



**BOROUGH OF MOUNT CARBON
SCHUYLKILL COUNTY
53-416**

**LIQUID FUELS TAX FUND
EXAMINATION REPORT**

**FOR THE PERIOD
JANUARY 1, 2009 TO DECEMBER 31, 2012**

COMMONWEALTH OF PENNSYLVANIA

EUGENE A. DEPASQUALE - AUDITOR GENERAL

DEPARTMENT OF THE AUDITOR GENERAL





Commonwealth of Pennsylvania
Department of the Auditor General
Harrisburg, PA 17120-0018
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EUGENE A. DePASQUALE
AUDITOR GENERAL

Independent Auditor's Report

The Honorable Barry J. Schoch, P.E.
Secretary
Department of Transportation
Harrisburg, PA 17120

We examined the accompanying Forms MS-965 With Adjustments for the Liquid Fuels Tax Fund of the Borough of Mount Carbon, Schuylkill County, for the period January 1, 2009 to December 31, 2012. The municipality's management is responsible for the Forms MS-965. Our responsibility is to express an opinion on the Forms MS-965 With Adjustments based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States. An examination includes examining, on a test basis, evidence supporting the Borough of Mount Carbon, Schuylkill County's Forms MS-965 for the period January 1, 2009 to December 31, 2012 and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

We are mandated by Section 403 of *The Fiscal Code*, 72 P.S. § 403, to audit each municipality's Liquid Fuels Tax Fund to ensure that funds received are expended in accordance with applicable laws and regulations. *Government Auditing Standards* issued by the Comptroller General of the United States include attestation engagements as a separate type of audit. An attestation engagement performed pursuant to *Government Auditing Standards* involves additional standards that exceed the standards provided by the American Institute of Certified Public Accountants. Accordingly, this attestation engagement complies with both *Government Auditing Standards* and Section 403 of *The Fiscal Code*.

As described in Note 4, the adjustments included on the Forms MS-965 With Adjustments are made by the Department of the Auditor General.

Independent Auditor's Report (Continued)

As discussed in Finding No. 1, the municipality did not maintain invoices to support expenditures of \$113.50 during 2009, \$100.00 during 2010, \$3,436.21 during 2011, and \$500.00 during 2012.

In our opinion, except for the matter discussed in the preceding paragraph, the Forms MS-965 With Adjustments present, in all material respects, the information required by the Pennsylvania Department of Transportation for the Liquid Fuels Tax Fund of the Borough of Mount Carbon, Schuylkill County, for the period January 1, 2009 to December 31, 2012, in conformity with the criteria set forth in Note 1.

In accordance with *Government Auditing Standards*, we are required to report findings of significant deficiencies in internal control, violations of provisions of contracts or grant agreements, and abuse that are material to the Forms MS-965 and any fraud and illegal acts that are more than inconsequential that come to our attention during our examination. We are also required to obtain the views of management on those matters. We performed our examination to express an opinion on whether the Forms MS-965 are presented in accordance with the criteria described above and not for the purpose of expressing an opinion on the internal control over reporting on the Forms MS-965 or on compliance and other matters; accordingly, we express no such opinions.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Borough of Mount Carbon, Schuylkill County's ability to initiate, authorize, record, process, or report data reliably in accordance with the applicable criteria such that there is more than a remote likelihood that a misstatement of the Borough of Mount Carbon, Schuylkill County's Forms MS-965 that is more than inconsequential will not be prevented or detected by the Borough of Mount Carbon, Schuylkill County's internal control. We consider the deficiencies described in the findings below to be significant deficiencies in internal control over reporting on the Forms MS-965:

- Documentation Supporting Expenditures Was Not Available For Examination.
- Inadequate Record Keeping For Investments In Certificates Of Deposit.


Independent Auditor's Report (Continued)

A material weakness is a significant deficiency or combination of significant deficiencies that results in more than a remote likelihood that a material misstatement of the Forms MS-965 will not be prevented or detected by the Borough of Mount Carbon, Schuylkill County's internal control. Our consideration of the internal control over reporting on the Forms MS-965 would not necessarily disclose all matters in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider the first bulleted deficiency to be a material weakness.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we did note an other matter, that, while not required to be reported in this report by *Government Auditing Standards*, had been included in the finding below:

- Late Receipt Of 2011 Allocation And Nonreceipt Of 2012 Allocation -
Recurring.

This report is intended solely for the information and use of the Pennsylvania Department of Transportation and the management of the Borough of Mount Carbon, Schuylkill County, and is not intended to be and should not be used by anyone other than these specified parties.



