CITY OF JOHNSTOWN
CAMBRIA COUNTY
11-301

HIGHWAY TRANSFER PROGRAM
AGREEMENT NO. 098316
TURNBACK ACCOUNT
EXAMINATION REPORT

FOR THE PERIOD
APRIL 28, 2005 TO JULY 28, 2011

COMMONWEALTH OF PENNSYLVANIA

EUGENE A. DEPASQUALE - AUDITOR GENERAL

DEPARTMENT OF THE AUDITOR GENERAL

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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 have examined the accompanying Form MS-999 With Adjustments of the Highway Transfer Program – Turnback Account of the City of Johnstown, Cambria County, for the period April 28, 2005 to July 28, 2011. The municipality's management is responsible for the Form MS-999. Our responsibility is to express an opinion on the Form MS-999 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 City of Johnstown, Cambria County's Form MS-999 for the period April 28, 2005 to July 28, 2011 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 Highway Transfer Program – Turnback Account 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 discussed in the Finding and Recommendation section of this report, the city commingled Turnback Funds with General Fund money from April 28, 2005 to March 30, 2010. When the city transferred the Turnback Funds to a separate account, interest of $7,964.09 was not transferred and remains in the General Fund.

In our opinion, except for the matter discussed in the preceding paragraph, the Form MS-999 With Adjustments presents, in all material respects, the information required by the Pennsylvania Department of Transportation for the Highway Transfer Program – Turnback Account of the City of Johnstown, Cambria County, for the period April 28, 2005 to July 28, 2011, 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 Form MS-999 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 Form MS-999 is 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 Form MS-999 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 City of Johnstown, Cambria 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 City of Johnstown, Cambria County's Form MS-999 that is more than inconsequential will not be prevented or detected by the City of Johnstown, Cambria County's internal control.

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 Form MS-999 will not be prevented or detected by the City of Johnstown, Cambria County's internal control.

Our consideration of internal control over reporting on the Form MS-999 was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any significant deficiencies or material weaknesses, as defined above, in internal control over reporting on the Form MS-999.

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

- Commingling Of Funds.

Our examination period reflects from the date the turnback funds were received by the City of Johnstown, Cambria County, to the date the funds were either exhausted or the remaining funds were transferred to the city's Liquid Fuels Tax Fund. Upon the completion of the program the city filed a Final Completion Report Form MS-999 with the Department of Transportation. Our examination began shortly after we received the approved Final Completion Report Form MS-999 from the Department of Transportation.

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

August 20, 2013

EUGENE A. DEPASQUALE
Auditor General

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CITY OF JOHNSTOWN
CAMBRIA COUNTY
HIGHWAY TRANSFER PROGRAM – TURNBACK ACCOUNT
BACKGROUND
FOR THE PERIOD
APRIL 28, 2005 TO JULY 28, 2011

Background

The Highway Transfer Program (more commonly known as the Highway Turnback Program) is outlined in Title 75 P.S. § 9511. It is designed to reduce the amount of state road mileage by transferring "functionally-local" roads on a cooperative, voluntary basis to local governments. When a municipality takes over a road through this program, the Department of Transportation and the municipality jointly determine the necessity and extent of any restoration or rehabilitative work required to put a state highway in satisfactory condition before it is transferred. The rehabilitative work may be done by the Department of Transportation, municipal forces, or be contracted out by either party.

If the restoration or rehabilitation is to be done by the municipality or a contractor hired by the municipality, the municipality receives funds for the work from the State Highway Transfer Restoration Restricted Receipt Account. These funds must be deposited into a separate interest-bearing Highway Transfer Account. Any funds not used for the restoration or rehabilitation of the road that was transferred to the municipality must be transferred to the township's Liquid Fuels Tax Fund.

Department of Transportation *Publication 9* contains the policies and procedures that govern the use of Highway Transfer Program money. However, if there is a difference between *Publication 9* and any legislation, the legislation shall govern.

CITY OF JOHNSTOWN
CAMBRIA COUNTY
HIGHWAY TRANSFER PROGRAM – TURNBACK ACCOUNT
FORM MS-999 WITH ADJUSTMENTS
FOR THE PERIOD
APRIL 28, 2005 TO JULY 28, 2011

	Reported	Adjustments	Adjusted Amount
Cash Receipts			
Turnback grant	$ 58,065.00	$ -	$ 58,065.00
Interest (Note 2)	1,921.96	-	1,921.96
Miscellaneous	-	-	-
Total receipts	$ 59,986.96	$ -	$ 59,986.96
Cash Disbursements			
Highway construction and rebuilding	$ 59,986.96	$ -	$ 59,986.96
Unexpended balance transfer	-	-	-
Miscellaneous	-	-	-
Total disbursements	$ 59,986.96	$ -	$ 59,986.96

Notes to Form MS-999 With Adjustments are an integral part of this report.

