

# COMPLIANCE AUDIT

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## City of Jeannette Police Pension Plan Westmoreland County, Pennsylvania For the Period January 1, 2018 to December 31, 2019

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April 2021



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, 2018 to December 31, 2019. 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 objectives. We believe that the evidence obtained provides a reasonable basis for our finding and conclusions based on our audit objectives.

The objectives of the audit were:

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

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

- We determined whether state aid was properly determined and deposited in accordance with Act 205 requirements by verifying the annual deposit date of state aid and determining whether deposits were made within 30 days of receipt for all years within the period under audit.
- We determined whether annual employer contributions were calculated and deposited in accordance with the plan's governing document and applicable laws and regulations by examining the municipality's calculation of the plan's annual financial requirements and minimum municipal obligation (MMO) and comparing these calculated amounts to amounts actually budgeted and deposited into the pension plan as evidenced by supporting documentation.
- We determined whether annual employee contributions were calculated, deducted, and deposited into the pension plan in accordance with the plan's governing document and applicable laws and regulations by testing total members' contributions on an annual basis using the rates obtained from the plan's governing document in effect for all years within the period under audit and examining documents evidencing the deposit of these employee contributions into the pension plan.
- We determined whether retirement benefits calculated for plan members who retired during the current audit period represent payments to all (and only) those entitled to receive them and were properly determined and disbursed in accordance with the plan's governing document, applicable laws, and regulations by recalculating the amount of the monthly pension benefits due to the retired individuals and comparing these amounts to supporting documentation evidencing amounts determined and actually paid to the recipients.
- We determined whether the January 1, 2019 actuarial valuation report was prepared and submitted by March 31, 2020, 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 all 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 and through the completion of our fieldwork procedures.
- 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 an audit of its basic financial statements for the year ended December 31, 2019, 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.

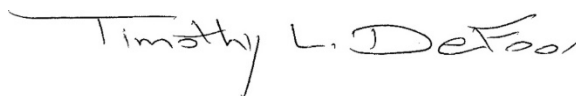
City officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the City of Jeannette Police Pension Plan is administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances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

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 Use Special Tax Proceeds For Intended Purposes In Accordance With Special Taxing 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

March 17, 2021

## CONTENTS

	<u>Page</u>
Background.....	1
Status of Prior Finding.....	2
Finding and Recommendation	
Finding – Failure To Use Special Tax Proceeds For Intended Purposes In Accordance With Special Taxing Provisions Of Act 205 .....	3
Supplementary Information .....	5
Comments .....	9
Report Distribution List .....	11

## 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 2 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 5 percent of compensation plus \$1 per month to the plan until age 65. As of December 31, 2019, the plan had 8 active members, no terminated members eligible for vested benefits in the future, and 28 retirees receiving pension benefits.

CITY OF JEANNETTE POLICE PENSION PLAN  
STATUS OF PRIOR FINDING

Compliance With Prior Recommendation

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

- Failure To Properly Fund The City's Pension Plans In Accordance With Special Taxing Provisions Of Act 205

The city properly determined its level of contributions to its pension plans from funding sources in effect prior to the implementation of the special municipal tax in accordance with Act 205. In addition, the city maintained appropriate substantive documentation that identified the sources of its annual contributions to its pension plans and included an annual reconciliation evidencing that funding requirements were properly met in accordance with Section 607(f) of Act 205.

CITY OF JEANNETTE POLICE PENSION PLAN  
FINDING AND RECOMMENDATION

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

Condition: The City of Jeannette’s pension plans were determined to be Level II Distressed by the former Pennsylvania Employees Retirement Commission. Utilizing a special tax provision provided in Act 205, the city adopted Ordinance No. 10-08 (effective January 1, 2011) increasing its Earned Income Tax above the maximum rate 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. However, 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 and 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.

Criteria: Relative to remedies available to distressed municipalities to assist with the funding of their pension plans, Section 607(f) of Act 205 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.]

