

# COMPLIANCE AUDIT

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## Jefferson Hills Borough Police Pension Plan Allegheny County, Pennsylvania For the Period January 1, 2017 to December 31, 2020

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March 2022



Commonwealth of Pennsylvania  
Department of the Auditor General

Timothy L. DeFoor • Auditor General



**Commonwealth of Pennsylvania  
Department of the Auditor General  
Harrisburg, PA 17120-0018  
Facebook: Pennsylvania Auditor General  
Twitter: @PAAuditorGen  
www.PaAuditor.gov**

**TIMOTHY L. DEFOOR  
AUDITOR GENERAL**

The Honorable Mayor and Borough Council  
Jefferson Hills Borough  
Allegheny County  
Jefferson Hills, PA 15025

We have conducted a compliance audit of the Jefferson Hills Borough Police Pension Plan for the period January 1, 2017 to December 31, 2020. 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 whether retirement benefits calculated for plan members who retired during the current audit period and for plan members who elected to vest 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 or payable to the recipients.
- We determined whether the January 1, 2017 and January 1, 2019 actuarial valuation reports were prepared and submitted by March 31, 2018 and 2020, respectively, in accordance with Act 205 and whether selected information provided on these reports 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.

Jefferson Hills Borough contracted with an independent certified public accounting firm for annual audits of its basic financial statements for the years ended December 31, 2017, 2018, and 2019, which are available at the borough's offices. Those financial statements were not audited by us and, accordingly, we express no opinion or other form of assurance on them.

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

- Finding No. 1 – Failure To Timely Pay The Minimum Municipal Obligation Of The Plan
- Finding No. 2 – Incorrect Pension Benefit Calculations
- Finding No. 3 – Failure To Maintain Vested Pension Benefit Calculation

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 Jefferson Hills Borough and, where appropriate, their responses have been included in the report. We would like to thank borough officials for the cooperation extended to us during the conduct of the audit.



Timothy L. DeFoor  
Auditor General  
February 10, 2022

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### ABBREVIATION

PSABMRT - Pennsylvania State Association of Boroughs Municipal Retirement Trust

## 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 Jefferson Hills Borough 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 600 - Police Pension Fund Act, Act of May 29, 1956 (P.L. 1804, No. 600), as amended, 53 P.S. § 767 et seq.

The Jefferson Hills Borough Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 799, as amended, and a separately executed joinder agreement with PSABMRT, effective July 8, 2015, adopted pursuant to Act 600. The plan is also affected by the provisions of collective bargaining agreements between the borough and its police officers. The plan was established December 6, 1954. Active members hired prior to July 8, 2015 are required to contribute 5 percent of compensation to the plan. Active members hired on or after July 8, 2015 are required to contribute 5 percent of base salary. As of December 31, 2020, the plan had 18 active members, 1 terminated member eligible for vested benefits in the future, and 13 retirees receiving pension benefits from the plan.

JEFFERSON HILLS BOROUGH POLICE PENSION PLAN  
STATUS OF PRIOR FINDING

Compliance With Prior Recommendation

Jefferson Hills Borough has complied with the prior recommendation concerning the following:

- Failure To Include An Eligible Employee In The Pension Plan

Effective April 1, 2018, municipal officials terminated the police chief's participation in the non-uniformed management pension plan and enrolled him in the police pension plan.

JEFFERSON HILLS BOROUGH POLICE PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – Failure To Timely Pay The Minimum Municipal Obligation Of The Plan**

Condition: Plan officials failed to fully pay the plan’s 2020 minimum municipal obligation (MMO) by December 31, 2020, as required by Act 205. Although the borough eventually deposited the outstanding balance of the 2020 MMO in the amount of \$98,477 into its police pension plan on August 12, 2021, the borough failed to include interest due in accordance with Act 205.

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.

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

The minimum obligation of the municipality shall be payable to the pension plan from revenue of the municipality. Payment of the minimum obligation of the municipality shall be made by the municipality prior to December 31.

Furthermore, Section 302(e) of Act 205 states:

Any amount of the minimum obligation of the municipality which remains unpaid as of December 31 of the year in which the minimum obligation is due shall be added to the minimum obligation of the municipality for the following year, with interest from January 1 of the year in which the minimum obligation was first due until the date the payment is paid at a rate equal to the interest assumption used for the actuarial valuation report or the discount rate applicable to treasury bills issued by the Department of Treasury of the United States with a six-month maturity as of the last business day in December of the plan year in which the obligation was due, whichever is greater, expressed as a monthly rate and compounded monthly.

Cause: Due to a recent turnover in employees responsible for the administration of the pension plan, municipal officials erroneously deposited the remaining police MMO payment of \$98,477 into its non-uniformed management pension plan in 2020. The error was corrected in August 2021 after the borough was notified by the pension plan consultant; however, the transfer between the two plans did not include interest.

Effect: The failure to pay the MMO timely could result in the plan not having adequate resources to meet current and future benefit obligations to its members.



JEFFERSON HILLS BOROUGH POLICE PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – (Continued)**

Due to the municipality’s failure to fully pay the 2020 MMO by the December 31, 2020 deadline, the municipality must pay interest, as required by Act 205.

Recommendation: We recommend that the municipality determine the interest due on the late payment of the plan’s outstanding MMO balance, from January 1 of the year in which the minimum obligation was first due (*January 1, 2020*) until the date the payment was made (*August 12, 2021*) in accordance with Act 205, and pay the interest to the police pension plan. A copy of the interest calculation must be maintained by the borough for examination during our next audit of the plan.

