

# ATTESTATION ENGAGEMENT

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Township of Graham  
Clearfield County, Pennsylvania  
17-216

Highway Transfer Program  
Agreement No. 02T981  
For the Period  
November 28, 2011 to October 23, 2013

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September 2014



Commonwealth of Pennsylvania  
Department of the Auditor General  
Eugene A. DePasquale • 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 have examined the accompanying Form MS-999 With Adjustments of the Highway Transfer Program – Turnback Account of the Township of Graham, Clearfield County, for the period November 28, 2011 to October 23, 2013. 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 Township of Graham, Clearfield County's Form MS-999 for the period November 28, 2011 to October 23, 2013 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 described Note 4, the adjustments included on the Form MS-999 With Adjustments are made by the Department of the Auditor General.

## Independent Auditor's Report (Continued)

In our opinion, 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 Township of Graham, Clearfield County, for the period November 28, 2011 to October 23, 2013, 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 Township of Graham, Clearfield 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 Graham, Clearfield County's Form MS-999 that is more than inconsequential will not be prevented or detected by the Township of Graham, Clearfield 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 Township of Graham, Clearfield 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 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 included in this report by *Government Auditing Standards*, has been included in the finding below:

- Nonpermissible Expenditure.

Independent Auditor's Report (Continued)

Our examination period reflects from the date the turnback funds were received by the Township of Graham, Clearfield County, to the date the funds were either exhausted or the remaining funds were transferred to the township's Liquid Fuels Tax Fund. Upon the completion of the program the township 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 Township of Graham, Clearfield County, and is not intended to be and should not be used by anyone other than these specified parties.

We appreciate the courtesy extended by the Township of Graham, Clearfield County, to us during the course of our examination. If you have any questions, please feel free to contact Michael B. Kashishian, CPA, CGAP, CFE, Director, Bureau of County Audits, at 717-787-1363.



Eugene A. DePasquale  
Auditor General

March 26, 2014

## CONTENTS

	<u>Page</u>
Background .....	1
Financial Section:	
Form MS-999 With Adjustments .....	2
Notes To Form MS-999 With Adjustments .....	3
Finding And Recommendations:	
Finding - Nonpermissible Expenditure.....	5
Summary Of Exit Conference.....	7
Report Distribution .....	8

TOWNSHIP OF GRAHAM  
CLEARFIELD COUNTY  
HIGHWAY TRANSFER PROGRAM – TURNBACK ACCOUNT  
BACKGROUND  
FOR THE PERIOD  
NOVEMBER 28, 2011 TO OCTOBER 23, 2013

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.

TOWNSHIP OF GRAHAM  
 CLEARFIELD COUNTY  
 HIGHWAY TRANSFER PROGRAM – TURNBACK ACCOUNT  
 FORM MS-999 WITH ADJUSTMENTS  
 FOR THE PERIOD  
 NOVEMBER 28, 2011 TO OCTOBER 23, 2013

	Reported	Adjustments (Note 4)	Adjusted Amount
<u>Cash Receipts</u>			
Turnback grant	\$ 1,500,000.00	\$ -	\$ 1,500,000.00
Interest (Note 2)	18,200.70	-	18,200.70
Miscellaneous	-	-	-
	<u>\$ 1,518,200.70</u>	<u>\$ -</u>	<u>\$ 1,518,200.70</u>
Total receipts	<u>\$ 1,518,200.70</u>	<u>\$ -</u>	<u>\$ 1,518,200.70</u>
 <u>Cash Disbursements</u>			
Highway construction and rebuilding	\$ 650,984.75	\$ (159.67)	\$ 650,825.08
Unexpended balance transfer (Note 3)	867,215.95	-	867,215.95
Miscellaneous (Bank service charges)	-	159.67	159.67
	<u>\$ 1,518,200.70</u>	<u>\$ -</u>	<u>\$ 1,518,200.70</u>
Total disbursements	<u>\$ 1,518,200.70</u>	<u>\$ -</u>	<u>\$ 1,518,200.70</u>

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

TOWNSHIP OF GRAHAM  
CLEARFIELD COUNTY  
HIGHWAY TRANSFER PROGRAM – TURNBACK ACCOUNT  
NOTES TO FORM MS-999 WITH ADJUSTMENTS  
FOR THE PERIOD  
NOVEMBER 28, 2011 TO OCTOBER 23, 2013

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.

