



**TOWNSHIP OF BROKENSTRAW
WARREN COUNTY
61-201**

**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 Township of Brokenstraw, Warren 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 Township of Brokenstraw, Warren 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 the Findings and Recommendations section of this report:

- On July 14, 2010, the municipality expended \$16,651.00 for the purchase of stone. However, the total cost of the stone was \$14,851.00, which was \$1,800.00 less than the amount expended (Finding No. 2).
- During 2010, the municipality paid invoices totaling \$1,200.00 twice (Finding No. 3).
- The municipality expended \$17,728.70 during 2009 from the Liquid Fuels Tax Fund for stone without advertising for bids (Finding No. 4).
- On August 10, 2011, the municipality expended \$3,892.00 from its Liquid Fuels Tax Fund for a Dirt and Gravel Road Project. The municipality received a grant of \$22,255.00 from the Warren County Conservation District to fund the project. However the grant money was deposited into the General Fund (Finding No. 5).

In our opinion, except for the bulleted items discussed above, 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 Township of Brokenstraw, Warren 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 Township of Brokenstraw, Warren 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 Township of Brokenstraw, Warren County's Forms MS-965 that is more than inconsequential will not be prevented or detected by the Township of Brokenstraw, Warren 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:

Independent Auditor's Report (Continued)

- Electronic Imaging Of Canceled Checks From The Bank Did Not Include The Back Of The Checks.
- Overpayment Of Invoices.
- Duplicate Payment Of Invoices.

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 Township of Brokenstraw, Warren County's internal control. Our consideration of 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, we consider the significant deficiencies described above to be material weaknesses.

The results of our tests disclosed the following instances of noncompliance that are required to be reported under *Government Auditing Standards*:

- Purchases Over \$10,000.00 In Noncompliance With Advertising And Bidding Requirements.
- Liquid Fuels Money Improperly Expended On A Dirt And Gravel Road Project.

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



September 17, 2013

EUGENE A. DEPASQUALE
Auditor General

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TOWNSHIP OF BROKENSTRAW
WARREN 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.

TOWNSHIP OF BROKENSTRAW
WARREN 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	-	-	-
Storm sewers and drains	-	2,915.00	2,915.00
Repairs of tools and machinery	3,057.29	-	3,057.29
Maintenance and repair of roads and bridges	87,581.19	(2,905.00)	84,676.19
Highway construction and rebuilding projects	19,004.01	-	19,004.01
Miscellaneous (Bank service charges)	20.00	(10.00)	10.00
	<u>20.00</u>	<u>(10.00)</u>	<u>10.00</u>
Total (To Section 2, Line 5)	<u>\$ 109,662.49</u>	<u>\$ -</u>	<u>\$ 109,662.49</u>

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

TOWNSHIP OF BROKENSTRAW
WARREN 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	\$ 525.04	\$ -	\$ 525.04
Receipts:			
2. State allocation	108,968.04	-	108,968.04
2a. Turnback allocation	-	-	-
2b. Interest on investments (Note 3)	142.06	-	142.06
2c. Miscellaneous (Note 5)	100.00	-	100.00
3. Total receipts	<u>109,210.10</u>	<u>-</u>	<u>109,210.10</u>
4. Total funds available	<u>109,735.14</u>	<u>-</u>	<u>109,735.14</u>
5. Expenditures (Section 1)	<u>109,662.49</u>	<u>-</u>	<u>109,662.49</u>
6. Balance, December 31, 2009	<u><u>\$ 72.65</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 72.65</u></u>

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

TOWNSHIP OF BROKENSTRAW
WARREN 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	\$ 525.04	\$ -	\$ 525.04
2. Add: Current year equipment allocation (20% of Lines 2 + 2a, Section 2)	21,793.61	-	21,793.61
3. PENNDOT approved adjustments	<u>-</u>	<u>-</u>	<u>-</u>
4. Total funds available for equipment acquisition	22,318.65	-	22,318.65
5. Less: Major equipment expenditures	<u>-</u>	<u>-</u>	<u>-</u>
6. Remainder	<u>22,318.65</u>	<u>-</u>	<u>22,318.65</u>
7. Equipment balance available for subsequent year (Lesser of Line 6 or Section 2 balance, but not less than zero)	<u>\$ 72.65</u>	<u>\$ -</u>	<u>\$ 72.65</u>