Cause: There was a recent turnover in officials responsible for administering the city’s pension plans since enactment of the special tax and current officials were unaware of the special tax provisions of Act 205. In addition, the city lacked adequate internal control procedures to ensure that annual proceeds collected under the special tax provisions of Act 205 were utilized for their intended purpose under the act.



CITY OF JEANNETTE POLICE PENSION PLAN  
FINDING AND RECOMMENDATION

**Finding – (Continued)**

Effect: Failure to establish adequate internal control procedures to properly utilize the entire proceeds from the special tax provisions of Section 607(f) of Act 205, annually, results in less overall funding available to defray the additional costs of its already distressed pension plans as intended under Act 205.

Recommendation: We recommend that the city reimburse the Act 205 special tax account (*which accounts for the proceeds from the special tax*), \$194,894, plus interest, and utilize these funds to defray the additional costs directly related to the city’s pension plans pursuant to Act 205. We also recommend that in the future, city officials implement procedures to ensure that annual proceeds received under the special tax are utilized appropriately in accordance with Act 205.

Management’s Response: Municipal officials agreed with the finding without exception.

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

CITY OF 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, 2015, 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)
01-01-15	\$ 7,013,462	\$ 10,609,339	\$ 3,595,877	66.1%
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%

Note: The market value of the plan’s assets at 01-01-15, 01-01-17, and 01-01-19 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*
2010	\$ 255,258	\$ 255,258	\$ -	\$1,014,282	25.2%
2011**	415,415	347,276	68,139	-	-
2012***	414,406	414,406	-	1,070,622	38.7%
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%

\* 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.

\*\* For 2011, the contribution deficiency reflects the 25 percent reduction to the plan's amortization contribution elected by the municipality under Act 44 for distressed municipalities, which allows for such reduction.

\*\*\* Portion paid in 2013 and 2014, with interest. Deficiency no longer exists.

\*\*\*\* Portion paid in 2014 and 2015, with interest. Deficiency no longer exists.

CITY OF JEANNETTE POLICE PENSION PLAN  
SUPPLEMENTARY INFORMATION  
(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, 2019
Actuarial cost method	Entry age, normal
Amortization method	Level dollar, closed
Remaining amortization period	9 years
Asset valuation method	Fair value, 4-year smoothing
Actuarial assumptions:	
Investment rate of return	7.0%
Projected salary increases *	5.0%

\* Includes inflation at 2.75%

CITY OF JEANNETTE POLICE PENSION PLAN  
COMMENTS

**Special Municipal Taxing Authority**

As disclosed in the prior two 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 initially adopted January 1, 2011 was 0.15% of earned income. During the January 1, 2014 to December 31, 2015 audit period, the city increased the rate to .50% of earned income effective January 1, 2014, and 1.0% effective January 1, 2015. The city reduced the rate to .85%, effective January 1, 2016, and the rate has remained in effect throughout the current audit period, as well as subsequent to our audit period through January 1, 2021. As disclosed earlier in this report, the city failed to utilize the entire proceeds of its annual special municipal tax collected during the year 2020 pursuant to the distress provisions Act 205 (*refer to finding and recommendation contained in this report*).

**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, 6 police officers have elected to participant in the DROP program and as of December 31, 2019, there are currently 4 active police officers participating in the DROP program.

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

Since first disclosed in our 2010 to 2011 audit report, the City of Jeannette has maintained the current 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.

CITY OF JEANNETTE POLICE PENSION PLAN  
COMMENTS

**Continuing Practice – Automatic Promotions Granted Prior To Retirement – (Continued)**

Section 14303(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.]

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 increases the municipal contributions required to fund the plan in accordance with Act 205 funding standards.

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:

**The Honorable Tom W. Wolf**  
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Commonwealth of Pennsylvania

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**Mr. Nathan Bish**  
City Clerk

**Ms. Miranda Waugaman**  
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**Mr. Jacob Milliron**  
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