

# COMPLIANCE AUDIT

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## City of Jeannette Firemen's Pension Plan Westmoreland County, Pennsylvania For the Period January 1, 2020 to December 31, 2022

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January 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 Jeannette  
Westmoreland County  
Jeannette, PA 15644

We have conducted a compliance audit of the City of Jeannette Firemen's 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 objective. We believe that the evidence obtained provides a reasonable basis for our findings 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 that there were no benefit calculations prepared for the years covered by our audit period.
- We determined whether the January 1, 2021, actuarial valuation report was prepared and submitted by March 31, 2022, 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.
- We determined whether the pension plan is in compliance with Act 205 for distressed municipalities through inquiry of plan officials and evaluation of the recovery remedies implemented during the audit period.

The City of Jeannette contracted with an independent certified public accounting firm for audits of its basic financial statements, for the years ended December 31, 2020, and 2021, 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 Jeannette 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 objective.

The results of our procedures indicated that, in all significant respects, the City of Jeannette 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 findings further discussed later in this report:

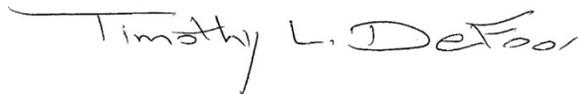
Finding No. 1 – Noncompliance With Prior Audit Recommendation –  
Inconsistent And Unauthorized Pension Benefits

Finding No. 2 – Failure To Properly Fund The City's Pension Plans In  
Accordance With Special Tax Provisions Of Act 205

Finding No. 1 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 the previously reported finding and strongly encourage timely implementation of the recommendation noted in this 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 Jeannette 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.



Timothy L. DeFoor  
Auditor General  
November 27, 2023

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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 Jeannette 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 Jeannette Firemen's Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 14-03, 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 February 3, 1966. Active members are required to contribute five percent of compensation plus \$5 per month to the plan until age 65. As of December 31, 2022, the plan had three active members, no terminated members eligible for vested benefits in the future, and three retirees receiving pension benefits.

CITY OF JEANNETTE FIREMEN'S PENSION PLAN  
STATUS OF PRIOR FINDINGS

Status Of Prior Recommendation

- Failure To Use Special Tax Proceeds For Intended Purposes In Accordance With Special Taxing Provisions Of Act 205

As disclosed in the three most recent audit reports, the City of Jeannette enacted a special tax pursuant to Section 607 (f) of Act 205 to assist the city in funding its pension plans. The special earned income tax rate was .85%, effective January 1, 2016, and has remained in effect throughout the current audit period, as well as subsequent to our audit period through the date of this report.

The prior audit report disclosed that the city failed to utilize the entire proceeds of its annual special municipal tax collected during 2020 pursuant to the distress provisions of the Act 205 and instead, transferred \$194,894 from the special municipal tax fund to the general fund to pay for Other Post-Employment Benefits (OPEB), which were not actuarially accounted for on the pension plan's actuarial valuation report. It was previously recommended the city reimburse the Act 205 special tax account, utilize the funds to defray the additional costs directly related to the city's pension plans pursuant to Act 205 and ensure that annual proceeds received under the special tax are utilized appropriately in accordance with Act 205.

Through a coordinated effort between the city, its contracted advisors and this Department, the city revised its January 1, 2021, actuarial valuation report, accordingly, to include the costs associated with the OPEB benefits, amortized the net increase in unfunded liability from inclusion of the OPEB costs and revised the 2023 minimum municipal obligations due the pension plans. In addition, the city indicated that the OPEB costs would be included on subsequent valuation reports filed with the Municipal Pension Reporting Program. The department will continue to monitor the city's compliance with Act 205 in subsequent audits of the pension plan.

Although the city made strides to adhere with the special taxing provisions of Act 205, a separate issue involving Section 607 of Act 205 was disclosed during the current audit period as further discussed in Finding No. 2 contained in this report.