EUGENE A. DEPASQUALE
Auditor General

August 23, 2013

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BOROUGH OF MOUNT CARBON
SCHUYLKILL COUNTY
LIQUID FUELS TAX FUND
BACKGROUND
FOR THE PERIOD
JANUARY 1, 2009 TO DECEMBER 31, 2012

Background

The Liquid Fuels Tax Municipal Allocation Law, Title 72 P.S. § 2615.5, provides municipalities other than counties (townships, boroughs, cities, towns, home rule, and optional plan governments) with an annual allocation of liquid fuels taxes from the state's Motor License Fund to be used for the maintenance and repair of streets, roads, and bridges for which the municipality is responsible. The allocation of these funds to municipalities is based: (1) 50 percent on the municipality's proportion of local road mileage to the total local road mileage in the state, and (2) 50 percent on the proportion of a municipality's population to the total population in the state.

The Vehicle Code, Title 75 P.S. § 9511, provides municipalities with annual maintenance payments to be received from the Motor License Fund for functionally local highways that were transferred to a municipality from the Commonwealth of Pennsylvania.

Each municipality must deposit the Liquid Fuels Tax Fund money and annual maintenance payments that it receives into a special fund called the Municipal Liquid Fuels Tax Fund or State Fund. A municipality may not deposit any other monies into this fund except when the municipality does not have enough money in the special fund to meet the payments called for by its current annual budget for road and bridge purposes. In this case, the municipality may borrow money or transfer money from its General Fund to its Liquid Fuels Tax Fund.

The Department of Transportation has been given the regulatory authority for the administration of these funds. To qualify for its annual allocation, each municipality shall submit the following documents and information to the Department of Transportation:

1. Evidence that the treasurer is bonded in accordance with the law, or that its treasurer is a bank requiring no bond by January 31 of each year.
2. A report indicating the manner in which its liquid fuels tax allocation was expended in the previous year (Form MS-965) by January 31 of each year.
3. A report of elected and appointed officials by January 31 of each year.
4. A Survey of Financial Condition by March 15 of each year.

Department of Transportation *Publication 9* contains the policies and procedures that govern the use of Liquid Fuels Tax Fund money. However, if there is a difference between *Publication 9* and any legislation, the legislation shall govern.

BOROUGH OF MOUNT CARBON
SCHUYLKILL COUNTY
LIQUID FUELS TAX FUND
2009 FORM MS-965 – SECTION 1
WITH ADJUSTMENTS

<u>Expenditure Summary</u>	<u>Reported</u>	<u>Adjustments (Note 4)</u>	<u>Adjusted Amount</u>
Major equipment purchases	\$ -	\$ -	\$ -
Minor equipment purchases	-	-	-
Computer/Computer related training	-	-	-
Agility projects	-	-	-
Cleaning streets and gutters	-	-	-
Winter maintenance services	-	-	-
Traffic control devices	-	-	-
Street lighting	3,467.56	(43.45)	3,424.11
Storm sewers and drains	-	-	-
Repairs of tools and machinery	-	-	-
Maintenance and repair of roads and bridges	113.50	(113.50)	-
Highway construction and rebuilding projects	-	-	-
Miscellaneous (Note 6)	-	156.95	156.95
 Total (To Section 2, Line 5)	 <u>\$ 3,581.06</u>	 <u>\$ -</u>	 <u>\$ 3,581.06</u>

Notes to Forms MS-965 With Adjustments are an integral part of this report.

BOROUGH OF MOUNT CARBON
SCHUYLKILL COUNTY
LIQUID FUELS TAX FUND
2009 FORM MS-965 – SECTION 2
WITH ADJUSTMENTS

<u>Fund Balance</u>	<u>Reported</u>	<u>Adjustments</u>	<u>Adjusted Amount</u>
1. Balance, January 1, 2009	\$ 4,243.65	\$ -	\$ 4,243.65
Receipts:			
2. State allocation	2,177.62	-	2,177.62
2a. Turnback allocation	-	-	-
2b. Interest on investments (Note 3)	12.68	-	12.68
2c. Miscellaneous (Note 5)	100.00	-	100.00
3. Total receipts	<u>2,290.30</u>	<u>-</u>	<u>2,290.30</u>
4. Total funds available	<u>6,533.95</u>	<u>-</u>	<u>6,533.95</u>
5. Expenditures (Section 1)	<u>3,581.06</u>	<u>-</u>	<u>3,581.06</u>
6. Balance, December 31, 2009	<u>\$ 2,952.89</u>	<u>\$ -</u>	<u>\$ 2,952.89</u>

Notes to Forms MS-965 With Adjustments are an integral part of this report.

