

ATTESTATION ENGAGEMENT

Township of Shenango
Lawrence County, Pennsylvania
37-211

Liquid Fuels Tax Fund
For the Period
January 1, 2012 to December 31, 2013

August 2015



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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EUGENE A. DEPASQUALE
AUDITOR GENERAL

Independent Auditor's Report

The Honorable Leslie Richards
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 Shenango, Lawrence County, for the period January 1, 2012 to December 31, 2013. 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 Shenango, Lawrence County's Forms MS-965 for the period January 1, 2012 to December 31, 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 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. 3, the municipality improperly expended \$68,260.95 of Liquid Fuels Tax Fund money on construction project No. 11-37211-05. Additionally, as discussed in the Summary Of Prior Examination Recommendations section of this report, during our prior examination period the township improperly expended \$7,407.59 of Liquid Fuels Tax Fund money on construction project No. 11-37211-05. This amount was reimbursed to the township's Liquid Fuels Tax Fund on February 18, 2014, which was subsequent to our examination period.

In our opinion, except for the matters 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 Township of Shenango, Lawrence County, for the period January 1, 2012 to December 31, 2013, in conformity with the criteria set forth in Note 1.

In accordance with *Government Auditing Standards*, we are required to report all deficiencies that are considered to be significant deficiencies or material weaknesses in internal control; fraud and noncompliance with provisions of laws or regulations that have a material effect on the Forms MS-965, and any other instances that warrant the attention of those charged with governance; noncompliance with provisions of contracts or grant agreements, and abuse that has a material effect on the Forms MS-965. We are also required to obtain and report the views of responsible officials concerning the findings, conclusions, and recommendations, as well as any planned corrective actions. 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.

Our consideration of internal control was for the limited purpose of expressing an opinion on whether the Forms MS-965 are presented in accordance with the criteria described above and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described below, we identified certain deficiencies in internal control that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control 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 and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Forms MS-965 will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Independent Auditor's Report (Continued)

Our consideration of the internal control was for the limited purpose of expressing an opinion on whether the Forms MS-965 are presented in accordance with the criteria described above and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the findings listed below, that we consider to be material weaknesses in internal control:

- Failure To Properly Prepare Forms MS-965 - Recurring.
- Internal Control Over Receipts Should Be Improved.

As part of obtaining reasonable assurance about whether the Forms MS-965 are free from material misstatement, we performed tests of the Township of Shenango, Lawrence County's compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of amounts on the Forms MS-965. However, providing an opinion on compliance with those provisions was not an objective of our engagement, and accordingly, we do not express such an opinion. The results of our tests disclosed the following instance of noncompliance that is required to be reported under *Government Auditing Standards*:

- Liquid Fuels Money Improperly Expended On Project - Recurring.

We also noted a matter that, while not required to be included in this report by *Government Auditing Standards*, has been included in the finding below:

- Late Receipt Of Allocation - Recurring.

We are concerned that the municipality failed to correct our previously reported findings for failure to properly prepare Forms MS-965, liquid fuels money improperly expended on a project, and late receipt of allocations. We are also very concerned that the municipality's management failed to respond to our recurring findings. In our current examination period, the municipality failed to properly prepare Forms MS-965, did not have proper internal control over receipts, improperly expended Liquid Fuels Tax Fund money on a project, and received its 2012 allocation late.

The failure to properly complete Forms MS-965 increases the risk that errors or misappropriations may occur and remain undetected. Additionally, because documentation for the receipts totaling \$700.00 was not maintained, we were unable to determine if this money should have been deposited into the Liquid Fuels Tax Fund. Furthermore, the failure to comply with the Department of Transportation's *Publication 9* could result in the municipality having to reimburse \$68,260.95 to its Liquid Fuels Tax Fund. Also, because the municipality failed to file documents and information timely as noted above, the municipality did not have use of 2012 allocation for more than four months.