Noncompliance With Prior Recommendation

The City of Jeannette has not complied with the prior recommendation concerning the following as further discussed in the Findings and Recommendations section of this report:

- Inconsistent And Unauthorized Pension Benefits

CITY OF JEANNETTE FIREMEN’S PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – Noncompliance With Prior Audit Recommendation – Inconsistent And Unauthorized Pension Benefits**

Condition: As disclosed in our prior audit report, the pension plan’s governing document, Ordinance No. 14-03, as amended by Ordinance No. 19-03, contains benefit provisions that conflict with the collective bargaining agreement between the firemen and the city and are not authorized by the Third Class City Code, as follows:

<u>Benefit Provision</u>	<u>Governing Document</u>	<u>Collective Bargaining Agreements</u>	<u>Third Glass City Code</u>
Cost-of-living allowance	Section 4.03 of Article IV of Ordinance No. 19-03, states: Employer may, at any time, at its discretion and upon the recommendation of the Plan Administrator having custody and management of the Plan, increase the allowances of Participants receiving allowances of any kind from the Pension Plan by reason of and after the termination of the services of any Participant of the Plan.	Section 3 of Article XII of the collective bargaining agreements effective January 1, 2012 to December 31, 2018, and January 1, 2019 to December 31, 2022, states, in part:  The City agrees to adopt an ordinance providing for appropriate pension terms and for members of the bargaining unit in compliance with the Third-Class city Code...The city also agrees to increase the pension payout every 3 years by 2.5%.	Section 4322.1 (a) Recommendation states: A city may, at any time, at its discretion and upon the recommendations of the persons having custody and management of the firefighters pension fund, increase the allowances of individuals receiving allowances of any kind from the fund by reason of and after termination of the services of any member of the fund. (b) Uniform scale: Increases made pursuant to this section shall be in conformity with a uniform scale, which may be based on the cost of living, but the of the allowances shall not, at any time, exceed one-half of the current salary being paid firefighters of the highest pay grade.

CITY OF JEANNETTE FIREMEN’S PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – (Continued)**

<u>Benefit Provision</u>	<u>Governing Document</u>	<u>Collective Bargaining Agreements</u>	<u>Third Glass City Code</u>
Compensation	<p>Section 1.13 of Ordinance No. 19-03, states: “Compensation” shall mean the basic rate of remuneration including overtime, longevity, holiday pay paid to an Employee by the Employer with respect to personal services rendered as an Employee and shall exclude all other forms of remuneration including but not limited to expense reimbursement and retirement buybacks. Amounts paid as lump sums for back-pay damage awards or settlements other than to the extent that such amounts are credited to period of time when they would otherwise have been accrued or earned shall be excluded such that no amounts are credited in a manner which would result in duplication of remuneration for any particular period of time.</p>	<p>Section 3 of Article XII of the Collective Bargaining Agreement effective January 1, 2012, to December 31, 2018, and January 1, 2019, to December 31, 2022, states, in part:</p> <p>...The City shall amend the Ordinance to indicate that a firefighter’s pension will be based on his total wages as reflected on his W-2 form and/or pay stub, whichever is higher.</p>	<p>Section 14319 of Act 67 defines Salary as the fixed amount of compensation paid at regular, periodic intervals by the city to the member and from which pension contributions have been deducted.</p>

CITY OF JEANNETTE FIREMEN’S PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – (Continued)**

<u>Benefit Provision</u>	<u>Governing Document</u>	<u>Collective Bargaining Agreements</u>	<u>Third Glass City Code</u>
Service Increment	<p>Section 4.05 of Ordinance No. 14-03, states, in part: ...a participant who shall retire after completion of more Years of Credited Service than the number required for attainment of Normal Retirement Age, may be entitled to receive a monthly Service Increment benefit... The service increment shall be a monthly amount equal one-fortieth (1/40) of the benefit ...multiplied by the total number of completed Years of Credited Service in excess of the number of Years of Credited Service required to be completed by the Participant for attainment of Normal Retirement Age. Notwithstanding the foregoing, in no event shall the monthly amount of Service Increment Benefit exceed \$500...</p> <p>Section 3.01 of Article III of Ordinance No. 14-03, states, in part: ...Each Participant shall also contribute \$12 per year for the Service Increment which will be deducted on a pro-rata basis from the Participant’s Compensation as paid until the Participant attains age sixty-five (65) or terminates Employment whichever shall first occur.</p>	No provision	Section 14322(b) of Act 67, states in part: A service increment provision, indicating that additional benefits accrue to age 65 for service exceeding the minimum required for retirement in an amount equal to 1/40 <sup>th</sup> (2.5%) times the monthly pension benefit for each whole year over the minimum not to exceed \$500 per month. In computing the service increments, no employment after the contributor has reached 65 years of age shall be included, provided that any agreement to provide an increase in service increment payments shall include a proportionate increase in the amount each contributor shall pay into the retirements fund not to exceed \$5 per month.

