COMPLIANCE AUDIT

City of Jeannette
Firemen's Pension Plan

Westmoreland County, Pennsylvania

For the Period
January 1, 2018 to December 31, 2019

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 Firemen's 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 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 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 that there were no benefit calculations prepared for the years covered by our audit period.

- 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 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.

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 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 objectives.

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

Finding No. 2 – Inconsistent and Unauthorized Pension Benefits

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

March 17, 2021

Timothy L. DeFoor
Auditor General

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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 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 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, dated April 21, 2014, 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 5 percent of compensation plus $5 per month to the plan until age 65. As of December 31, 2019, the plan had 3 active members, no terminated members eligible for vested benefits in the future, and 3 retirees receiving pension benefits.

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

Compliance With Prior Recommendation

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 addition, the city maintained appropriate supporting documentation that identified the sources of its annual contributions to its pension plans well as an annual reconciliation evidencing that funding requirement were properly met in accordance with Section 607(f) of Act 205. 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 as noted in Finding No. 1 of this report.

Finding No. 1 – 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.

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.

Finding No. 1 – (Continued)

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 its 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.

Finding No. 2 – Inconsistent And Unauthorized Pension Benefits

Condition: As disclosed to city officials in a verbal observation during the prior audit of the pension plan, the pension plan's governing document, Ordinance No. 14-03, most recently 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 in accordance with the Third Class City Code, as follows:

Benefit Provision	Governing Document	Collective Bargaining Agreements	Third Class City Code
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 Fund 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 covering the periods 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 14322.1 (a) Recommendation: 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 total of the allowances shall not, at any time, exceed one-half of the current salary being paid firefighters of the highest pay grade.

Finding No. 2 – (Continued)

Benefit Provision	Governing Document	Collective Bargaining Agreements	Third Glass City Code
Compensation	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.	Section 3 of Article XII of the Collective Bargaining Agreement covering the periods January 1, 2012 to December 31, 2018 and January 1, 2019 to December 31, 2022, states, in part: …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…	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.

In addition, during the current audit period, the city's current practice for withholding members' contributions towards service increments *($60 per year or $5 per month)* was inconsistent with the plan's governing document, Ordinance No. 14-03, as amended.

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.

Finding No. 2 – (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: Plan officials believed that the Third Class City Code authorizes the benefits granted regarding the plan's retirement provisions. Moreover, the city lacks adequate internal control procedures to ensure that 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.

Recommendation: We 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 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.

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 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, 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	$ 860,302	$ 1,556,112	$ 695,810	55.3%
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%

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.

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*
2010	$ 41,144	$ 41,144	$ -	$ 180,563	22.8%
2011**	62,047	55,146	6,901	-	
2012	54,476	54,476	-	171,271	31.8%
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%

* 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.

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, 2019
Actuarial cost method	Entry age, normal
Amortization method	Level dollar, closed
Remaining amortization period	7 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%

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. During the prior audit period, 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 the finding and recommendation section of 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 No. 1 contained in this report).*

Service Increments/Cost of Living Allowance (COLA)

As also disclosed in the two most recent prior audit reports, on April 21, 2014, the City adopted Ordinance No. 14-03 which provides for pension benefit increases to current and future retirees of the firemen's pension plan. The ordinance provides for an increase in the service increment benefit from $100 to $500 per month and grants cost of living allowances to members who retired after January 1, 2012. As disclosed earlier in the findings and recommendations section of this report, although the city recently negotiated with its firefighters during the collective bargaining process, the COLA provision remains unchanged and is inconsistent with the plan's governing document and the Third Class City Code *(refer to Finding No. 1 contained in this report).* A cost study dated May 30, 2014 for these benefit increases revealed that the benefit modifications would result in an increase in the plan's unfunded actuarial liability in the amount of $113,200 and would increase the city's minimum municipal obligation to properly fund the plan in accordance with Act 205 funding standards by $25,000 annually.

Although the funding status of the firemen's pension plan has improved over time with the City's imposition of a special municipal pension tax, we encourage City officials to continue making 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 access 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 firefighters 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 FIREMEN'S PENSION PLAN
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This report was initially distributed to the following:

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