Independent Auditor's Report (Continued)

The municipality should strive to comply with the recommendations and corrective actions noted in this report.

This report is intended solely for the information and use of the Pennsylvania Department of Transportation and the management of the Township of Shenango, Lawrence 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 Shenango, Lawrence 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

July 22, 2015

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TOWNSHIP OF SHENANGO
LAWRENCE COUNTY
LIQUID FUELS TAX FUND
BACKGROUND
FOR THE PERIOD
JANUARY 1, 2012 TO DECEMBER 31, 2013

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 SHENANGO
LAWRENCE COUNTY
LIQUID FUELS TAX FUND
2012 FORM MS-965 – SECTION 1
WITH ADJUSTMENTS

| <u>Expenditure Summary</u> | <u>Reported</u> | <u>Adjustments (Finding No. 1)</u> | <u>Adjusted Amount</u> |
|---|-----------------------------|--|-----------------------------|
| Major equipment purchases | \$ 14,815.25 | \$ - | \$ 14,815.25 |
| Minor equipment purchases | - | - | - |
| Computer/Computer related training | - | - | - |
| Agility projects | - | - | - |
| Cleaning streets and gutters | - | - | - |
| Winter maintenance services | 38,628.41 | - | 38,628.41 |
| Traffic control devices | 1,662.85 | - | 1,662.85 |
| Street lighting | - | - | - |
| Storm sewers and drains | - | - | - |
| Repairs of tools and machinery | 8,106.78 | 500.00 | 8,606.78 |
| Maintenance and repair of roads and bridges | 51,777.65 | (91.00) | 51,686.65 |
| Highway construction and rebuilding projects | 68,260.95 | - | 68,260.95 |
| Miscellaneous (Bank service charges) | - | 60.00 | 60.00 |
| | <u> </u> | <u> </u> | <u> </u> |
| Total (To Section 2, Line 5) | <u>\$ 183,251.89</u> | <u>\$ 469.00</u> | <u>\$ 183,720.89</u> |

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

TOWNSHIP OF SHENANGO
LAWRENCE COUNTY
LIQUID FUELS TAX FUND
2012 FORM MS-965 – SECTION 2
WITH ADJUSTMENTS

| <u>Fund Balance</u> | <u>Reported</u> | <u>Adjustments (Finding No. 1)</u> | <u>Adjusted Amount</u> |
|--------------------------------------|-----------------------------|--|-----------------------------|
| 1. Balance, January 1, 2012 | \$ 271,191.84 | \$ (134,472.87) | \$ 136,718.97 |
| Receipts: | | | |
| 2. State allocation | 222,128.89 | - | 222,128.89 |
| 2a. Turnback allocation | 40,240.00 | - | 40,240.00 |
| 2b. Interest on investments (Note 3) | 44.58 | - | 44.58 |
| 2c. Miscellaneous (Note 4) | - | 1,023.13 | 1,023.13 |
| 3. Total receipts | <u>262,413.47</u> | <u>1,023.13</u> | <u>263,436.60</u> |
| 4. Total funds available | <u>533,605.31</u> | <u>(133,449.74)</u> | <u>400,155.57</u> |
| 5. Expenditures (Section 1) | <u>183,251.89</u> | <u>469.00</u> | <u>183,720.89</u> |
| 6. Balance, December 31, 2012 | <u><u>\$ 350,353.42</u></u> | <u><u>\$ (133,918.74)</u></u> | <u><u>\$ 216,434.68</u></u> |