BOROUGH OF MOUNT CARBON
SCHUYLKILL COUNTY
LIQUID FUELS TAX FUND
2009 FORM MS-965 – SECTION 3
WITH ADJUSTMENTS

<u>Equipment Balance</u>	<u>Reported</u>	<u>Adjustments</u>	<u>Adjusted Amount</u>
1. Prior year equipment balance	\$ 4,243.65	\$ -	\$ 4,243.65
2. Add: Current year equipment allocation (20% of Lines 2 + 2a, Section 2)	435.52	-	435.52
3. PENNDOT approved adjustments	<u>-</u>	<u>-</u>	<u>-</u>
4. Total funds available for equipment acquisition	4,679.17	-	4,679.17
5. Less: Major equipment expenditures	<u>-</u>	<u>-</u>	<u>-</u>
6. Remainder	<u>4,679.17</u>	<u>-</u>	<u>4,679.17</u>
7. Equipment balance available for subsequent year (Lesser of Line 6 or Section 2 balance, but not less than zero)	<u>\$ 2,952.89</u>	<u>\$ -</u>	<u>\$ 2,952.89</u>

Notes to Forms MS-965 With Adjustments are an integral part of this report.

BOROUGH OF MOUNT CARBON
SCHUYLKILL COUNTY
LIQUID FUELS TAX FUND
2010 FORM MS-965 – SECTION 1
WITH ADJUSTMENTS

<u>Expenditure Summary</u>	<u>Reported</u>	<u>Adjustments (Note 4)</u>	<u>Adjusted Amount</u>
Major equipment purchases	\$ -	\$ -	\$ -
Minor equipment purchases	-	-	-
Computer/Computer related training	-	-	-
Agility projects	-	-	-
Cleaning streets and gutters	-	-	-
Winter maintenance services	-	-	-
Traffic control devices	-	-	-
Street lighting	3,284.70	-	3,284.70
Storm sewers and drains	-	-	-
Repairs of tools and machinery	-	-	-
Maintenance and repair of roads and bridges	100.00	(100.00)	-
Highway construction and rebuilding projects	-	-	-
Miscellaneous (Note 6)	-	260.27	260.27
 Total (To Section 2, Line 5)	 <u>\$ 3,384.70</u>	 <u>\$ 160.27</u>	 <u>\$ 3,544.97</u>

Notes to Forms MS-965 With Adjustments are an integral part of this report.

BOROUGH OF MOUNT CARBON
SCHUYLKILL COUNTY
LIQUID FUELS TAX FUND
2010 FORM MS-965 – SECTION 2
WITH ADJUSTMENTS

<u>Fund Balance</u>	<u>Reported</u>	<u>Adjustments (Note 4)</u>	<u>Adjusted Amount</u>
1. Balance, January 1, 2010	\$ 4,243.65	\$ (1,290.76)	\$ 2,952.89
Receipts:			
2. State allocation	2,177.62	(85.23)	2,092.39
2a. Turnback allocation	-	-	-
2b. Interest on investments (Note 3)	12.68	(11.21)	1.47
2c. Miscellaneous (Note 5)	1,022.75	(847.28)	175.47
3. Total receipts	<u>3,213.05</u>	<u>(943.72)</u>	<u>2,269.33</u>
4. Total funds available	<u>7,456.70</u>	<u>(2,234.48)</u>	<u>5,222.22</u>
5. Expenditures (Section 1)	<u>3,384.70</u>	<u>160.27</u>	<u>3,544.97</u>
6. Balance, December 31, 2010	<u>\$ 4,072.00</u>	<u>\$ (2,394.75)</u>	<u>\$ 1,677.25</u>

Notes to Forms MS-965 With Adjustments are an integral part of this report.

BOROUGH OF MOUNT CARBON
SCHUYLKILL COUNTY
LIQUID FUELS TAX FUND
2010 FORM MS-965 – SECTION 3
WITH ADJUSTMENTS

<u>Equipment Balance</u>	<u>Reported</u>	<u>Adjustments (Note 4)</u>	<u>Adjusted Amount</u>
1. Prior year equipment balance	\$ 4,243.65	\$ (1,290.76)	\$ 2,952.89
2. Add: Current year equipment allocation (20% of Lines 2 + 2a, Section 2)	435.52	(17.04)	418.48
3. PENNDOT approved adjustments	-	-	-
4. Total funds available for equipment acquisition	4,679.17	(1,307.80)	3,371.37
5. Less: Major equipment expenditures	-	-	-
6. Remainder	<u>4,679.17</u>	<u>(1,307.80)</u>	<u>3,371.37</u>
7. Equipment balance available for subsequent year (Lesser of Line 6 or Section 2 balance, but not less than zero)	<u>\$ 4,072.00</u>	<u>\$ (2,394.75)</u>	<u>\$ 1,677.25</u>

Notes to Forms MS-965 With Adjustments are an integral part of this report.

