

# COMPLIANCE AUDIT

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## City of Jeannette Police 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 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 finding and conclusion based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our finding and conclusion based on our audit objectives.

The objectives of the audit were:

1. To determine if municipal officials took appropriate corrective action to address the finding contained in our prior report; and
2. To determine if the pension plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies.

Our audit was limited to the areas related to the objectives identified above. To determine if municipal officials took appropriate corrective action to address the finding contained in our prior report, we inquired of plan officials and evaluated supporting documentation provided by officials evidencing that the suggested corrective action has been appropriately taken. To determine whether the pension plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies, our methodology included the following:

- We determined whether state aid was properly determined and deposited in accordance with Act 205 requirements by verifying the annual deposit date of state aid and determining whether deposits were made within 30 days of receipt for all years within the period under audit.
- We determined whether annual employer contributions were calculated and deposited in accordance with the plan's governing document and applicable laws and regulations by examining the municipality's calculation of the plan's annual financial requirements and minimum municipal obligation (MMO) and comparing these calculated amounts to amounts actually budgeted and deposited into the pension plan as evidenced by supporting documentation.
- We determined whether annual employee contributions were calculated, deducted, and deposited into the pension plan in accordance with the plan's governing document and applicable laws and regulations by testing total members' contributions on an annual basis using the rates obtained from the plan's governing document in effect for all years within the period under audit and examining documents evidencing the deposit of these employee contributions into the pension plan.
- We determined whether retirement benefits calculated for the plan members who retired during the current audit period, and through the completion of our fieldwork procedures, 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, 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 annual special ad hoc postretirement reimbursements received by the municipality were authorized and appropriately deposited in accordance with Act 147 by tracing information to supporting documentation maintained by plan officials.
- 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.
- We determined whether provisions of the Deferred Retirement Option Plan (DROP) were in accordance with the provisions of Act 205 by examining provisions stated in the plan's governing documents.

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.

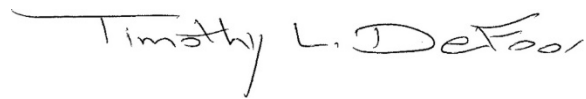
City officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the City of Jeannette Police Pension Plan is administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances 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 objective.

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

Finding – 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  
Auditor General  
November 27, 2023

## CONTENTS

	<u>Page</u>
Background.....	1
Status of Prior Finding.....	2
Finding and Recommendation	
Finding – Failure To Properly Fund The City’s Pension Plans In Accordance With Special Tax Provisions Of Act 205.....	3
Supplementary Information.....	6
Comments.....	10
Report Distribution List.....	12

## 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 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.

Act 147 - Special Ad Hoc Municipal Police and Firefighter Postretirement Adjustment Act, Act of December 14, 1988 (P.L. 1192, No. 147), as amended, 53 P.S. § 896.101 et seq.

The City of Jeannette Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 00-10, as amended, 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 17, 1959. Active members are required to contribute five percent of compensation plus \$1 per month to the plan until age 65. As of December 31, 2022, the plan had 10 active members, no terminated members eligible for vested benefits in the future, and 24 retirees receiving pension benefits from the plan.

CITY OF JEANNETTE POLICE PENSION PLAN  
STATUS OF PRIOR FINDING

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 the 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 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 the finding and recommendation contained in this report.

CITY OF JEANNETTE POLICE PENSION PLAN  
FINDING AND RECOMMENDATION

**Finding – 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 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 POLICE PENSION PLAN  
FINDING AND RECOMMENDATION

**Finding – (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 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 the 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 POLICE PENSION PLAN  
FINDING AND RECOMMENDATION

**Finding – (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 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)
01-01-17	\$ 8,305,729	\$ 11,309,510	\$ 3,003,781	73.4%
01-01-19	9,217,164	11,626,198	2,409,034	79.3%
01-01-21	11,919,364	13,238,800	1,319,436	90.0%