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

TOWNSHIP OF SHENANGO
LAWRENCE COUNTY
LIQUID FUELS TAX FUND
2012 FORM MS-965 – SECTION 3
WITH ADJUSTMENTS

| <u>Equipment Balance</u> | <u>Reported</u> | <u>Adjustments (Finding No. 1)</u> | <u>Adjusted Amount</u> |
|---|----------------------|--|----------------------------|
| 1. Prior year equipment balance | \$ 262,414.01 | \$ (125,695.04) | \$ 136,718.97 |
| 2. Add: Current year equipment allocation (20% of Lines 2 + 2a, Section 2) | 52,473.78 | - | 52,473.78 |
| 3. PENNDOT approved adjustments | - | - | - |
| 4. Total funds available for equipment acquisition | 314,887.79 | (125,695.04) | 189,192.75 |
| 5. Less: Major equipment expenditures | 14,815.25 | - | 14,815.25 |
| 6. Remainder | <u>300,072.54</u> | <u>(125,695.04)</u> | <u>174,377.50</u> |
| 7. Equipment balance available for subsequent year (Lesser of Line 6 or Section 2 balance, but not less than zero) | <u>\$ 300,072.54</u> | <u>\$ (125,695.04)</u> | <u>\$ 174,377.50</u> |

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

TOWNSHIP OF SHENANGO
LAWRENCE COUNTY
LIQUID FUELS TAX FUND
2013 FORM MS-965 – SECTION 1
WITH ADJUSTMENTS

| <u>Expenditure Summary</u> | <u>Reported</u> | <u>Adjustments (Finding No. 1)</u> | <u>Adjusted Amount</u> |
|---|----------------------|--|----------------------------|
| Major equipment purchases | \$ 23,915.00 | \$ 40,932.56 | \$ 64,847.56 |
| Minor equipment purchases | - | - | - |
| Computer/Computer related training | - | - | - |
| Agility projects | - | - | - |
| Cleaning streets and gutters | - | - | - |
| Winter maintenance services | 78,962.06 | - | 78,962.06 |
| Traffic control devices | 1,126.29 | - | 1,126.29 |
| Street lighting | - | - | - |
| Storm sewers and drains | 1,171.90 | - | 1,171.90 |
| Repairs of tools and machinery | 12,554.51 | 2.00 | 12,556.51 |
| Maintenance and repair of roads and bridges | 29,451.78 | 50.00 | 29,501.78 |
| Highway construction and rebuilding projects | 136,126.02 | - | 136,126.02 |
| Miscellaneous | 40,932.56 | (40,932.56) | - |
| | <u>40,932.56</u> | <u>(40,932.56)</u> | <u>-</u> |
| Total (To Section 2, Line 5) | <u>\$ 324,240.12</u> | <u>\$ 52.00</u> | <u>\$ 324,292.12</u> |

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

TOWNSHIP OF SHENANGO
LAWRENCE COUNTY
LIQUID FUELS TAX FUND
2013 FORM MS-965 – SECTION 2
WITH ADJUSTMENTS

| <u>Fund Balance</u> | <u>Reported</u> | <u>Adjustments (Finding No. 1)</u> | <u>Adjusted Amount</u> |
|--------------------------------------|-----------------------------|--|-----------------------------|
| 1. Balance, January 1, 2013 | \$ 350,353.33 | \$ (133,918.65) | \$ 216,434.68 |
| Receipts: | | | |
| 2. State allocation | 218,157.10 | - | 218,157.10 |
| 2a. Turnback allocation | 40,240.00 | - | 40,240.00 |
| 2b. Interest on investments (Note 3) | 30.04 | - | 30.04 |
| 2c. Miscellaneous (Note 4) | - | 700.00 | 700.00 |
| 3. Total receipts | <u>258,427.14</u> | <u>700.00</u> | <u>259,127.14</u> |
| 4. Total funds available | <u>608,780.47</u> | <u>(133,218.65)</u> | <u>475,561.82</u> |
| 5. Expenditures (Section 1) | <u>324,240.12</u> | <u>52.00</u> | <u>324,292.12</u> |
| 6. Balance, December 31, 2013 | <u><u>\$ 284,540.35</u></u> | <u><u>\$ (133,270.65)</u></u> | <u><u>\$ 151,269.70</u></u> |

