

# COMPLIANCE AUDIT

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## Slippery Rock Township Non-Uniformed Pension Plan Lawrence County, Pennsylvania For the Period January 1, 2017 to December 31, 2020

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July 2021



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  
Slippery Rock Township  
Lawrence County  
New Castle, PA 16101

We have conducted a compliance audit of the Slippery Rock Township Non-Uniformed 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 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.

- 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 whether retirement benefits calculated for 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, 2015, January 1, 2017, and January 1, 2019 actuarial valuation reports were prepared and submitted by March 31, 2016, 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.

Township officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Slippery Rock Township Non-Uniformed 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.

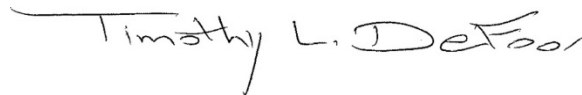
The results of our procedures indicated that, in all significant respects, the Slippery Rock Township Non-Uniformed Pension Plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies, except as noted in the following findings further discussed later in this report:

Finding No. 1 – Failure To Include Eligible Employees In The Pension Plan

Finding No. 2 – Incorrect Pension Benefit Calculations

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 Slippery Rock 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 to the left of the first letter.

Timothy L. DeFoor  
Auditor General

June 30, 2021

## CONTENTS

	<u>Page</u>
Background.....	1
Findings and Recommendations:	
Finding No. 1 – Failure To Include Eligible Employees In The Pension Plan.....	2
Finding No. 2 – Incorrect Pension Benefit Calculations.....	4
Supplementary Information .....	6
Report Distribution List .....	10

## 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 Slippery Rock Township Non-Uniformed 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 69 - The Second Class Township Code, Act of May 1, 1933 (P.L. 103, No. 69), as reenacted and amended, 53 P.S. § 65101 et seq.

The Slippery Rock Township Non-Uniformed Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Resolution 6-14 and a separately executed plan agreement, effective January 1, 2014. The plan was established January 1, 2014. Active members are not required to contribute to the plan. As of December 31, 2020, the plan had 2 active members, 1 terminated member eligible for vested benefits in the future, and 1 retiree receiving pension benefits from the plan.

SLIPPERY ROCK TOWNSHIP NON-UNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – Failure To Enroll Eligible Employees In The Pension Plan**

Condition: Plan officials did not properly identify and enroll four employees for participation in the pension plan who met the eligibility criteria established by the township in accordance with the governing plan document. The four employees worked in excess of the required minimum hours of service prescribed in the plan document during the audit period for participation in the township’s pension plan, as illustrated below:

2017			
Employee Hire Date	Hours of Service	Gross Wages	Years of Vesting Service
11/25/2014	2,144	\$ 28,668	3
01/01/2015	2,123	44,135	3

2018			
Employee Hire Date	Hours of Service	Gross Wages	Years of Vesting Service
11/25/2014	2,092	\$ 28,996	4
01/01/2015	2,120	43,913	4
01/01/2018	2,072	25,718	1

2019			
Employee Hire Date	Hours of Service	Gross Wages	Years of Vesting Service
11/25/2014	2,128	\$ 31,727	5
01/01/2015	2,124	48,249	5
01/01/2018	2,064	27,357	2

2020			
Employee Hire Date	Hours of Service	Gross Wages	Years of Vesting Service
11/25/2014	2,135	\$ 34,038	6
01/01/2015	2,099	50,027	6
01/01/2018	2,092	29,842	3
01/01/2020	2,129	50,356	1

SLIPPERY ROCK TOWNSHIP NON-UNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – (Continued)**

Criteria: The plan agreement with the Pennsylvania State Association of Township Supervisors, effective January 1, 2014, adopted by Resolution 6-14, states, in part:

**Section 4-1 Eligibility Requirements – Minimum Age and Service:** An Eligible Employee (as defined by AA §3-1) who satisfies the minimum age and service conditions under this AA §4-1 will be eligible to participate under the Plan as of his/her Entry Date (as defined in AA §4-2 below):

**(a) Service Requirement.** An Eligible Employee must complete the following minimum service requirements to participate in the Plan.

1. There is no minimum service requirement for participation in the Plan.

**(b) Minimum Age Requirement.** An Eligible Employee (as defined in AA §3-1) must have attained the following age to participate under the Plan.

1. There is no minimum age for Plan eligibility.

**Section 4-2 Entry Date:** An Eligible Employee (as defined in AA §3-1) who satisfies the minimum age and service requirements in AA §4-1 shall be eligible to participate in the Plan as of his/her Entry Date. For this purpose, the Entry Date is the following date.

**(a) Immediate.** The date the minimum age and service requirements are satisfied (or date of hire, if no minimum age and service requirements apply).