BOROUGH OF MOUNT CARBON
SCHUYLKILL COUNTY
LIQUID FUELS TAX FUND
2011 FORM MS-965 – SECTION 1
WITH ADJUSTMENTS

<u>Expenditure Summary</u>	<u>Reported</u>	<u>Adjustments (Note 4)</u>	<u>Adjusted Amount</u>
Major equipment purchases	\$ -	\$ -	\$ -
Minor equipment purchases	-	-	-
Computer/Computer related training	-	-	-
Agility projects	-	-	-
Cleaning streets and gutters	-	-	-
Winter maintenance services	2,500.00	(2,500.00)	-
Traffic control devices	-	-	-
Street lighting	1,089.67	(485.65)	604.02
Storm sewers and drains	-	-	-
Repairs of tools and machinery	-	-	-
Maintenance and repair of roads and bridges	-	-	-
Highway construction and rebuilding projects	-	-	-
Miscellaneous (Note 6)	<u>465.56</u>	<u>2,985.65</u>	<u>3,451.21</u>
 Total (To Section 2, Line 5)	 <u>\$ 4,055.23</u>	 <u>\$ -</u>	 <u>\$ 4,055.23</u>

Notes to Forms MS-965 With Adjustments are an integral part of this report.

BOROUGH OF MOUNT CARBON
SCHUYLKILL COUNTY
LIQUID FUELS TAX FUND
2011 FORM MS-965 – SECTION 2
WITH ADJUSTMENTS

<u>Fund Balance</u>	<u>Reported</u>	<u>Adjustments</u>	<u>Adjusted Amount</u>
1. Balance, January 1, 2011	\$ 1,677.25	\$ -	\$ 1,677.25
Receipts:			
2. State allocation	2,142.15	-	2,142.15
2a. Turnback allocation	-	-	-
2b. Interest on investments	-	-	-
2c. Miscellaneous (Note 5)	1,000.00	-	1,000.00
3. Total receipts	3,142.15	-	3,142.15
4. Total funds available	4,819.40	-	4,819.40
5. Expenditures (Section 1)	4,055.23	-	4,055.23
6. Balance, December 31, 2011	\$ 764.17	\$ -	\$ 764.17

Notes to Forms MS-965 With Adjustments are an integral part of this report.

BOROUGH OF MOUNT CARBON
SCHUYLKILL COUNTY
LIQUID FUELS TAX FUND
2011 FORM MS-965 – SECTION 3
WITH ADJUSTMENTS

<u>Equipment Balance</u>	<u>Reported</u>	<u>Adjustments</u>	<u>Adjusted Amount</u>
1. Prior year equipment balance	\$ 1,677.25	\$ -	\$ 1,677.25
2. Add: Current year equipment allocation (20% of Lines 2 + 2a, Section 2)	428.43	-	428.43
3. PENNDOT approved adjustments	<u>-</u>	<u>-</u>	<u>-</u>
4. Total funds available for equipment acquisition	2,105.68	-	2,105.68
5. Less: Major equipment expenditures	<u>-</u>	<u>-</u>	<u>-</u>
6. Remainder	<u>2,105.68</u>	<u>-</u>	<u>2,105.68</u>
7. Equipment balance available for subsequent year (Lesser of Line 6 or Section 2 balance, but not less than zero)	<u>\$ 764.17</u>	<u>\$ -</u>	<u>\$ 764.17</u>

Notes to Forms MS-965 With Adjustments are an integral part of this report.

BOROUGH OF MOUNT CARBON
SCHUYLKILL COUNTY
LIQUID FUELS TAX FUND
2012 FORM MS-965 – SECTION 1
WITH ADJUSTMENTS

<u>Expenditure Summary</u>	<u>Reported</u>	<u>Adjustments (Note 4)</u>	<u>Adjusted Amount</u>
Major equipment purchases	\$ -	\$ -	\$ -
Minor equipment purchases	-	-	-
Computer/Computer related training	-	-	-
Agility projects	-	-	-
Cleaning streets and gutters	-	-	-
Winter maintenance services	500.00	(500.00)	-
Traffic control devices	-	-	-
Street lighting	676.48	-	676.48
Storm sewers and drains	-	-	-
Repairs of tools and machinery	-	-	-
Maintenance and repair of roads and bridges	-	-	-
Highway construction and rebuilding projects	-	-	-
Miscellaneous (Note 6)	<u>70.17</u>	<u>500.00</u>	<u>570.17</u>
 Total (To Section 2, Line 5)	 <u>\$ 1,246.65</u>	 <u>\$ -</u>	 <u>\$ 1,246.65</u>

Notes to Forms MS-965 With Adjustments are an integral part of this report.

