN  
FINDING AND RECOMMENDATION

**Finding – Incorrect Pension Benefit Calculations**

Condition: Two members of the pension plan who retired on June 22, 2022 and June 2, 2023, respectively, had their pension benefits incorrectly determined because municipal officials failed to accurately calculate their service increment benefits in accordance with the plan's governing document.

In addition, a member who retired on March 30, 2023 had their pension benefit incorrectly determined because municipal officials failed to accurately calculate their monthly benefit amount in accordance with the plan's governing document.

Criteria: Article IV of the Codified Ordinances at Section 55-56 E (2) states, in part:

The amount of the service increment benefit shall equal 1.25% of average annual compensation multiplied by the total number of completed whole years of credited service in excess of 20 years. In computing the amount of service increment benefit, years of credited service completed after the participant attains age 65 shall not be included.

In addition, Article IV of the Codified Ordinances at Section 55-56 B (1) states, in part:

The annual amount of the normal retirement benefit shall be equal to 2.5% of the participant's average annual compensation multiplied by the participant's years of credited service up to a maximum benefit of 50% of average annual compensation.

Cause: Municipal officials failed to establish adequate internal control procedures to ensure the pension benefits were properly determined in accordance with the plan's governing document.

Effect: The plan is paying a total of \$652 in monthly pension benefits to three retirees in excess of those authorized by the plan's governing document.

Recommendation: We recommend that municipal officials adjust the retirees' pension benefits prospectively in accordance with the provisions contained in the plan's governing document.

Management's Response: Municipal officials agreed with the finding without exception. Before the completion of the audit, the city recalculated two of the retirees' pension benefits and intends to adjust the monthly benefit payments prospectively. City officials indicated they also intend to recalculate and adjust the third retiree's benefit.

Auditor's Conclusion: Compliance will be evaluated during our next audit of the plan.

CITY OF OIL CITY 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, 2019, 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	\$ 14,478,410	\$ 15,400,718	\$ 922,308	94.0%
01-01-21	15,978,356	15,975,714	(2,642)	100.0%
01-01-23	17,461,314	16,106,976	(1,354,338)	108.4%

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 4-year averaging period, subject to a corridor between 80 to 120 percent of the market value of assets. 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 OIL CITY 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 OIL CITY 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
2015	\$ 181,412	\$ 181,412	\$ -	\$1,989,195	9.1%
2016	128,282	128,282	-	1,808,721	7.1%
2017	108,427	108,427	-	1,939,273	5.6%
2018	112,231	112,231	-	1,996,590	5.6%
2019	235,162	235,162	-	2,006,344	11.7%
2020	229,146	229,146	-	2,096,934	10.9%
2021	284,918	284,918	-	1,852,686	15.4%
2022	299,216	299,216	-	2,105,949	14.2%
2023	213,545	245,768	(32,223)	2,147,277	11.5%
2024	214,908	214,908	-	*	

\* Due to the timing of this audit, covered-employee payroll for 2024 was not provided in this schedule.

CITY OF OIL CITY 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	4-year smoothing, subject to a corridor between 80% to 120% of the market value of assets.
Actuarial assumptions:	
Investment rate of return	7.0%
Projected salary increases *	4.0%

\* Includes inflation at 2.5%

CITY OF OIL CITY 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 John J. Kluck**  
Mayor

**Mr. Mark G. Schroyer**  
City Manager

**Ms. Michelle Hoovler**  
Finance Officer

This report is a matter of public record and is available online at [www.PaAuditor.gov](http://www.PaAuditor.gov). Media questions about the report can be directed to the Pennsylvania Department of the Auditor General, Office of Communications, 229 Finance Building, Harrisburg, PA 17120; via email to: [news@PaAuditor.gov](mailto:news@PaAuditor.gov).