COMPLIANCE AUDIT

City of Jeannette
Non-Uniformed Pension Plan

Westmoreland County, Pennsylvania

For the Period

January 1, 2020 to December 31, 2022

January 2024

TIMOTHY L. DeFOOR • AUDITOR GENERAL •

Commonwealth of Pennsylvania
Department of the 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 Non-Uniformed 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 findings 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 findings 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 recipient.

- 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 Non-Uniformed Pension Plan participates in the Pennsylvania Municipal Retirement System (PMRS), which is an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for participating municipal pension plans. PMRS issues a separate Annual Comprehensive Financial Report, copies of which are available from the PMRS accounting office. PMRS's 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 Non-Uniformed 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 Jeannette Non-Uniformed 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 Overpayment Of State Aid

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

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

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 Non-Uniformed 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 15 - Pennsylvania Municipal Retirement Law, Act of February 1, 1974 (P.L. 34, No. 15), as amended, 53 P.S. § 881.101 et seq.

The City of Jeannette Non-Uniformed Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 19-09, effective October 1, 2019 and a separately executed adoption agreement with the plan custodian adopted pursuant to Act 15. Prior to October 1, 2019, the plan was locally controlled by the provisions of Ordinance No. 10-01, as amended, and an agreement with the plan custodian also adopted pursuant to Act 15. The plan is also affected by the provisions of collective bargaining agreements between the city and its non-uniformed employees. The plan was established January 1, 1991. Active members are required to contribute five percent of compensation to the plan. As of December 31, 2022, the plan had 19 active members, two terminated members eligible for vested benefits in the future, and 35 retirees receiving pension benefits.

CITY OF JEANNETTE NON-UNIFORMED PENSION PLAN
STATUS OF PRIOR FINDINGS

Compliance With Prior Recommendation

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

- Failure To Maintain An Adequate Record-Keeping System To Effectively Monitor Activity Of The Pension Plan

  Municipal officials established and maintained a financial record-keeping system that allowed the municipality to effectively monitor the plan's financial operations during the current period.

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.

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

Condition: The city certified an ineligible non-uniformed employee and overstated payroll by $5,408 on the Certification Form AG 385 filed in 2021. The city certified an individual who did not work six consecutive months full-time during the certification period, in accordance with Act 205. The data contained on this certification form is based on prior calendar year information.

Criteria: Pursuant to Act 205, at Section 402(e)(2), in order to be eligible for certification, an employee must have been employed on a full-time basis for at least six consecutive months and must have been participating in a pension plan during the certification year.

Cause: The city experienced a turnover in the position responsible for the preparation of the AG 385 and was unable to specifically identify the cause. Additionally, the city failed to establish adequate internal control procedures, such as having another individual review the data certified, to ensure the accuracy of the reported data.

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 unit value, the incorrect certification of pension data affected the city's state aid allocation, as identified below:

Units Overstated	Unit Value	State Aid Overpayment
1	$ 4,797	$ 4,797

In addition, the city used the overpayment of state aid to pay the minimum municipal obligation (MMO) due to the pension plans; therefore, if the reimbursement to the Commonwealth is made from the pension plan, the plan's MMO's will not be fully paid.

Recommendation: We recommend that the total excess state aid, in the amount of $4,797, plus interest, be returned to the Commonwealth. A check in this amount, with interest compounded annually from date of receipt to date of repayment, at a rate earned by the pension plan, should be made payable to: Commonwealth of Pennsylvania and mailed to: Department of the Auditor General, Municipal Pension & Fire Relief Programs Unit, 321 Finance Building, Harrisburg, PA 17120. A copy of the interest calculation must be submitted along with the check.

Finding No. 1 – (Continued)

We also 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.

In addition, if the reimbursement to the Commonwealth is made from pension plan funds, we recommend that any resulting MMO deficiency be paid to the pension plan with interest, at a rate earned by the pension plan.

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. The city's compliance with the finding recommendation will be monitored subsequent to the release of the audit report and through our next audit of the pension plan.

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 provisions Act 205. Based the calculation prepared by its firm, the city underpaid its required obligation by $189,356 for the year 2021, according to the act.

Finding No. 2 – (Continued)

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. <u>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.]</u>
>
> (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. <u>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.]</u> A municipality utilizing the provisions of section 404

Finding No. 2 – (Continued)

> 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 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 plans 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.

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 NON-UNIFORMED 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	$ 4,062,977	$ 4,613,582	$ 550,605	88.1%
01-01-19	4,539,855	4,762,667	222,812	95.3%
01-01-21	5,192,213	4,924,636	(267,577)	105.4%

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 NON-UNIFORMED 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
2014	$ 220,224	$ 207,357	$ (7,133)	$ 857,434	24.18%
2015	196,729	198,903	(2,174)	759,968	26.17%
2016	204,366	204,439	(73)	842,302	24.27%
2017	225,401	225,402	(1)	841,038	26.80%
2018	225,684	325,824	(100,140)	788,434	41.33%
2019	196,186	296,186	(100,000)	891,411	33.23%
2020	200,824	400,904	(200,080)	864,741	46.36%
2021	194,018	194,078	(60)	867,101	22.38%
2022	195,328	195,388	(80)	*	*

* Due to the timing of this audit, covered-employee payroll for 2022 was not provided in this schedule.

CITY OF JEANNETTE NON-UNIFORMED 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 available
Remaining amortization period	None
Asset valuation method	Not available
Actuarial assumptions:	
Investment rate of return *	5.25%, compounded annually, net of investment and administration expenses.
Projected salary increases *	4.1%
* Includes inflation at	2.2%
Cost-of-living adjustments	2.2% per year, subject to plan limitations.

The information reported above was extracted from the Pennsylvania Municipal Retirement System Experience Study Results Report dated September 2020, which is the basis for the 01-01-2021 actuarial valuation. The report did not specify the actuarial or market value methodologies often contained in the Notes to Supplementary Schedules and will be added going forward when readily available.

CITY OF JEANNETTE NON-UNIFORMED PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Joshua D. Shapiro
Governor
Commonwealth of Pennsylvania

The Honorable Curtis J. Antoniak
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Mr. Charles Highlands
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Mr. Richard Cardamone, CPA, CGMA
Pennsylvania Municipal Retirement System

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