TOWNSHIP OF GRAHAM  
CLEARFIELD COUNTY  
HIGHWAY TRANSFER PROGRAM – TURNBACK ACCOUNT  
NOTES TO FORM MS-999 WITH ADJUSTMENTS  
FOR THE PERIOD  
NOVEMBER 28, 2011 TO OCTOBER 23, 2013

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 \$18,200.70 during the examination period, thus providing additional funds for road maintenance.

3. Unexpended Balance

During our examination, we noted that the municipality transferred the unexpended balance of \$867,215.95 from the turnback account to its Liquid Fuels Tax Fund account on October 23, 2013 in accordance with Act 32 of 1983.

4. Adjustments

Adjustments were made to “Highway construction and rebuilding” and “Miscellaneous” because expenditures of \$159.67 were misclassified.

TOWNSHIP OF GRAHAM  
CLEARFIELD COUNTY  
HIGHWAY TRANSFER PROGRAM – TURNBACK ACCOUNT  
FINDING AND RECOMMENDATIONS  
FOR THE PERIOD  
NOVEMBER 28, 2011 TO OCTOBER 23, 2013

**Finding- Nonpermissible Expenditure**

Our examination disclosed that the municipality expended \$7,265.00 during the examination period from the Special Turnback Fund for a treasurer's bond, which is a nonpermissible expenditure.

The Department of Transportation's *Publication 310*, page 9, section 9511(g), states:

The [Turnback] funds appropriated . . . shall be used to pay for the costs of restoration of such highways as provided in Chapter 92 (relating to transfer of state highways) . . .

The cost of a treasurer's bond is outside the scope of permissible expenditures for turnback funds.

The failure to follow the Liquid Fuels Tax Municipal Allocation Law and the Department of Transportation's Regulations as noted above could result in the municipality having to reimburse \$7,265.00 to its Liquid Fuels Tax Fund.

**Recommendations**

We recommend that the municipality reimburse \$7,265.00 to its Liquid Fuels Tax Fund upon official notification by the Department of Transportation.

We further recommend that, in the future, the municipality comply with the Liquid Fuels Tax Municipal Allocation Law and the Department of Transportation's Regulations regarding permissible expenditures.

**Management's Response**

The municipal officials stated:

The township discussed the cost of the treasurer's bond with municipal services. They advised that the cost of the bond would be permissible.

TOWNSHIP OF GRAHAM  
CLEARFIELD COUNTY  
HIGHWAY TRANSFER PROGRAM – TURNBACK ACCOUNT  
FINDING AND RECOMMENDATIONS  
FOR THE PERIOD  
NOVEMBER 28, 2011 TO OCTOBER 23, 2013

**Finding- Nonpermissible Expenditure (Continued)**

Auditor's Conclusion

Turnback funds are to be used only for the repair and reconstruction of roads that municipalities take over from the Commonwealth. This does not include the cost of a treasurer's bond. The Department of Transportation will determine if the township should reimburse \$7,265.00 to its Liquid Fuels Tax Fund. During our next examination we will determine if the municipality complied with our recommendations.

TOWNSHIP OF GRAHAM  
CLEARFIELD COUNTY  
HIGHWAY TRANSFER PROGRAM – TURNBACK ACCOUNT  
SUMMARY OF EXIT CONFERENCE  
FOR THE PERIOD  
NOVEMBER 28, 2011 TO OCTOBER 23, 2013

An exit conference was held March 26, 2014. Those participating were:

TOWNSHIP OF GRAHAM

Ms. Linda J. Bowes, Secretary/Treasurer

DEPARTMENT OF THE AUDITOR GENERAL

Mr. Christopher Heglen, Auditor

Mr. Douglas M. Surra, Auditor

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

TOWNSHIP OF GRAHAM  
CLEARFIELD COUNTY  
HIGHWAY TRANSFER PROGRAM – TURNBACK ACCOUNT  
REPORT DISTRIBUTION  
FOR THE PERIOD  
NOVEMBER 28, 2011 TO OCTOBER 23, 2013

This report was initially distributed to:

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

Township of Graham  
Clearfield County  
3395 Deer Creek Road  
Morrisdale, PA 16858

The Honorable Jeffery Williams

Chairman of the Board of Supervisors

Ms. Linda J. Bowes

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](mailto:news@auditorgen.state.pa.us).