BOROUGH OF MOUNT CARBON
SCHUYLKILL COUNTY
LIQUID FUELS TAX FUND
2012 FORM MS-965 – SECTION 2
WITH ADJUSTMENTS

<u>Fund Balance</u>	<u>Reported</u>	<u>Adjustments</u>	<u>Adjusted Amount</u>
1. Balance, January 1, 2012	\$ 764.17	\$ -	\$ 764.17
Receipts:			
2. State allocation	-	-	-
2a. Turnback allocation	-	-	-
2b. Interest on investments	-	-	-
2c. Miscellaneous (Note 5)	700.00	-	700.00
3. Total receipts	700.00	-	700.00
4. Total funds available	1,464.17	-	1,464.17
5. Expenditures (Section 1)	1,246.65	-	1,246.65
6. Balance, December 31, 2012	\$ 217.52	\$ -	\$ 217.52

Notes to Forms MS-965 With Adjustments are an integral part of this report.

BOROUGH OF MOUNT CARBON
SCHUYLKILL COUNTY
LIQUID FUELS TAX FUND
2012 FORM MS-965 – SECTION 3
WITH ADJUSTMENTS

<u>Equipment Balance</u>	<u>Reported</u>	<u>Adjustments</u>	<u>Adjusted Amount</u>
1. Prior year equipment balance	\$ 764.17	\$ -	\$ 764.17
2. Add: Current year equipment allocation (20% of Lines 2 + 2a, Section 2)	-	-	-
3. PENNDOT approved adjustments	<u>-</u>	<u>-</u>	<u>-</u>
4. Total funds available for equipment acquisition	764.17	-	764.17
5. Less: Major equipment expenditures	<u>-</u>	<u>-</u>	<u>-</u>
6. Remainder	<u>764.17</u>	<u>-</u>	<u>764.17</u>
7. Equipment balance available for subsequent year (Lesser of Line 6 or Section 2 balance, but not less than zero)	<u>\$ 217.52</u>	<u>\$ -</u>	<u>\$ 217.52</u>

Notes to Forms MS-965 With Adjustments are an integral part of this report.

BOROUGH OF MOUNT CARBON
SCHUYLKILL COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE PERIOD
JANUARY 1, 2009 TO DECEMBER 31, 2012

1. Criteria

Section 1

This section of Form MS-965 With Adjustments provides a summary of Liquid Fuels Tax Fund expenditures by category. Categories requiring explanation include:

- Major equipment purchases are purchases of road machinery and road equipment that cost in excess of \$4,000.00 prior to 2012 and in excess of \$10,000.00 during 2012 and subsequent years.
- Minor equipment purchases are purchases of road machinery and road equipment that cost \$4,000.00 or less prior to 2012 and \$10,000.00 or less during 2012 and subsequent years.
- Agility projects are exchanges of services with the Department of Transportation.

Section 2

This section of Form MS-965 With Adjustments provides information on the fund balance. Categories requiring explanation include:

- The state allocation is generally received from the Department of Transportation during the first week in April of each year. The amount the municipality receives is based half on its population and half on its road mileage.
- The turnback allocation is generally received from the Department of Transportation during the first week in April of each year. A municipality receives a yearly turnback allocation based on road mileage for all roads that were transferred to the municipality from the Commonwealth of Pennsylvania through the Highway Transfer Program.
- Expenditures include the total transferred from Section 1.

BOROUGH OF MOUNT CARBON
SCHUYLKILL COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE PERIOD
JANUARY 1, 2009 TO DECEMBER 31, 2012

1. Criteria (Continued)

Section 3

This section of Form MS-965 With Adjustments determines if the municipality expended Liquid Fuels Tax Fund money in excess of the permissible amount for equipment and the balance that the municipality may carry forward for the purchase of equipment to the subsequent year.

Department of Transportation *Publication 9* requires that the amount expended for equipment purchases in a given year not exceed the sum of the equipment balance carried forward from the previous year and 20 percent of the current year's Liquid Fuels Tax Fund allocation and, if applicable, 20 percent of the turnback allocation plus other Department of Transportation approved adjustments.

If the municipality spent in excess of the amount listed on Line 4, the excess must be reimbursed to the Liquid Fuels Tax Fund.

The equipment balance to be carried forward for the subsequent year is the lesser of the amount on Line 6 or the ending fund balance on Line 6 of Section 2, but not less than zero.

Basis Of Presentation

The financial activities of the municipality are accounted for in separate funds. The Liquid Fuels Tax Fund is used to account for state aid revenues from the Pennsylvania Department of Transportation used primarily for building and improving local roads and bridges. The Forms MS-965 have been prepared in accordance with reporting requirements prescribed by the Pennsylvania Department of Transportation as a result of the Fuels Tax Act 655, dated 1956 and as amended, which does not constitute a complete presentation of the entity's assets, liabilities, expenses, and fund balance. Accordingly, the presentation of Forms MS-965 With Adjustments is restricted to the Liquid Fuels Tax Fund, which represents a segment of the entity.

