

# COMPLIANCE AUDIT

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## Jefferson Township Police Pension Plan Mercer County, Pennsylvania For the Period January 1, 2021 to December 31, 2024

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April 2026



Commonwealth of Pennsylvania  
Department of the Auditor General

Timothy L. DeFoor • Auditor General



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**TIMOTHY L. DEFOOR  
AUDITOR GENERAL**

Board of Township Supervisors  
Jefferson Township  
Mercer County  
Mercer, PA 16137

We have conducted a compliance audit of the Jefferson Township Police Pension Plan for the period January 1, 2021 to December 31, 2024. 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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

The objective of the audit was 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 objective identified above. 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. State aid allocations that were deposited into the pension plan for the years ended December 31, 2019 to December 31, 2024, are presented on the Summary of Deposited State Aid and Employer Contributions.

- 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 that there were no employee contributions required by the plan's governing document and applicable laws and regulations for the years covered by our audit period.
- We determined that there were no benefit calculations prepared for the years covered by our audit period.
- We determined whether the January 1, 2021, January 1, 2023, and January 1, 2025 actuarial valuation reports were prepared and submitted by March 31, 2022, 2024, and 2026, 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.
- We determined whether the terms of all three of the plan's allocated insurance contracts, including ownership and any restrictions, were in compliance with plan provisions, investment policies, and state regulations by comparing the terms of the contracts with the plan's provisions, investment policies, and state regulations.

The township has elected to purchase allocated insurance contracts to fund the pension benefits for plan members. Under an allocated funding arrangement, the insurer receives and retains consideration in exchange for a legally enforceable obligation to pay future benefits. In accordance with Statement No. 67 of the Governmental Accounting Standards Board, allocated insurance contracts are excluded from the pension plan's assets. Consequently, the plan has no reportable assets.

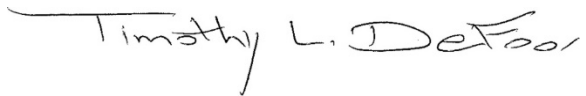
Township officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Jefferson Township Police Pension Plan is administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances 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 Jefferson Township 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 – Untimely Deposit Of State Aid

Finding – Pension Benefits Not In Compliance With Act 600 Provisions

The contents of this report were discussed with officials of Jefferson Township and, where appropriate, their responses have been included in the report. We would like to thank township officials for the cooperation extended to us during the conduct of the audit.

A handwritten signature in black ink that reads "Timothy L. DeFoor". The signature is written in a cursive style with a long horizontal line extending from the start of the name.

Timothy L. DeFoor  
Auditor General  
April 10, 2026

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## BACKGROUND

On December 18, 1984, the Pennsylvania Legislature adopted the Municipal Pension Plan Funding Standard and Recovery Act (P.L. 1005, No. 205, as amended, 53 P.S. § 895.101 et seq.). The Act established mandatory actuarial reporting and funding requirements and a uniform basis for the distribution of state aid to Pennsylvania's public pension plans.

Annual state aid allocations are provided from a two percent foreign (out-of-state) casualty insurance premium tax, a portion of the foreign (out-of-state) fire insurance tax designated for paid firefighters and any investment income earned on the collection of these taxes. Generally, municipal pension plans established prior to December 18, 1984, are eligible for state aid. For municipal pension plans established after that date, the sponsoring municipality must fund the plan for three plan years before it becomes eligible for state aid. In accordance with Act 205, a municipality's annual state aid allocation cannot exceed its actual pension costs.

In addition to Act 205, the Jefferson Township 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 120 - Foreign Casualty Insurance Premium Tax Allocation Law, Act of May 12, 1943 (P.L. 259, No. 120), as amended, 72 P.S. § 2263.1 et seq.

The Jefferson Township Police Pension Plan is a single-employer pension plan locally controlled by the provisions of Ordinance No. 2012-1112-01, enacted November 12, 2012, adopted pursuant to Act 120. The plan was established August 1, 1980. Active members are not required to contribute to the plan. The municipality maintains a pension plan with no defined contributions and variable pension or retirement benefits provided, usually through discretionary purchases of insurance or annuity contracts. As of December 31, 2024, the plan had two active members and one terminated member eligible for vested benefits in the future.

JEFFERSON TOWNSHIP POLICE PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – Untimely Deposit Of State Aid**

Condition: The municipality did not deposit its 2022 state aid allocation into the pension plan within the 30 day grace period allowed by Act 205. The municipality received its 2022 state aid allocation in the amount of \$10,044 on September 28, 2022, but did not deposit the money into its police pension plan until March 28, 2023.

Criteria: Section 402(g) of Act 205 states, in part:

. . . the total amount of the general municipal pension system State aid received by the municipality shall, within 30 days of receipt by the treasurer of the municipality, be deposited in the pension fund or the alternate funding mechanism applicable to the respective pension plan.

Cause: The 2022 state aid was not deposited timely into the municipality’s pension plan because internal control procedures were not in effect to ensure the timely deposit of state aid.

Effect: Although the state aid was deposited into the plan, the interest earned beyond the 30 day grace period was not deposited into the plan. When state aid is not deposited into a pension plan account in a timely manner, the funds are not available to pay operating expenses or for investment and the risk of misapplication is increased.

Recommendation: We recommend that the municipality pay the police pension plan the interest earned during the period beyond the 30 day grace period allowed by Act 205. A copy of the interest calculation must be maintained by the township for examination during our next audit of the plan.

