

# COMPLIANCE AUDIT

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## Horton Township Non-Uniformed Pension Plan Elk County, Pennsylvania For the Period January 1, 2018 to December 31, 2022

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June 2023



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  
Horton Township  
Elk County  
Brockport, PA 15823

We have conducted a compliance audit of the Horton Township Non-Uniformed Pension Plan for the period January 1, 2018 to December 31, 2022. 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. State aid allocations that were deposited into the pension plan for the years ended December 31, 2017 to December 31, 2022, 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. Employer contributions that were deposited into the pension plan for the years ended December 31, 2017 to December 31, 2022, are presented on the Summary of Deposited State Aid and Employer Contributions.
- 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 the plan member who elected to vest subsequent to 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 pension benefits due to the retired individual and comparing these amounts to supporting documentation evidencing amounts determined and payable to the recipient.
- We determined whether the January 1, 2019, and January 1, 2021, actuarial valuation reports were prepared and submitted by March 31, 2020, and 2022, 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 the plan's unallocated insurance contract, including ownership and any restrictions, were in compliance with plan provisions, investment policies, and state regulations by comparing the terms of the contract with the plan's provisions, investment policies, and state regulations.

Township officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Horton 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

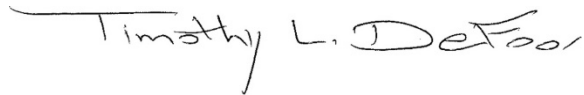
reasonable assurance of detecting instances of noncompliance with legal and regulatory requirements or noncompliance with provisions of contracts, administrative procedures, and local ordinances and policies that are significant within the context of the audit objectives.

The results of our procedures indicated that, in all significant respects, the Horton 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 – Partial Compliance With Prior Recommendation – Receipt Of State Aid In Excess Of Entitlement

Finding No. 2 – Failure To Properly Fund Members' Accounts

The contents of this report were discussed with officials of Horton 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  
May 18, 2023

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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 Horton 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.

The Horton Township Non-Uniformed Pension Plan is a single-employer defined contribution pension plan locally controlled by the provisions of Resolution No 166-94, as amended. The plan was established January 1, 1983. Active members are not required to contribute to the plan. The municipality is required to contribute \$1,500 per member. As of December 31, 2022, the plan had two active members and two terminated members eligible for vested benefits in the future.

HORTON TOWNSHIP NON-UNIFORMED PENSION PLAN  
STATUS OF PRIOR FINDING

Partial Compliance With Prior Recommendation

Horton Township has partially complied with the prior recommendation concerning the following:

Receipt Of State Aid In Excess Of Entitlement

During the current audit period, the township reimbursed \$617 to the Commonwealth for the excess state aid received in 2014, 2015, 2016 and 2017. However, plan officials again failed to reconcile the state aid allocations with the plan's annual defined contribution pension costs, as further discussed in the Findings and Recommendations section of this report.

HORTON TOWNSHIP NON-UNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – Partial Compliance With Prior Recommendation – Receipt Of State Aid In Excess Of Entitlement**

Condition: As disclosed in the Status of Prior Finding section of this report, the township partially complied with the prior recommendation by reimbursing the Commonwealth for the state aid overpayments received during the years 2014, 2015, 2016 and 2017. However, a similar condition occurred during the current audit period. The township received state aid in excess of the plan’s defined contribution pension costs, as illustrated below:

	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>
State aid allocation	\$ 3,035	\$ 3,126	\$ 3,047	\$ 3,011	\$ 3,045
Actual municipal pension costs	<u>(3,000)</u>	<u>(3,000)</u>	<u>(3,000)</u>	<u>(3,000)</u>	<u>(3,000)</u>
Excess state aid	<u>\$ 35</u>	<u>\$ 126</u>	<u>\$ 47</u>	<u>\$ 11</u>	<u>\$ 45</u>

Criteria: Section 402(f)(2) of Act 205 states:

No municipality shall be entitled to receive an allocation of general municipal pension system State aid in an amount which exceeds the aggregate actual financial requirements of any municipal pension plans for police officers, paid firefighters or employees other than police officers or paid firefighters maintained by the municipality, less the amount of any aggregate annual member or employee contributions during the next succeeding plan year, as reported in the most recent complete actuarial report filed with the commission.

Cause: The township again failed to implement procedures to reconcile the annual amount of state aid received and allocated to the pension plan with the plan’s actual defined contribution pension costs and ensure compliance with the prior recommendation.