Basis Of Accounting

The accompanying Forms MS-965 With Adjustments are prepared in accordance with reporting requirements prescribed by the Pennsylvania Department of Transportation. Under this method, revenues are recognized when received and expenditures are recorded when paid.

BOROUGH OF MOUNT CARBON
SCHUYLKILL COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE PERIOD
JANUARY 1, 2009 TO DECEMBER 31, 2012

1. Criteria (Continued)

General Fixed Assets

General fixed assets are recognized as expenditures at the time of purchase. No depreciation has been provided on the heavy equipment used to maintain and repair roads and bridges.

2. Deposits

The Borough Code, Title 53 P.S § 46316, authorizes the borough to deposit its funds in the following:

- Deposits in savings accounts or time deposits, other than certificates of deposit or share accounts of institutions having their principal place of business in the Commonwealth of Pennsylvania and insured by the Federal Deposit Insurance Corporation (FDIC) or other like insurance. For any amount above the insured maximum, the depository shall pledge approved collateral.
- Certificates of deposit purchased from institutions insured by the FDIC or other like insurance to the extent that such accounts are so insured. For any amounts in excess of the insured maximum, such deposits shall be collateralized by a pledge or assignment of assets. Certificates of deposit may not exceed 20 percent of a bank's total capital surplus or 20 percent of a savings and loan's or savings bank's assets minus liabilities.

Deposits consist of receipts and deposits in a financial institution. Pennsylvania statutes require all deposits to be insured and, for any amount above the insured maximum, to be secured with approved collateral as defined.

There were no deposits exposed to custodial credit risk as of December 31, 2012. Custodial credit risk, as defined by GASB No. 40, includes deposits that are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the municipality's name.

BOROUGH OF MOUNT CARBON
SCHUYLKILL COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE PERIOD
JANUARY 1, 2009 TO DECEMBER 31, 2012

2. Deposits (Continued)

Fund Balance

The fund balance as of December 31, 2012 consists of the following:

Cash	\$217.52
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3. Interest On Investments

Our examination disclosed that the municipality deposited idle liquid fuels tax money in an interest-bearing account and a certificate of deposit which earned \$12.68 during 2009, and \$1.47 during 2010, thus providing additional funds for road maintenance and repairs.

4. Adjustments

2009 - Section 1

Adjustments were made to “Street lighting,” “Maintenance and repair of roads and bridges,” and “Miscellaneous” because expenditures of \$156.95 were misclassified.

2010 - Section 1

An adjustment of \$(100.00) was made to “Maintenance and repair of roads and bridges” because miscellaneous expenditures of \$100.00 were misclassified.

An adjustment of \$260.27 was made to “Miscellaneous” because expenditures of \$100.00 were misclassified as maintenance and repair of roads and bridges and bank service charges of \$160.27 were not reported.

2010 - Section 2

An adjustment of \$(1,290.76) was made to “Balance, January 1, 2010” because an incorrect fund balance was reported.

An adjustment of \$(85.23) was made to “State allocation” because this receipt was overstated.

BOROUGH OF MOUNT CARBON
SCHUYLKILL COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE PERIOD
JANUARY 1, 2009 TO DECEMBER 31, 2012

4. Adjustments (Continued)

2010 - Section 2 (Continued)

An adjustment of \$(11.21) was made to "Interest on investments" because interest earnings were overstated.

An adjustment of \$(847.28) was made to "Miscellaneous" because the redemption of a certificate of deposit for \$1,022.75 was incorrectly reported as a receipt and a refund of \$175.47 for bank service charges was not reported.

2010 - Section 3

An adjustment of \$(1,290.76) was made to "Prior year equipment balance" because an incorrect equipment balance was carried forward.

An adjustment of \$(17.04) was made to "Current year equipment allocation" because the state allocation from 2010 - Section 2, which is used to calculate this figure, was overstated.

2011 - Section 1

Adjustments were made to "Winter maintenance services," "Street lighting," and "Miscellaneous" because expenditures of \$2,985.65 were misclassified.

2012 - Section 1

Adjustments were made to "Winter maintenance services" and "Miscellaneous" because expenditures of \$500.00 were misclassified.