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

TOWNSHIP OF BROKENSTRAW
WARREN 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	3,840.00	-	3,840.00
Street lighting	-	-	-
Storm sewers and drains	-	-	-
Repairs of tools and machinery	5,150.55	-	5,150.55
Maintenance and repair of roads and bridges	91,241.09	648.70	91,889.79
Highway construction and rebuilding projects	-	19,004.01	19,004.01
Miscellaneous (Note 6)	22,664.71	(19,554.57)	3,110.14
 Total (To Section 2, Line 5)	 <u>\$ 122,896.35</u>	 <u>\$ 98.14</u>	 <u>\$ 122,994.49</u>

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

TOWNSHIP OF BROKENSTRAW
WARREN 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	\$ 72.65	\$ -	\$ 72.65
Receipts:			
2. State allocation	104,622.67	-	104,622.67
2a. Turnback allocation	-	-	-
2b. Interest on investments (Note 3)	83.38	-	83.38
2c. Miscellaneous (Note 5)	19,004.01	62.00	19,066.01
3. Total receipts	<u>123,710.06</u>	<u>62.00</u>	<u>123,772.06</u>
4. Total funds available	<u>123,782.71</u>	<u>62.00</u>	<u>123,844.71</u>
5. Expenditures (Section 1)	<u>122,896.35</u>	<u>98.14</u>	<u>122,994.49</u>
6. Balance, December 31, 2010	<u>\$ 886.36</u>	<u>\$ (36.14)</u>	<u>\$ 850.22</u>

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

TOWNSHIP OF BROKENSTRAW
WARREN COUNTY
LIQUID FUELS TAX FUND
2010 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	\$ 72.65	\$ -	\$ 72.65
2. Add: Current year equipment allocation (20% of Lines 2 + 2a, Section 2)	20,924.53	-	20,924.53
3. PENNDOT approved adjustments	<u>-</u>	<u>-</u>	<u>-</u>
4. Total funds available for equipment acquisition	20,997.18	-	20,997.18
5. Less: Major equipment expenditures	<u>-</u>	<u>-</u>	<u>-</u>
6. Remainder	<u>20,997.18</u>	<u>-</u>	<u>20,997.18</u>
7. Equipment balance available for subsequent year (Lesser of Line 6 or Section 2 balance, but not less than zero)	<u>\$ 886.36</u>	<u>\$ (36.14)</u>	<u>\$ 850.22</u>

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

TOWNSHIP OF BROKENSTRAW
WARREN 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	-	-	-
Traffic control devices	-	-	-
Street lighting	-	-	-
Storm sewers and drains	-	7,187.20	7,187.20
Repairs of tools and machinery	11,217.69	4,399.38	15,617.07
Maintenance and repair of roads and bridges	74,725.32	(7,187.20)	67,538.12
Highway construction and rebuilding projects	-	19,004.01	19,004.01
Miscellaneous (Bank service charges)	23,597.38	(23,177.24)	420.14
 Total (To Section 2, Line 5)	 <u>\$ 109,540.39</u>	 <u>\$ 226.15</u>	 <u>\$ 109,766.54</u>

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

TOWNSHIP OF BROKENSTRAW
WARREN COUNTY
LIQUID FUELS TAX FUND
2011 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, 2011	\$ 636.07	\$ 214.15	\$ 850.22
Receipts:			
2. State allocation	107,058.89	-	107,058.89
2a. Turnback allocation	-	-	-
2b. Interest on investments (Note 3)	55.16	-	55.16
2c. Miscellaneous (Note 5)	2,180.00	-	2,180.00
3. Total receipts	<u>109,294.05</u>	<u>-</u>	<u>109,294.05</u>
4. Total funds available	<u>109,930.12</u>	<u>214.15</u>	<u>110,144.27</u>
5. Expenditures (Section 1)	<u>109,540.39</u>	<u>226.15</u>	<u>109,766.54</u>
6. Balance, December 31, 2011	<u><u>\$ 389.73</u></u>	<u><u>\$ (12.00)</u></u>	<u><u>\$ 377.73</u></u>