CITY OF JOHNSTOWN
CAMBRIA COUNTY
HIGHWAY TRANSFER PROGRAM – TURNBACK ACCOUNT
NOTES TO FORM MS-999 WITH ADJUSTMENTS
FOR THE PERIOD
APRIL 28, 2005 TO JULY 28, 2011

1. Criteria

Form MS-999 With Adjustments provides a summary of Highway Transfer Program receipts and expenditures by category. Categories requiring explanation include:

- The Turnback Grant is the grant received from the Commonwealth of Pennsylvania to be used for the restoration or rehabilitation of the road or roads transferred from the state to the municipality.

- The Unexpended balance transfer is money that was not used for the restoration or rehabilitation of the road or roads transferred from the state to the municipality that was transferred to the municipality's Liquid Fuels Tax Fund upon completion of the project.

Basis Of Presentation

The financial activities of the municipality are accounted for in separate funds. The Highway Transfer Program, Act 32 of 1983 (also referred to as Road Turnback by the Department of Transportation), provides state funds to municipal governments for the costs of restoring state highways for which ownership is turned back to the municipal government. The turnback revenues are deposited in a separate turnback account. After the highway restoration work is completed, any unexpended funds are to be transferred to the Liquid Fuels Tax Fund.

The Form MS-999 has been prepared in accordance with reporting requirements prescribed by the Pennsylvania Department of Transportation as a result of Act 32 of 1983, which does not constitute a complete presentation of the entity's assets, liabilities, expenses, and fund balance.

Basis Of Accounting

The accompanying Form MS-999 With Adjustments is 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.

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. Interest On Investments

Our examination disclosed that the municipality deposited idle turnback money in interest-bearing accounts which earned $1,921.96 during the examination period, thus providing additional funds for road maintenance.

CITY OF JOHNSTOWN
CAMBRIA COUNTY
HIGHWAY TRANSFER PROGRAM – TURNBACK ACCOUNT
FINDING AND RECOMMENDATIONS
FOR THE PERIOD
APRIL 28, 2005 TO JULY 28, 2011

Finding - Commingling Of Funds

Our examination disclosed that on April 28, 2005, the municipality deposited its Highway Transfer Program Allocation Agreement No. 098316-A of $58,065.00 to the General Fund. On March 30, 2010, the municipality transferred the allocation to a separate account. However, when the allocation was transferred, the correct amount of interest was not transferred. The amount of interest that was transferred was $1,749.88. The amount that should have been transferred was $9,713.97. The difference of $7,964.09 is due the Liquid Fuels Tax Fund.

The Department of Transportation's *Publication 310*, page 10, states:

> Turnback Program Rehabilitation Funding provided to a municipality must be kept in a separate, interest-bearing account.

The failure to comply with the Department of Transportation's *Publication 310* could result in the municipality having to reimburse $7,964.09 to its Liquid Fuels Tax Fund.

Recommendations

We recommend that the municipality reimburse $7,964.09 to its Liquid Fuels Tax Fund upon official notification by the Department of Transportation.

We further recommend that, when Turnback Funds are combined with other funds for investment purposes, a clear examination trail must be established as indicated above.

Finding - Commingling Of Funds (Continued)

Management's Response

The director of finance stated:

> Since this project and associated cash were distributed and approved prior to my arrival, I felt we, along with the assistance of PennDOT, transferred an accurate amount of cash plus interest to cover what was necessary. Unfortunately, interest rates were higher at original distribution.
>
> I would ask that the penalty be waived since the project was completed as required and agreed upon.

Auditor's Conclusion

The Department of Transportation will determine if reimbursement of $7,964.09 is required to be made to the municipality's Liquid Fuels Tax Fund.

CITY OF JOHNSTOWN
CAMBRIA COUNTY
HIGHWAY TRANSFER PROGRAM – TURNBACK ACCOUNT
SUMMARY OF EXIT CONFERENCE
FOR THE PERIOD
APRIL 28, 2005 TO JULY 28, 2011

An exit conference was held August 20, 2013. Those participating were:

CITY OF JOHNSTOWN

Mr. Carlos Gunby, Director of Finance

DEPARTMENT OF THE AUDITOR GENERAL

Michele A. Garman, CFE, Audit Supervisor

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

CITY OF JOHNSTOWN
CAMBRIA COUNTY
HIGHWAY TRANSFER PROGRAM – TURNBACK ACCOUNT
REPORT DISTRIBUTION
FOR THE PERIOD
APRIL 28, 2005 TO JULY 28, 2011

This report was initially distributed to:

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

City of Johnstown
Cambria County
401 Main Street
Johnstown, PA 15901

Ms. Kristen Denne	City Manager
Mr. Carlos Gunby	Director of Finance

This report is a matter of public record and is available online at 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.