BOROUGH OF MOUNT CARBON
SCHUYLKILL COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE PERIOD
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5. Miscellaneous Receipts

The following miscellaneous receipts were deposited into the Liquid Fuels Tax Fund during the examination period:

<u>Source</u>	<u>Description</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Financial institution	Refund for bank service charges	\$ -	\$175.47	\$ -	\$ -
General Fund	Grant	<u>100.00</u>	<u>-</u>	<u>1,000.00</u>	<u>700.00</u>
Totals		<u>\$100.00</u>	<u>\$175.47</u>	<u>\$1,000.00</u>	<u>\$700.00</u>

6. Miscellaneous Expenditures

The following miscellaneous expenditures were paid from the Liquid Fuels Tax Fund during the examination period:

<u>Payee</u>	<u>Description</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Various	Unsupported expenditures (Finding No. 1)	\$113.50	\$100.00	\$3,436.21	\$500.00
Financial institution	Bank service charges	<u>43.45</u>	<u>160.27</u>	<u>15.00</u>	<u>70.17</u>
Totals		<u>\$156.95</u>	<u>\$260.27</u>	<u>\$3,451.21</u>	<u>\$570.17</u>

BOROUGH OF MOUNT CARBON
SCHUYLKILL COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
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Finding No. 1 - Documentation Supporting Expenditures Was Not Available For Examination

Our examination disclosed that the municipality did not maintain invoices to support expenditures of \$113.50 during 2009, \$100.00 during 2010, \$3,436.21 during 2011, and \$500.00 during 2012.

Good internal control procedures ensure that there is documentation to support all expenditures.

The Liquid Fuels Tax Municipal Allocation Law, 72 P.S. § 2615.4, provides, in part, that monies herein allocated may be used only for construction, reconstruction, maintenance and repairs of such public roads or streets, including bridges, culverts and drainage structures, for which they are legally responsible. Also permitted are expenditures involving acquisition, maintenance, repairs and operation of street signs, traffic signs, traffic signal control systems, road equipment, and snow fences.

The Department of Transportation has been statutorily authorized to promulgate regulations concerning the administration of Liquid Fuels Tax Fund money and has determined that certain items, including expenditures made without supporting documentation, are outside the scope of permissible expenditures.

Without adequate documentation, we could not determine if the expenditures were permissible according to the Liquid Fuels Tax Municipal Allocation Law and the Department of Transportation's Regulations.

The failure to maintain documentation to support expenditures could result in the municipality having to reimburse \$4,149.71 to its Liquid Fuels Tax Fund.

Recommendations

We recommend that the municipality reimburse \$4,149.71 to its Liquid Fuels Tax Fund upon official notification by the Department of Transportation.

We further recommend that the municipality ensure good internal control over expenditures by maintaining adequate documentation to support all expenditures.

BOROUGH OF MOUNT CARBON
SCHUYLKILL COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
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Finding No. 1 - Documentation Supporting Expenditures Was Not Available For Examination
(Continued)

Management's Response

The secretary/treasurer stated:

All findings found will be shared with council and will be handled in a prompt manner going forward.

Auditor's Conclusion

During our next examination we will determine if the municipality complied with our recommendations.

BOROUGH OF MOUNT CARBON
SCHUYLKILL COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2009 TO DECEMBER 31, 2012

Finding No. 2 - Inadequate Recordkeeping For Investments In Certificates Of Deposit

Our examination disclosed that the municipality did not maintain an adequate certificate of deposit ledger. Consequently, we had difficulty verifying the accuracy of interest income.

Good internal controls ensure that there is adequate documentation to support investment activity. To ensure a clear examination trail and to improve the system of internal control, a ledger should be maintained. This ledger should include specific information about each certificate of deposit, including cost, date of purchase and redemption, interest rate, identification number, and the dates and amounts of interest income received. Without this control, the potential is increased for errors and misappropriations to remain undetected.

The Department of Transportation has provided to all municipalities in their annual mailing an investment schedule (Form MS-994) to be used to account for deposit activity.

Recommendation

We recommend that the municipality utilize the Department of Transportation's Form MS-994 or an equivalent ledger to account for all of its deposit activities. If a ledger other than Form MS-994 is used, it should include, at a minimum, all of the information outlined on Form MS-994.

Management's Response

The secretary/treasurer stated:

All findings found will be shared with council and will be handled in a prompt manner going forward.

Auditor's Conclusion

During our next examination we will determine if the municipality complied with our recommendation.