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

TOWNSHIP OF BROKENSTRAW
WARREN COUNTY
LIQUID FUELS TAX FUND
2011 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	\$ 389.12	\$ 461.10	\$ 850.22
2. Add: Current year equipment allocation (20% of Lines 2 + 2a, Section 2)	21,411.78	-	21,411.78
3. PENNDOT approved adjustments	-	-	-
4. Total funds available for equipment acquisition	21,800.90	461.10	22,262.00
5. Less: Major equipment expenditures	-	-	-
6. Remainder	<u>21,800.90</u>	<u>461.10</u>	<u>22,262.00</u>
7. Equipment balance available for subsequent year (Lesser of Line 6 or Section 2 balance, but not less than zero)	<u>\$ 389.73</u>	<u>\$ (12.00)</u>	<u>\$ 377.73</u>

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

TOWNSHIP OF BROKENSTRAW
WARREN 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	9,265.60	-	9,265.60
Traffic control devices	-	-	-
Street lighting	-	-	-
Storm sewers and drains	-	-	-
Repairs of tools and machinery	27,441.99	-	27,441.99
Maintenance and repair of roads and bridges	76,984.80	(1,890.00)	75,094.80
Highway construction and rebuilding projects	19,004.01	-	19,004.01
Miscellaneous (Note 6)	-	17,651.28	17,651.28
	<u>-</u>	<u>17,651.28</u>	<u>17,651.28</u>
Total (To Section 2, Line 5)	<u>\$ 132,696.40</u>	<u>\$ 15,761.28</u>	<u>\$ 148,457.68</u>

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

TOWNSHIP OF BROKENSTRAW
WARREN COUNTY
LIQUID FUELS TAX FUND
2012 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, 2012	\$ 1,384.96	\$ (1,007.23)	\$ 377.73
Receipts:			
2. State allocation	107,260.33	(3.81)	107,256.52
2a. Turnback allocation	-	-	-
2b. Interest on investments (Note 3)	21.28	3.81	25.09
2c. Miscellaneous (Note 5)	24,571.64	16,767.52	41,339.16
3. Total receipts	<u>131,853.25</u>	<u>16,767.52</u>	<u>148,620.77</u>
4. Total funds available	<u>133,238.21</u>	<u>15,760.29</u>	<u>148,998.50</u>
5. Expenditures (Section 1)	<u>132,696.40</u>	<u>15,761.28</u>	<u>148,457.68</u>
6. Balance, December 31, 2012	<u>\$ 541.81</u>	<u>\$ (.99)</u>	<u>\$ 540.82</u>

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

TOWNSHIP OF BROKENSTRAW
WARREN COUNTY
LIQUID FUELS TAX FUND
2012 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	\$ 389.73	\$ (12.00)	\$ 377.73
2. Add: Current year equipment allocation (20% of Lines 2 + 2a, Section 2)	21,452.07	(.77)	21,451.30
3. PENNDOT approved adjustments	<u>-</u>	<u>-</u>	<u>-</u>
4. Total funds available for equipment acquisition	21,841.80	(12.77)	21,829.03
5. Less: Major equipment expenditures	<u>-</u>	<u>-</u>	<u>-</u>
6. Remainder	<u>21,841.80</u>	<u>(12.77)</u>	<u>21,829.03</u>
7. Equipment balance available for subsequent year (Lesser of Line 6 or Section 2 balance, but not less than zero)	<u>\$ 541.81</u>	<u>\$ (.99)</u>	<u>\$ 540.82</u>

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

TOWNSHIP OF BROKENSTRAW
WARREN 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.

TOWNSHIP OF BROKENSTRAW
WARREN 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.

TOWNSHIP OF BROKENSTRAW
WARREN 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 Second Class Township Code, Title 53 P.S. § 68204, authorizes the township 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.

TOWNSHIP OF BROKENSTRAW
WARREN 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	\$540.82
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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 which earned \$142.06 during 2009, \$83.38 during 2010, \$55.16 during 2011, and \$25.09 during 2012, thus providing additional funds for road maintenance and repairs.

4. Adjustments

2009 - Section 1

Adjustments were made to “Storm sewers and drains,” “Maintenance and repair of roads and bridges,” and “Miscellaneous” because expenditures of \$2,915.00 were misclassified.

2010 - Section 1

An adjustment of \$648.70 was made to “Maintenance and repair of roads and bridges” because these expenditures were misclassified as miscellaneous.

An adjustment of \$19,004.01 was made to “Highway construction and rebuilding projects” because these expenditures were misclassified as miscellaneous.

An adjustment of \$(19,554.57) was made to “Miscellaneous” because expenditures of \$648.70 for maintenance and repair of roads and bridges and \$19,004.01 for highway construction and rebuilding projects were misclassified and these expenditures were understated by \$98.14.