We also recommend that plan officials develop and implement adequate internal control procedures to ensure that future state aid allocations are deposited timely in accordance with Act 205 requirements.

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 TOWNSHIP POLICE PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 2 – Pension Benefits Not In Compliance With Act 600 Provisions**

Condition: On June 25, 2024, the township hired its third full-time police officer, who had not yet been enrolled in the pension plan as of the completion of the audit. While a municipality that employs fewer than three full-time police officers may elect to establish a police pension plan pursuant to the Police Pension Fund Act, Act 600,<sup>1</sup> upon hiring a third full-time police officer, the municipality must ensure the plan is established pursuant to Act 600 provisions. However, if police officers were given rights prior to the hiring of a third full-time police officer under their existing pension plan that differ from Act 600, the fact that a new plan is adopted because of the growth of the police department cannot in any way affect their existing benefits, and they are in effect “grandfathered” for purposes of age and service for retirement purposes.

Since the pension plan’s governing document, Ordinance No. 2012-1112-01, was not adopted pursuant to Act 600, it contains benefit provisions that are not in compliance with Act 600. The specific inconsistencies are as follows:

<u>Benefit Provision</u>	<u>Governing Document</u>	<u>Act 600</u>
Normal Retirement Eligibility	A minimum of 20 years of service with township.	A minimum of 25 years of aggregate police service within the municipality for normal retirement.
Monthly pension benefit	Not provided.	A benefit equal to 50 percent of the member’s average monthly salary during not more than the last 60 nor less than the last 36 months of employment.
Members contributions	Member contributions are not required to fund the pension plan. However, the township reserves the right to require member contributions.	Members shall pay into the fund, monthly, an amount equal to not less than 5% nor more than 8% of monthly compensation, if not covered by Social Security. The governing body of the municipality may, on an annual basis, by ordinance or resolution, reduce or eliminate payments into the fund by members.

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<sup>1</sup> 53 P.S. § 767.

JEFFERSON TOWNSHIP POLICE PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 2 – (Continued)**

<u>Benefit Provision</u>	<u>Governing Document</u>	<u>Act 600</u>
Refund of member contributions	Not provided.	<p>A refund of member’s contributions, plus interest, to terminating members ineligible for pension benefits.</p> <p>A refund of member’s contributions, plus investment income, to the surviving spouse (or if no spouse survives or if he or she subsequently dies, the child or children under 18 years of age or if attending college, under or attaining the age of 23) of a member who dies before he has vested.</p>
Intervening military service	Not provided.	<p>Any member of the police force employed by a municipality for at least 6 months and who enters into military service of the United States shall have credited to his employment record for pension or retirement benefits all of the time spent in such military service, if such member returns to his employment within 6 months after his separation from military service.</p>
Service-related disability benefit	A disability benefit shall be based upon the account value of the annuity contract at the time the participant is declared disabled.	<p>The benefit must be in conformity with a uniform scale and fixed by the plan’s governing document, but at least 50% of the member’s salary at the time the disability was incurred, reduced by the amount of Social Security disability benefits received for the same injury.</p>

JEFFERSON TOWNSHIP POLICE PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 2 – (Continued)**

<u>Benefit Provision</u>	<u>Governing Document</u>	<u>Act 600</u>
Survivor's benefit	Should a participant die prior to retirement eligibility, the participant's named beneficiary shall be entitled the accumulated value of the participant's annuity account value at the time of the participant's death.	A lifetime survivor's benefit to the surviving spouse (or if no spouse survived or if he or she subsequently dies, the child or children under 18 years of age or if attending college, under or attaining the age of 23) of at least 50 percent of the pension the member was receiving or would have been entitled to receive had he been retired at the time of death. ("Attending college" shall mean the eligible children are registered at an accredited institution of higher learning and are carrying a minimum course load of 7 credit hours per semester.)
Definition of "attending college"	Not provided.	A definition of "attending college" that states that the eligible children must be registered at an accredited institution of higher learning and must be carrying a minimum course load of 7 credit hours per semester.

Criteria: Since the township employs three full-time police officers, the plan's governing document must be in compliance with Act 600.

Cause: Municipal officials were unaware that since the township employs three full-time police officers, the plan's governing document must be in compliance with Act 600.

Effect: Maintaining a benefit structure which is not in compliance with Act 600 could result in plan members or their beneficiaries receiving incorrect benefit amounts or being denied benefits to which they are statutorily entitled.

JEFFERSON TOWNSHIP POLICE PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 2 – (Continued)**

Recommendation: We recommend that municipal officials, after consulting with their solicitor, take whatever action is necessary to bring the police pension plan's benefit structure into compliance with Act 600. The township must also ensure that the existing benefits of the two police officers who were previously hired are not in any way diminished.

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

Auditor's Conclusion: Compliance with the finding recommendation will be evaluated during our next audit of the plan.

JEFFERSON TOWNSHIP POLICE PENSION PLAN  
SUMMARY OF DEPOSITED STATE AID AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid	Employer Contributions
2019	\$ 10,005	None
2020	9,466	None
2021	9,807	None
2022	10,044	None
2023	11,101	None
2024	10,973	None

JEFFERSON TOWNSHIP POLICE PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

**The Honorable Joshua D. Shapiro**  
Governor  
Commonwealth of Pennsylvania

**Mr. John Burkett**  
Chairman, Board of Township Supervisors

**Mr. Anthony Settle**  
Vice-Chairman, Board of Township Supervisors

**Mr. Tyler Angermeier**  
Township Supervisor

**Ms. Rachel Nickel**  
Secretary

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