*It should be noted that the city’s current practice for withholding members’ contributions towards service increments (\$60 per year or \$5 per month) was consistent with the Third Class City Code but inconsistent with the plan’s governing document.*

CITY OF JEANNETTE FIREMEN'S PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – (Continued)**

Criteria: A governing document which contains clearly defined and updated benefit provisions, including those negotiated through the collective bargaining process, is a prerequisite for the consistent, sound administration of retirement benefits. Also, the pension plan's benefit structure should be in compliance with the provisions of the Third Class City Code.

Cause: City officials failed to update the plan's governing documents but believed that the Third Class City Code authorizes the benefits granted regarding the plans retirement provisions. In addition, the city lacks adequate internal control procedures to ensure the plan's governing document and the collective bargaining agreement contain consistent benefit provisions.

Effect: Inconsistent plan documents could result in inconsistent or improper benefit calculations and incorrect benefit payments from the pension plan. In addition, each participant is currently having contributions deducted from compensation and contributed to the plan in excess of the plan's document as currently stated (*i.e., 5% of Compensation plus \$60 per year in lieu of \$12 per year for the Service Increment as stated in the plan document*).

Recommendation: We again recommend that the city amend the plan's governing document as necessary to reflect all benefit obligations of the pension plan and eliminate inconsistencies among the various plan documents. We also recommend that the city comply with the Third Class City Code upon the renewal, extension, or renegotiation of the collective bargaining agreement.

Furthermore, we again recommend that in the future, the city withhold contributions from members towards future service increments in accordance with the plan document or amend the plan document as necessary, in accordance with its current practice and the Third Class City Code.

Management's Response: An exit conference was held with the city on October 30, 2023, and management indicated that they would provide a written response to this finding within 10 days. However, as of the date of this report, no such response has been provided.

Auditor's Conclusion: Based on the criteria cited above, the finding remains as stated. Compliance will be evaluated during our next audit of the plan.

CITY OF JEANNETTE FIREMEN'S PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 2 – Failure To Properly Fund The City's Pension Plans In Accordance With Special Tax Provisions Of Act 205**

Condition: Under the discretionary remedies available through the distress provisions of Act 205 to provide short-term fiscal relief to local governments operating public pension plans, the City of Jeanette adopted Ordinance No. 10-08, effective January 1, 2011, amending its Earned Income Tax provisions for both residents and non-residents of the city for the sole purpose of defraying the additional costs required to be paid pursuant to Act 205 directly related to the city's pension plans. Additionally, the city commissioned its pension plan actuarial firm (firm) to prepare the calculation necessary to determine the appropriate funding levels mandated under the distress provisions of Act 205. However, the city did not maintain its required level of funding from sources prior to implementation of the special tax for the city's police, firemen and non-uniformed pension plans for the year 2021, as required by the distress provision of Act 205. Based upon the calculation prepared by its firm, the city underpaid its required obligation by \$189,356 for the year 2021 according to the act.

Criteria: With regard to the MMO, Section 302(c) of Act 205 states, in part:

Annually, the chief administrative officer of the pension plan shall determine the minimum obligation of the municipality with respect to the pension plan for the following plan year.

Section 302(d) of Act 205 states, in part:

The minimum obligation of the municipality shall be payable to the pension plan from the revenue of the municipality.

Furthermore, relative to the funding of certain distress pension plans, Section 607(f) of Act 205 further states:

**(f) Special municipal taxing authority.**

- (1) If the tax rates set by the municipality on earned income or on real property are at the maximum provided by applicable law, the municipality may increase its tax on either earned income or real property above those maximum rates. The proceeds of this special municipal tax increase shall be used solely to defray the additional costs required to be paid pursuant to this act which are directly related to the pension plans of the municipality. The municipality utilizing this special municipal taxing authority shall not reduce the level of municipal contributions to the pension plans prior to the implementation of the special municipal taxing authority. [Emphasis added.]