2010 - Section 2

An adjustment of \$62.00 was made to “Miscellaneous” because a reimbursement for bank service charges was not reported.

TOWNSHIP OF BROKENSTRAW
WARREN 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)

2011 - Section 1

Adjustments were made to “Storm sewers and drains” and “Maintenance and repair of roads and bridges” because expenditures of \$7,187.20 were misclassified.

An adjustment of \$4,399.38 was made to “Repairs of tools and machinery” because these expenditures were misclassified as miscellaneous.

An adjustment of \$19,004.01 was made to “Highway construction and rebuilding projects” because these expenditures were misclassified as miscellaneous.

An adjustment of \$(23,177.24) was made to “Miscellaneous” because expenditures of \$4,399.38 for repairs of tools and machinery and \$19,004.01 for highway construction and rebuilding projects were misclassified and these expenditures were understated by \$226.15.

2011 - Section 2

An adjustment of \$214.15 was made to “Balance, January 1, 2011” because an incorrect fund balance was reported.

2011 - Section 3

An adjustment of \$461.10 was made to “Prior year equipment balance” because an incorrect equipment balance was reported.

2012 - Section 1

An adjustment of \$(1,890.00) was made to “Maintenance and repair of roads and bridges” because check No. 1106 was voided but was included as an expenditure.

An adjustment of \$17,651.28 was made to “Miscellaneous” because these expenditures were not reported.

TOWNSHIP OF BROKENSTRAW
WARREN 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)

2012 - Section 2

An adjustment of \$(1,007.23) was made to “Balance, January 1, 2012” because an incorrect fund balance was reported.

An adjustment of \$(3.81) was made to “State allocation” because this receipt was overstated.

An adjustment of \$3.81 was made to “Interest on investments” because interest earnings were understated.

An adjustment of \$16,767.52 was made to “Miscellaneous” because reimbursements for bank service charges were overstated by \$336.85 and a deposit in error of \$17,104.37 was not reported.

2012 - Section 3

An adjustment of \$(12.00) was made to “Prior year equipment balance” to reflect the adjustment made to the equipment balance in 2011 - Section 3.

An adjustment of \$(.77) was made to “Current year equipment allocation” because the state allocation from 2012 - Section 2, which is used to calculate this figure, was overstated.

TOWNSHIP OF BROKENSTRAW
WARREN COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE PERIOD
JANUARY 1, 2009 TO DECEMBER 31, 2012

5. Miscellaneous Receipts

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

Source	Description	2009	2010	2011	2012
General Fund	Refund for overpayment	\$100.00	\$ -	\$ -	\$ -
General Fund	Reimbursement for payment on the PIB Loan (Note 8)	-	19,004.01	-	-
Financial institution	Refund for bank service charges	-	62.00	180.00	24.00
General Fund	Reimbursement for road materials	-	-	2,000.00	-
General Fund	Reimbursement (Comment)	-	-	-	24,210.79
General Fund	Transfer in error (Note 7)	-	-	-	17,104.37
	Totals	<u>\$100.00</u>	<u>\$19,066.01</u>	<u>\$2,180.00</u>	<u>\$41,339.16</u>

6. Miscellaneous Expenditures

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

Payee	Description	2010	2012
Financial institution	Bank service charges	\$ 110.14	\$ 546.91
Vendor	Overpayment of invoices (Finding No. 2)	1,800.00	-
General Fund	Transfer in error (Note 7)	-	17,104.37
Vendor	Duplicate payment of invoices (Finding No. 3)	1,200.00	-
	Totals	<u>\$3,110.14</u>	<u>\$17,651.28</u>

TOWNSHIP OF BROKENSTRAW
WARREN COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE PERIOD
JANUARY 1, 2009 TO DECEMBER 31, 2012

7. Transfer In Error

On July 18, 2012, the municipality's financial institution transferred \$17,104.37 from its General Fund to its Liquid Fuels Tax Fund in error. On July 30, 2012, the financial institution transferred this amount from its Liquid Fuels Tax Fund to its General Fund to correct the transfer in error.

8. Bank Loan

On August 24, 2005, the municipality borrowed \$162,108.04 from the Department of Transportation for road construction project No. 06-61-201-02. The term of the loan was for ten years at an interest rate of 3.0 percent. Principal and interest payments of \$19,004.01 are due annually. Prior years' principal and interest payments from the Liquid Fuels Tax Fund were \$43,707.70 and \$13,304.33, respectively.