Furthermore, we recommend that, in the future, plan officials pay the full MMO due the plan in a timely manner.

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 – Incorrect Pension Benefit Calculations**

Condition: In our prior audit, a verbal observation was issued notifying plan officials that they failed to properly determine the final monthly average salary utilized in the pension benefit calculation of a plan member who retired on July 23, 2016. During the current audit period, plan officials did not take action to correct that pension benefit calculation and again failed to accurately determine the final monthly average salary utilized in the pension benefit calculation of a plan member who retired on July 25, 2018, in accordance with the plan document.

Criteria: Section 4.02 of the Master Plan and Trust, states, in part:

Normal Retirement Benefit - Each participant entitled to normal retirement benefits . . . shall receive, during the Participant’s lifetime, a monthly retirement income, which shall be equal to fifty percent (50%) of the Participant’s Final Monthly Average Salary.

In addition, Section 1.14 of the plan’s joinder agreement states, in part:

The averaging period for determining a Participant’s “Final Monthly Average Salary” . . . shall be final 36 months prior to termination (shall not be less than 36, nor greater than 60) of Employment for participants hired before July 8, 2015.

JEFFERSON HILLS BOROUGH POLICE PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 2 – (Continued)**

Furthermore, Section 1.15 of the Master Plan and Trust, states, in part:

“Final Monthly Average Salary” shall mean the Compensation earned by the Participant and paid by the Employer for police services rendered during the final months of active Employment immediately preceding retirement which are included in the averaging period.... Final Monthly Average Salary shall exclude any extraordinary payments such as back pay damage awards not attributable to the averaging period.

Cause: There was a recent employee turnover at the municipality, and current plan officials were unaware of the issues with the pension calculations.

Effect: Due to inconsistencies in determining the final average salary for each retiree, the plan is paying a lesser monthly benefit to one retiree and a greater monthly benefit to the other retiree than what is authorized by the plan’s governing document.

Recommendation: We recommend that municipal officials determine the correct final monthly average salary for the two retirees and adjust their monthly pension benefits prospectively.

We also recommend that plan officials establish adequate internal control procedures, such as having at least two people review the determination of final monthly average salary, to ensure the accuracy of future pension benefit determinations.

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. 3 – Failure To Maintain Vested Pension Benefit Calculation**

Condition: The borough failed to maintain a vested pension benefit calculation for a plan member who terminated employment with the borough on December 11, 2017.

Criteria: The municipality should maintain adequate supporting documentation to substantiate the accuracy of pension benefit determinations to avoid discrepancies occurring in the future when the former employee is eligible to begin receiving a pension benefit.

Cause: Plan officials have not been able to obtain a vested pension benefit calculation from the plan consultant.

JEFFERSON HILLS BOROUGH POLICE PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 3 – (Continued)**

Effect: The failure to maintain vested pension benefit calculations could result in inconsistent or improper benefit calculations and incorrect benefit payments from the pension plan.

Recommendation: We recommend that plan officials obtain adequate supporting documentation to verify the accuracy of the vested pension benefit to be paid from the plan.

We also recommend that municipal officials establish adequate internal control procedures to ensure that all pension benefit calculations are properly determined and maintained by the borough.

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.

JEFFERSON HILLS BOROUGH 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 Liability (AAL) - Entry Age (b)	Unfunded (Assets in Excess of) Actuarial Liability (b) - (a)	Funded Ratio (a)/(b)
01-01-15	\$ 6,772,976	\$ 8,357,764	\$ 1,584,788	81.0%
01-01-17	7,705,880	9,789,623	2,083,743	78.7%
01-01-19	8,191,688	10,310,123	2,118,435	79.5%

Note: The market values 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 which will be limited to a maximum of 120 percent and a minimum of 80 percent of the fair market value of assets. 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.

JEFFERSON HILLS BOROUGH 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.

JEFFERSON HILLS BOROUGH 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
2011	\$ 180,094	\$ 192,321	\$ (12,227)		
2012	194,857	201,395	(6,538)	\$1,321,831	15.2%
2013	219,854	219,854	-		
2014	320,861	328,102	(7,241)	1,447,952	22.7%
2015	327,006	327,006	-	1,495,748	21.9%
2016	378,735	378,735	-	1,430,626	26.5%
2017	375,137	375,137	-	1,451,166	25.9%
2018	381,100	381,100	-	1,463,557	26.0%
2019	521,882	521,882	-	1,820,321	28.7%
2020	560,565	560,565	-	1,635,967	34.3%

\* 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 2015.

JEFFERSON HILLS BOROUGH 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, 2019
Actuarial cost method	Entry age normal
Amortization method	Level dollar, closed
Remaining amortization period	8 years
Asset valuation method	4-year smoothing – the actuarial value of assets will be limited to a maximum of 120% and a minimum of 80% of the fair market value of assets.
Actuarial assumptions:	
Investment rate of return	6.75%
Projected salary increases *	4.75%

\* Includes inflation at 2.75%

JEFFERSON HILLS BOROUGH POLICE PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

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

**The Honorable Carrie McCaffrey**  
Mayor

**Mr. Keith R. Polick**  
Council President

**Mr. John P. Stinner**  
Borough Manager

**Mr. Jon A. Drager**  
Finance Director

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