CITY OF JEANNETTE FIREMEN'S PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 2 – (Continued)**

- (2) The average level of municipal contributions to the pension plans from all revenue sources for the three years immediately prior to the implementation of the special municipal taxing authority shall be expressed as a percentage of the average covered payroll for that same three-year period: Provided, however, That any supplemental contributions made to the plans pursuant to any pension recovery legislation enacted by the municipalities shall be excluded for purposes of determining the level of municipal contribution to the pension plans prior to the implementation of the special municipal taxing authority. In each year subsequent to the implementation of the special municipal taxing authority, the municipal contributions to the pension plan from all revenue sources existing prior to the implementation of the special existing municipal taxing authority, reduced by any supplemental pension recovery contributions, shall equal or exceed this average percentage of the current covered payroll. [Emphasis added.] A municipality utilizing the provisions of section 404 may levy or continue to levy the special municipal tax increase under this subsection provided that the municipality does not reduce the level of municipal contributions to the pension plans prior to the implementation of the special municipal taxing authority. In executing the procedure prescribed in this subsection to determine the level of municipal contributions, the debt service payments for bonds or notes issued under section 404 shall be considered municipal contributions.

Cause: There was a recent turnover of plan officials responsible for the administration of the city's pension plans and although prior city administrators commissioned the actuarial firm to prepare the calculation necessary to determine the appropriate funding levels mandated by Section 607(f) of Act 205 after enacting the special taxing legislation, the city lacked adequate internal control procedures to ensure that it did not reduce its level of contributions to its pension plans prior to the implementation of the special municipal taxing authority before application of funding available under the special tax provisions of Act 205.

Effect: The failure to properly apply the provisions of Section 607(f) of Act 205 and fund the pension plan accordingly, resulted in less annual funding towards the city's distressed pension plans than afforded under Act 205 during 2021 and could result in the plans not having adequate resources to meet current and future benefit obligations to its members.

Due to the city's failure to properly apply the provisions of Act 205 during 2021, the city must add its outstanding obligation in the total amount of \$189,356 to the current year's minimum municipal obligation and include interest, as required by Act 205.

CITY OF JEANNETTE FIREMEN'S PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 2 – (Continued)**

Recommendation: We recommend that the city pay the outstanding contribution due the city's pension plans from its General Fund revenues, plus interest, in accordance with Section 607(f) of Act 205. A copy of the calculation must be maintained by the city for examination during our next audit of the plan. In addition, we recommend that the city implement adequate internal control procedures to ensure that in the future, the city does not reduce its level of contributions to its pension plans from revenue sources existing prior to the implementation of the special municipal taxing authority before application of funding available under the special tax provisions of Act 205.

Management's Response: An exit conference was held with the city on October 30, 2023, and management indicated that they would provide a written response to this finding within 10 days. However, as of the date of this report, no such response has been provided.

Auditor's Conclusion: Based on the criteria cited above, the finding remains as stated. Compliance will be evaluated during our next audit of the plan.

CITY OF JEANNETTE 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, 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)
01-01-17	\$ 997,777	\$ 1,621,486	\$ 623,709	61.5%
01-01-19	1,494,157	1,661,859	167,702	89.9%
01-01-21	2,149,612	1,842,096	(307,516)	116.7%

Note: The market values of the plan's assets at 01-01-17, 01-01-19, and 01-01-21 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 JEANNETTE 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 JEANNETTE 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*
2013	\$ 87,146	\$ 87,146	\$ -		
2014	88,760	88,760	-	\$ 145,974	60.8%
2015	87,407	87,407	-	211,250	41.4%
2016	99,263	99,263	-	187,279	53.0%
2017	119,532	419,532	(300,000)	200,364	209.4%
2018	119,459	219,459	(100,000)	213,774	102.7%
2019	129,950	144,106	(14,156)	209,417	68.8%
2020	123,015	273,015	(150,000)	226,235	120.7%
2021	88,188	88,188	-	240,483	36.7%
2022	103,669	103,669	-	274,295	37.8%

\* 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 odd years prior to 2014.

CITY OF JEANNETTE 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, 2021
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	6.75%
Projected salary increases *	5.0%

\* Includes inflation at 2.5%

CITY OF JEANNETTE FIREMEN'S PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

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