During the current examination period the municipality paid principal of \$64,645.41 and interest of \$11,370.63 from the Liquid Fuels Tax Fund. These amounts are reflected in highway construction and rebuilding projects on the 2009, 2010, 2011, and 2012 Forms MS-965 - Section 1. On October 13, 2010, the municipality transferred \$19,004.01 from the General Fund to the Liquid Fuels Tax Fund for reimbursement of a principal and interest payment. The outstanding balance of the loan as of December 31, 2012 was \$53,754.93, plus interest.

TOWNSHIP OF BROKENSTRAW
WARREN COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2009 TO DECEMBER 31, 2012

Finding No. 1 - Electronic Imaging Of Canceled Checks From The Bank Did Not Include The Back Of The Checks

Our examination disclosed that the imaging of canceled checks from the bank for the Liquid Fuels Tax Fund account was not acceptable because the bank provides only an image of the front side of the canceled checks. For us to properly complete our examination testing, we have to examine the front and the back of the canceled checks.

Good internal controls and the Commonwealth of Pennsylvania Management Directive 210.11, dated June 16, 1997, require that imaging systems comply with the provisions of the Internal Revenue Service (IRS) procedures for record keeping with electronic imaging. To be acceptable, the documents provided by the system must meet IRS procedures governing size, content, format, and pattern. Those procedures require that all images produced by the imaging system exhibit a high degree of legibility and readability when displayed on paper. Legibility includes the ability to identify all letters and numerals positively and quickly. Readability includes the ability to recognize a group of letters or numerals as words or completed numbers. Imaged documents must include the front and back of a document in which both the front and back are used.

Further, good internal controls ensure that by having a municipal official review the front and back of the canceled checks, any errors or misappropriations can be detected on a timely basis.

Without this control, the potential exists for errors or misappropriations to go undetected for long periods of time.

The municipality obtained and provided us with copies of the backs of the canceled checks requested for examination.

Recommendation

We recommend that the municipal officials obtain images of the front and back of canceled checks in accordance with Directive 210.11. Additionally, municipal officials should review the front and back of each canceled check for any errors or misappropriations.

TOWNSHIP OF BROKENSTRAW
WARREN COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2009 TO DECEMBER 31, 2012

Finding No. 1 - Electronic Imaging Of Canceled Checks From The Bank Did Not Include The
Back Of The Checks (Continued)

Management's Response

The municipal officials stated:

Banks will be notified for required electronic imaging of both sides of all checks.

Auditor's Conclusion

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

TOWNSHIP OF BROKENSTRAW
 WARREN COUNTY
 LIQUID FUELS TAX FUND
 FINDINGS AND RECOMMENDATIONS
 FOR THE PERIOD
 JANUARY 1, 2009 TO DECEMBER 31, 2012

Finding No. 2 - Overpayment Of Invoices

Our examination disclosed that on July 14, 2010, the municipality expended \$16,651.00 for the purchase of stone. However, the total cost of the stone was \$14,851.00, which was \$1,800.00 less than the amount expended. The invoices were as follows:

<u>Invoice Number</u>	<u>Invoice Amount</u>
507856	\$ 149.17
507876	106.87
507885	266.35
508321	591.53
508322	334.25
508332	160.17
508334	104.56
508339	774.10
508348	2,293.53
508829	566.59
508830	4,863.19
508831	1,781.57
508832	226.23
508853	426.81
509986	1,980.75
509993	225.33
	\$14,851.00

Good internal controls ensure that all invoices are reviewed timely to avoid overpayments of invoices. The failure to follow this procedure increases the possibility that overpayments can be made on vendor invoices and go undetected for long periods of time.

Recommendations

We recommend that the municipality reimburse \$1,800.00 to its Liquid Fuels Tax Fund upon official notification of the Department of Transportation. We also recommend that the municipal officials contact the vendor as soon as possible to obtain reimbursement.

We further recommend that the municipality establish and implement internal controls to ensure vendor invoices are reviewed timely to avoid overpayments.

TOWNSHIP OF BROKENSTRAW
WARREN COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2009 TO DECEMBER 31, 2012

Finding No. 2 - Overpayment Of Invoices (Continued)

Management's Response

The municipal officials stated:

A review of invoices indicates that check No. 1072 was \$1,800.00 over the submitted invoice total. The vendor will be contacted for resolution.