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 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 JEANNETTE POLICE 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	\$ 536,956	\$ 536,956	\$ -		
2014	520,384	520,384	-	\$ 803,295	64.8%
2015	547,946	988,058	(440,112)	946,882	104.3%
2016	552,000	552,000	-	683,733	80.7%
2017	488,241	988,241	(500,000)	802,681	123.1%
2018	502,416	652,416	(150,000)	761,419	85.7%
2019	567,578	705,748	(138,170)	719,025	98.2%
2020	494,579	744,579	(250,000)	810,804	91.8%
2021	477,042	477,042	-	911,036	52.4%
2022	484,628	484,628	-	902,511	53.7%

\* This schedule is presented pursuant to the implementation of GASB Statement No. 67, *Financial Reporting for Pension Plans* by reporting entities responsible for administering the pension plan to improve financial reporting by state and local governmental pension plans. Due to the statement being implemented only recently, the amount of Covered-Employee Payroll was not provided for odd years prior to 2014.

CITY OF JEANNETTE 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	Level dollar, closed
Remaining amortization period	6 years
Asset valuation method	Fair value, 4-year smoothing.
Actuarial assumptions:	
Investment rate of return	6.75%
Projected salary increases *	4.50%

\* Includes inflation at 2.50%

CITY OF JEANNETTE POLICE PENSION PLAN  
COMMENTS

**DROP Plan**

The City of Jeannette adopted Ordinance No. 14-05 on July 9, 2014, that provided for a Deferred Retirement Option Plan (DROP) for its police officers. The DROP provision allows participants to collect a pension while continuing to work, up to a maximum of 5 years. The monthly pension benefit is calculated as of the date of the member enters DROP (retires) and is credited to a DROP account and held in escrow until the members leaves the DROP. The initial actuarial cost study dated June 5, 2014, revealed that providing the benefit modification would increase the plan's unfunded actuarial accrued liability by \$335,600 and the City's minimum municipal obligation funding standards under Act 205 by \$40,500. Since its inception, seven police officers have elected to participant in the DROP program and as of December 31, 2022, there are currently three active police officers participating in the DROP program.

**Continuing Practice - Automatic Promotions Granted Prior To Retirement**

Since first disclosed in the 2010 to 2011 audit report, the City of Jeannette has maintained the practice of promoting police officers to the next higher grade in rank for a period of at least one month immediately prior to retirement.

Section II of Ordinance No. 66-9 established a past practice, which the city continues to follow, which states, in part:

Any participant in the plan before retiring shall be promoted to the next higher grade in rank for a period of at least one month immediately prior to his retirement and said next higher grade in rank shall be at least that of a Lieutenant.

Section 4303(a) of the Third Class City Code states, in part:

The basis of the apportionment of the pension shall be determined by the rate of the monthly pay of the member at the date of injury, death, honorable discharge, vesting under section 4302.1 or retirement, or the highest average annual salary which the member received during any five years of service preceding injury, death, honorable discharge, vesting under section 4302.1 or retirement, whichever is the higher, and except as to service increments provided for in subsection (b) of this section, shall not in any case exceed in any year one-half the annual pay of such member computed at such monthly or average annual rate, whichever is the higher.  
[Emphasis added.]

CITY OF JEANNETTE POLICE PENSION PLAN  
COMMENTS

While the city's practice is not considered to be unauthorized by the Third Class City Code, it does serve to inflate the pension benefits of retirees from the city's police pension plan, and 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 impact on final monthly earnings based on promotion to the next higher grade in rank for a period of at least one month immediately prior to retirement*) is unknown and, therefore, cannot be funded over time in accordance with Act 205. This methodology has adverse ramifications on the funded status of the plan and also results in increased annual contributions required which, when the city's annual state aid allocation is not sufficient to cover the annual minimum municipal obligation, shall be borne by the taxpayer in the form of increased resources needed from the city's general-purpose funds.

Although the funding status of the police pension plan has improved over time with the City's imposition of a special municipal pension tax, we encourage City officials to continue to make fiscally responsible decisions as plan fiduciaries that will benefit the City of Jeannette and its taxpayers such as obtaining required cost studies prior to the implementation of any future benefit modifications in order that the City may assess the long-term impact on the plan's funding status and ensure that the pension plan has adequate resources to meet current and future benefit obligations to the city's hard working police officers that are determined in accordance with the provisions and the intent of the Third Class City Code and help ensure the plan's long-term financial stability.



CITY OF JEANNETTE POLICE PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

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