Effect: It is this department’s opinion that because the entire proceeds of the insurance premium tax on foreign casualty insurance companies are distributed annually to each eligible recipient municipality, it is inappropriate to use state aid in one year to offset pension costs in other years. Consequently, the overpayment of state aid in the years 2018, 2019, 2020, 2021 and 2022 must be returned to the Commonwealth for redistribution.



HORTON TOWNSHIP NON-UNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – (Continued)**

Recommendation: We recommend that the municipality return the \$264 of excess state aid received in the years 2018, 2019, 2020, 2021 and 2022 to the Commonwealth. A check in this amount, with interest compounded annually from date of receipt to date of repayment, at a rate earned by the plan, should be made payable to: Commonwealth of Pennsylvania and mailed to: Department of the Auditor General, Municipal Pension & Fire Relief Programs Unit, 321 Finance Building, Harrisburg, PA 17120. A copy of the interest calculation must be submitted along with evidence of payment.

Furthermore, we again recommend that, in the future, plan officials reconcile the township’s annual state aid allocation with the plan’s annual defined contribution pension costs and reimburse any excess state aid received to the Commonwealth.

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

Auditor’s Conclusion: We are concerned that the municipality has not fully complied with the prior audit recommendation and encourage compliance at the earliest opportunity to do so.

**Finding No. 2 – Failure To Properly Fund Members’ Accounts**

Condition: The township did not properly fund the accounts of two plan members in the years 2019, 2020, 2021 and 2022, in accordance with the plan’s governing document, as illustrated below:

<u>Employee Hire Date</u>	<u>2019 Actual Contributions</u>	<u>2019 Required Contributions</u>	<u>Contributions In Excess</u>
08/16/1982	\$ 1,563	\$ 1,500	\$ 63
03/17/2008	1,563	1,500	63
		Total	<u>\$ 126</u>

<u>Employee Hire Date</u>	<u>2020 Actual Contributions</u>	<u>2020 Required Contributions</u>	<u>Contributions In Excess</u>
08/16/1982	\$ 1,523	\$ 1,500	\$ 23
03/17/2008	1,523	1,500	23
		Total	<u>\$ 46</u>

HORTON TOWNSHIP NON-UNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 2 – (Continued)**

<u>Employee Hire Date</u>	<u>2021 Actual Contributions</u>	<u>2021 Required Contributions</u>	<u>Contributions In Excess</u>
08/16/1982	\$ 1,505	\$ 1,500	\$ 5
03/17/2008	1,505	1,500	5
		Total	<u>10</u>

<u>Employee Hire Date</u>	<u>2022 Actual Contributions</u>	<u>2022 Required Contributions</u>	<u>Contributions In Excess</u>
08/16/1982	\$ 1,523	\$ 1,500	\$ 23
03/17/2008	1,523	1,500	23
		Total	<u>46</u>

Criteria: The plan’s governing Resolution No. 166-94, as amended by Resolution No. 244-03, states:

Each employee will receive fifteen hundred dollars (\$1,500) each year that he or she is a full-time employee of the Township.

Cause: Due to recent turnover in municipal personnel responsible for administration of the plan, current officials deposited the full amount of state aid received each year and evenly allocated amounts into each member’s account but failed to establish adequate internal control procedures to ensure that the plan members’ accounts were funded in accordance with the plan document.

Effect: The failure to properly allocate contributions to members’ accounts in accordance with the plan document resulted in plan members receiving benefits in excess of entitlement under plan provisions.

Recommendation: We recommend that the township review the applicable members’ accounts and make the adjustments deemed necessary to ensure that they are funded in accordance with the provisions contained in the plan’s governing document.

We also recommend that plan officials implement adequate internal control procedures to ensure that the members’ accounts are properly funded in accordance with the provisions contained in the plan’s governing document in subsequent periods.

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.

HORTON TOWNSHIP NON-UNIFORMED PENSION PLAN  
SUMMARY OF DEPOSITED STATE AID AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid	Employer Contributions
2017	\$ 3,000	None
2018	3,000	None
2019	3,126	None
2020	3,047	None
2021	3,011	None
2022	3,045	None

HORTON TOWNSHIP NON-UNIFORMED PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

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

**Mr. William Wolff**  
Chairman, Board of Township Supervisors

**Ms. Sherry Bevacqua**  
Chief Administrative Officer

This report is a matter of public record and is available online at [www.PaAuditor.gov](http://www.PaAuditor.gov). Media questions about the report can be directed to the Pennsylvania Department of the Auditor General, Office of Communications, 229 Finance Building, Harrisburg, PA 17120; via email to: [news@PaAuditor.gov](mailto:news@PaAuditor.gov).