Since the exit conference, the Chairman contacted the vendor and the vendor provided information to the Chairman.

Auditor's Conclusion

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

TOWNSHIP OF BROKENSTRAW
 WARREN COUNTY
 LIQUID FUELS TAX FUND
 FINDINGS AND RECOMMENDATIONS
 FOR THE PERIOD
 JANUARY 1, 2009 TO DECEMBER 31, 2012

Finding No. 3 - Duplicate Payment Of Invoices

Our examination disclosed that during 2010 the municipality paid the following invoices twice:

<u>Invoice Number</u>	<u>First Check No.</u>	<u>First Date Paid</u>	<u>Second Check No.</u>	<u>Second Date Paid</u>	<u>Invoice Amount</u>
500159	1060	04/14/10	1064	05/13/10	\$ 47.10
500683	1060	04/14/10	1064	05/13/10	454.20
500684	1060	04/14/10	1064	05/13/10	506.89
500700	1060	04/14/10	1064	05/13/10	94.98
500705	1060	04/14/10	1064	05/13/10	24.91
500706	1060	04/14/10	1064	05/13/10	71.92
Total					<u>\$1,200.00</u>

Although this money should be reimbursed to the Liquid Fuels Tax Fund, the primary concern is the inadequate internal controls which enabled the duplicate payments of \$1,200.00 to remain undetected for three years.

Good internal controls ensure that all invoices are reviewed timely to avoid duplicate payments. The failure to follow this procedure increases the possibility that duplicate payments can be made on vendor invoices and go undetected for long periods of time.

A similar finding was also written in our prior report. However, no duplicate payments occurred during 2011 and 2012.

Recommendations

We recommend that the municipality reimburse \$1,200.00 to its Liquid Fuels Tax Fund upon official notification by the Department of Transportation. We also recommend that the municipal officials contact the vendor as soon as possible to obtain reimbursement.

We further recommend that the municipality continue to establish and implement internal controls to ensure vendor invoices are reviewed timely to avoid duplicate payments.

TOWNSHIP OF BROKENSTRAW
WARREN COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2009 TO DECEMBER 31, 2012

Finding No. 3 - Duplicate Payment Of Invoices (Continued)

Management's Response

The municipal officials stated:

A review of invoices indicate that the vendor sent two invoices and added duplicate multiple transactions to the second invoice for materials that had already been paid for on the first invoice. The vendor will be contacted for resolution.

Auditor's Conclusion

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

TOWNSHIP OF BROKENSTRAW
WARREN COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2009 TO DECEMBER 31, 2012

Finding No. 4 - Purchases Over \$10,000.00 In Noncompliance With Advertising And Bidding Requirements

Our examination disclosed that the municipality expended \$17,728.70 during 2009 from the Liquid Fuels Tax Fund for the purchase of stone without advertising for bids.

The above expenditures were not made in compliance with the advertising, bidding, and contract requirements of *The Second Class Township Code*, 53 P.S. § 68102(a), (also found at § 3102(a) of *The Second Class Township Code* as published by the Local Government Commission), which requires that purchases over \$10,000.00 must be advertised, bid, and awarded by contract. *The Second Class Township Code*, 53 P.S. § 68104(a), (also found at § 3104(a) of *The Second Class Township Code* as published by the Local Government Commission) further states that advertising, bidding and contract requirements should not be evaded through piecemeal purchases.

In addition, the above expenditures were not made in compliance with the Department of Transportation's *Publication 9*, Appendix D, Section 449.7(d), which states, in part:

Each municipality shall make an annual estimate of its requirements of road construction and maintenance materials, and shall advertise for bids on all items and groups of like items ordinarily supplied by a single supplier . . . which are estimated to exceed \$10,000 for the year If the cost during the year of an unadvertised item or group of like items ordinarily supplied by a single supplier exceeds \$10,000 . . . the entire cost shall be ineligible for payment from the Liquid Fuels Tax Fund unless it can be shown to the satisfaction of the Secretary [of the Department of Transportation] that it was reasonably believed that the cost of the year's requirements of that item or group of like items would not exceed \$10,000 . . .

The failure to comply with *The Second Class Township Code* and the Department of Transportation's *Publication 9* could result in the municipality having to reimburse \$17,728.70 to its Liquid Fuels Tax Fund.