**Section 6-1 (d) (2) Year of Accrual Service.** An Employee earns a Year of Accrual Service for each Accrual Computation Period during which the Employee is eligible to participate under the Plan and completes at least 1000 Hours of Service.

In addition, Section 8-2 (f) provides for 100% vesting after 7 years of service.

Cause: Plan officials were of the understanding that an employee had to be vested before the employee's wages could be enrolled in the plan and certified on Certification Form AG 385 for state aid purposes.

Effect: The failure to properly identify and enroll all employees meeting the plan's participation criteria could result in the denial of benefits to which eligible employees are entitled under provisions of the plan document.



SLIPPERY ROCK TOWNSHIP NON-UNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – (Continued)**

Recommendation: We recommend that the township, after consulting with their solicitor, take appropriate action to ensure that the aforementioned employees are afforded the opportunity to participate in the township’s Non-Uniformed Pension Plan and to receive all benefits due in accordance with the plan document at its earliest opportunity to do so.

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

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

**Finding No. 2 – Incorrect Pension Benefit Calculations**

Condition: A member of the pension plan who retired January 1, 2016 and a member who retired February 28, 2021, had their pension benefits incorrectly determined because municipal officials failed to accurately calculate the members’ average compensation in accordance with the plan’s governing document.

Criteria: The plan agreement with the Pennsylvania State Association of Township Supervisors, effective January 1, 2014, adopted by Resolution 6-14, sets forth the following provisions and definitions:

Section 6-1 (b) sets the benefit formula as 1.75% of Average Compensation multiplied by Years of Credited Service.

Section 5-3 defines Average Compensation as the average of the Participant’s Plan Compensation (as defined in AA § 5-2) during the Averaging Period.

Section 5-2 defines Plan Compensation as Total Compensation, excluding all fringe benefits, expense reimbursements, deferred compensation, and welfare benefits.

Section 5-1 defines Total Compensation as W-2 wages.

Section 5-3 (a) defines the Averaging Period as:

The final 36 Measuring Periods in the Employment Period. If the final 36 months of employment include Measuring Period(s) during which no compensation is earned, compensation for said Measuring Period(s) shall be deemed equal to the average compensation earned in the 12 immediately prior Measuring Periods during which compensation was earned.

SLIPPERY ROCK TOWNSHIP NON-UNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 2 – (Continued)**

Section 5-3 (b) defines the Measuring Period as a calendar month.

Cause: Plan officials did not comply with the applicable provisions of the governing plan document because a chief administrative officer was not formally appointed for the pension plan, by ordinance, resolution or motion, to assume the responsibility for compliance with these requirements. In addition, there was a recent turnover of plan officials. Lastly, municipal officials stated that for unknown reasons, the prior secretary was not accurate with the payroll reported on the pension calculations.

Effect: Based on estimates prepared by this Department, the plan is paying pension benefits to a retiree in excess of those authorized by the plan's governing document and paying pension benefits to another retiree in an amount less than what the retiree is eligible to receive.

Recommendation: We recommend that municipal officials review the pension benefit calculations in accordance with the provisions contained in the plan's governing document and make any necessary adjustments to the retirees' pension benefits.

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.

SLIPPERY ROCK TOWNSHIP NON-UNIFORMED 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	\$ 24,453	\$ 347,070	\$ 322,617	7.0%
01-01-17	285,414	433,714	148,300	65.8%
01-01-19	415,791	503,203	87,412	82.6%

SLIPPERY ROCK TOWNSHIP NON-UNIFORMED 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.

SLIPPERY ROCK TOWNSHIP NON-UNIFORMED PENSION PLAN  
 SUPPLEMENTARY INFORMATION  
 (UNAUDITED)

SCHEDULE OF CONTRIBUTIONS

<u>Year Ended December 31</u>	<u>Actuarially Determined Contribution</u>	<u>Actual Contributions</u>	<u>Contribution Deficiency (Excess)</u>	<u>Covered- Employee Payroll</u>	<u>Contributions as a Percentage of Covered- Employee Payroll</u>
2014	\$ 24,453	\$ 24,453	\$ -	\$ 104,645	23.4%
2015	30,483	30,483	-	111,498	27.3%
2016	126,293	126,293	-	80,651	156.6%
2017	122,250	122,250	-	85,570	142.9%
2018	141,251	141,251	-	87,433	161.6%
2019	29,210	29,210	-	96,455	30.3%
2020	99,691	106,055	(6,364)	99,024	107.10

SLIPPERY ROCK TOWNSHIP NON-UNIFORMED 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
Remaining amortization period	1 year
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return	6.0%
Projected salary increases	3.5%

SLIPPERY ROCK TOWNSHIP NON-UNIFORMED PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

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

**Mr. Jack Armagost**  
Chairman, Board of Township Supervisors

**Mr. George E. Johnson**  
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