BOROUGH OF MOUNT CARBON
SCHUYLKILL COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2009 TO DECEMBER 31, 2012

Finding No. 3 - Late Receipt Of 2011 Allocation And Nonreceipt Of 2012 Allocation -
Recurring

We cited the municipality for late receipt of allocations in the prior examination report for the period ending December 31, 2008. However, our current examination again disclosed that the 2011 Liquid Fuels Tax Fund allocation of \$2,142.15, which should have been distributed from the Department of Transportation to the municipality during the first week of April of that year, was not received until September 16, 2011. Additionally, the 2012 Liquid Fuels Tax Fund allocation of \$2,225.53, which should have been distributed during the first week of April of that year, was not yet received as of the date of this report because the municipality failed to comply with the Department of Transportation's *Publication 9*, Chapter Two, Section 2.4, which states:

To qualify for the annual liquid fuels tax allocation, a municipality shall:

- Submit annual reports (MS-965, Actual Use Report, MS-965P, Project and Miscellaneous Receipts, and MS-965S, Record of Checks).
- Make deposits and payments or expenditures in compliance with the Act 655. Failure to do so may result in not receiving allocations from PENNDOT until all discrepancies are resolved.
- Submit the Pennsylvania Department of Community and Economic Development's (DCED) Report of Elected and Appointed Officials by January 31st and the Survey of Financial Condition by March 15th.
- Ensure resolution of all Contractor Responsibility Program (CRP) holds and blocks imposed by the Department of Revenue and the Department of Labor and Industry.

Because the municipality failed to file documents and information timely as noted above, the municipality did not have use of the 2011 allocation for more than five months and still does not have use of the 2012 allocation. Furthermore, had the allocations been received timely, money may have been available for investment purposes, potentially earning interest income which could have been used for road maintenance and repairs.

This condition occurred because the municipality failed to comply with our prior examination recommendation and to comply with the Department of Transportation's *Publication 9* to ensure allocations are received during the first week in April.

BOROUGH OF MOUNT CARBON
SCHUYLKILL COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2009 TO DECEMBER 31, 2012

Finding No. 3 - Late Receipt Of 2011 Allocation And Nonreceipt Of 2012 Allocation -
Recurring (Continued)

Recommendations

We strongly recommend that, in the future, the municipality comply with the Department of Transportation's *Publication 9* to ensure that the allocations are received during the first week in April as outlined above.

We further recommend that the municipality file all required documents to receive its 2012 Liquid Fuels Tax Fund allocation. If the municipality needs assistance in filing the documents, it should contact the Department of Transportation.

Management's Response

The secretary/treasurer stated:

Due to personnel change/lack of personnel, reports were not submitted in a timely fashion. All findings found will be shared with council and will be handled in a prompt manner going forward.

Auditor's Conclusion

This is a recurring finding. We strongly recommend that the municipality comply with our recommendation. During our next examination we will determine if the municipality complied with our recommendation.

BOROUGH OF MOUNT CARBON
SCHUYLKILL COUNTY
LIQUID FUELS TAX FUND
COMMENT
FOR THE PERIOD
JANUARY 1, 2009 TO DECEMBER 31, 2012

Comment - Summary Of Prior Examination Recommendations

In our prior report we recommended that the municipality expend only the approved amount of Liquid Fuels Tax Fund money on road construction projects.

During our current examination we noted that the municipality complied with our recommendation.

In our prior report we also recommended that the municipality consider investing money in excess of current needs in investments outlined in Section 1316 of *The Borough Code* as published by the Local Government Commission.

During 2009 and 2010 the municipality did maintain its Liquid Fuels Tax Fund in an interest-bearing account and a certificate of deposit. However, because interest rates and the balance of borough funds was low during 2011 and 2012, the borough maintained its money in a noninterest-bearing account because the interest earned would have been insignificant.

BOROUGH OF MOUNT CARBON
SCHUYLKILL COUNTY
LIQUID FUELS TAX FUND
SUMMARY OF EXIT CONFERENCE
FOR THE PERIOD
JANUARY 1, 2009 TO DECEMBER 31, 2012

An exit conference was held August 23, 2013. Those participating were:

BOROUGH OF MOUNT CARBON

Ms. Susan McCord, Secretary/Treasurer

DEPARTMENT OF THE AUDITOR GENERAL

Mr. Vernon J. Brennan, Auditor

The results of the examination were presented and discussed in their entirety.

BOROUGH OF MOUNT CARBON
SCHUYLKILL COUNTY
LIQUID FUELS TAX FUND
REPORT DISTRIBUTION
FOR THE PERIOD
JANUARY 1, 2009 TO DECEMBER 31, 2012

This report was initially distributed to:

The Honorable Barry J. Schoch, P.E.
Secretary
Department of Transportation

Borough of Mount Carbon
Schuylkill County
P.O. Box 235
Pottsville, PA 17901

The Honorable Kirk Kirkland

President of Council

Ms. Susan McCord

Secretary/Treasurer

This report is a matter of public record and is available online at <http://www.auditorgen.state.pa.us>. Media questions about the report can be directed to the Pennsylvania Department of the Auditor General, Office of Communications, 231 Finance Building, Harrisburg, PA 17120; via email to: news@auditorgen.state.pa.us.