A similar finding was also written in our prior report. However, the municipality properly bid for stone during 2010, 2011, and 2012.

TOWNSHIP OF BROKENSTRAW
WARREN COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2009 TO DECEMBER 31, 2012

Finding No. 4 - Purchases Over \$10,000.00 In Noncompliance With Advertising And Bidding Requirements (Continued)

Recommendations

We recommend that the municipality reimburse \$17,728.70 to its Liquid Fuels Tax Fund upon official notification by the Department of Transportation.

We further recommend that, in the future, the municipality continue to comply with *The Second Class Township Code* and the Department of Transportation's *Publication 9*. The thresholds for advertising for bids increased to \$18,500.00 for 2012, \$18,900.00 for 2013, and \$19,100.00 for 2014.

Management's Response

The municipal officials stated:

In 2009 and 2010 the municipality did not know that bidding was required for total quantity purchases of similar items. The municipality was only requesting bids for single items beyond the \$10,000.00 threshold. The municipality recognized this requirement in 2011 and has since properly requested bids.

Auditor's Conclusion

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

TOWNSHIP OF BROKENSTRAW
WARREN COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2009 TO DECEMBER 31, 2012

Finding No. 5 - Liquid Fuels Money Improperly Expended On A Dirt And Gravel Road Project

Our examination disclosed that on August 10, 2011, the municipality expended \$3,892.00 from its Liquid Fuels Tax Fund for a Dirt and Gravel Road Project. The municipality received a grant of \$22,255.00 from the Warren County Conservation District to fund the project. However, the grant money was deposited into the General Fund.

The expenditures related to this project should have been paid directly from the General Fund where the funding was deposited. Had the costs of the project exceeded the grant money received, the excess costs could have been paid from the Liquid Fuels Tax Fund.

Because this money was expended from the Liquid Fuels Tax Fund, the municipality did not have use of the money for permissible Liquid Fuels Tax Fund expenditures and the municipality could be required to reimburse \$3,892.00 to its Liquid Fuels Tax Fund.

Recommendations

We recommend that the municipality reimburse \$3,892.00 to its Liquid Fuels Tax Fund upon official notification by the Department of Transportation.

We further recommend that only eligible costs in excess of grant money received be paid from the Liquid Fuels Tax Fund.

Management's Response

The municipal officials stated:

Liquid Fuels money was spent on a single purchase for dirt and gravel road project. Money for this purchase will be transferred from the General Fund to the State Fund. The project was in 2011.

Auditor's Conclusion

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

TOWNSHIP OF BROKENSTRAW
WARREN COUNTY
LIQUID FUELS TAX FUND
COMMENT
FOR THE PERIOD
JANUARY 1, 2009 TO DECEMBER 31, 2012

Comment - Summary Of Prior Examination Recommendation

In our prior report we recommended that the Department of Transportation review our examination finding to determine if the municipality should reimburse \$24,210.79 to its Liquid Fuels Tax Fund for purchases over \$10,000.00 without advertising for bids. A similar finding was also written in our current report (see Note 5).

During our current examination we reviewed a letter dated July 16, 2012, from the Department of Transportation informing the municipality to reimburse \$24,210.79 to its Liquid Fuels Tax Fund. We noted that the municipality reimbursed this amount to its Liquid Fuels Tax Fund on October 16, 2012.

TOWNSHIP OF BROKENSTRAW
WARREN COUNTY
LIQUID FUELS TAX FUND
SUMMARY OF EXIT CONFERENCE
FOR THE PERIOD
JANUARY 1, 2009 TO DECEMBER 31, 2012

An exit conference was held September 17, 2013. Those participating were:

TOWNSHIP OF BROKENSTRAW

The Honorable C. William Hendrickson, Chairman of the Board of Supervisors

The Honorable David A. Krack, Vice-Chairman of the Board of Supervisors

Ms. Nancy K. Gabel, Secretary/Treasurer

DEPARTMENT OF THE AUDITOR GENERAL

Ms. Ortenzia M. Keller, Auditor

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

TOWNSHIP OF BROKENSTRAW
WARREN 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

Township of Brokenstraw
Warren County
770 Rouse Avenue
Youngsville, PA 16371

The Honorable C. William Hendrickson	Chairman of the Board of Supervisors
The Honorable David A. Krack	Vice-Chairman of the Board of Supervisors
Ms. Nancy K. Gabel	Secretary/Treasurer

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