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

TOWNSHIP OF SHENANGO
LAWRENCE COUNTY
LIQUID FUELS TAX FUND
2013 FORM MS-965 – SECTION 3
WITH ADJUSTMENTS

| <u>Equipment Balance</u> | <u>Reported</u> | <u>Adjustments (Finding No. 1)</u> | <u>Adjusted Amount</u> |
|---|----------------------|--|----------------------------|
| 1. Prior year equipment balance | \$ 300,072.54 | \$ (125,695.04) | \$ 174,377.50 |
| 2. Add: Current year equipment allocation (20% of Lines 2 + 2a, Section 2) | 51,679.42 | - | 51,679.42 |
| 3. PENNDOT approved adjustments | - | - | - |
| 4. Total funds available for equipment acquisition | 351,751.96 | (125,695.04) | 226,056.92 |
| 5. Less: Major equipment expenditures | 23,915.00 | 40,932.56 | 64,847.56 |
| 6. Remainder | <u>327,836.96</u> | <u>(166,627.60)</u> | <u>161,209.36</u> |
| 7. Equipment balance available for subsequent year (Lesser of Line 6 or Section 2 balance, but not less than zero) | <u>\$ 284,540.35</u> | <u>\$ (133,270.65)</u> | <u>\$ 151,269.70</u> |

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

TOWNSHIP OF SHENANGO
 LAWRENCE COUNTY
 LIQUID FUELS TAX FUND
 NOTES TO FORMS MS-965 WITH ADJUSTMENTS
 FOR THE PERIOD
 JANUARY 1, 2012 TO DECEMBER 31, 2013

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 with varying yearly costs in excess of the amounts indicated below:

| Prior To 2012 | 2012 | 2013 | 2014 |
|------------------|-------------|-------------|-------------|
| \$4,000.00 | \$10,000.00 | \$10,200.00 | \$10,300.00 |

- Minor equipment purchases are purchases of road machinery and road equipment with varying yearly costs, or less, than the amounts indicated below:

| Prior To 2012 | 2012 | 2013 | 2014 |
|------------------|-------------|-------------|-------------|
| \$4,000.00 | \$10,000.00 | \$10,200.00 | \$10,300.00 |

- 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.

TOWNSHIP OF SHENANGO
LAWRENCE COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE PERIOD
JANUARY 1, 2012 TO DECEMBER 31, 2013

1. Criteria (Continued)

Section 2 (Continued)

- Expenditures include the total transferred from Section 1.

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.

TOWNSHIP OF SHENANGO
LAWRENCE COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE PERIOD
JANUARY 1, 2012 TO DECEMBER 31, 2013

1. Criteria (Continued)

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.

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 or savings bank's assets minus liabilities.

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

TOWNSHIP OF SHENANGO
LAWRENCE COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE PERIOD
JANUARY 1, 2012 TO DECEMBER 31, 2013

2. Deposits (Continued)

There were no deposits exposed to custodial credit risk as of December 31, 2013. 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.

Fund Balance

The fund balance as of December 31, 2013 consists of the following:

| | |
|------|---------------------|
| Cash | <u>\$151,269.70</u> |
|------|---------------------|

3. Interest On Investments

Our examination disclosed that the municipality deposited idle liquid fuels tax money in an interest-bearing account which earned \$44.58 during 2012, and \$30.04 during 2013, thus providing additional funds for road maintenance and repairs.

4. 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>2012</u> | <u>2013</u> |
|---------------|-------------------------|-------------------|-----------------|
| General Fund | Grants | \$1,023.13 | \$ - |
| Unknown | Unknown (Finding No. 2) | <u>-</u> | <u>700.00</u> |
| Total | | <u>\$1,023.13</u> | <u>\$700.00</u> |

TOWNSHIP OF SHENANGO
LAWRENCE COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2012 TO DECEMBER 31, 2013

Finding No. 1 - Failure To Properly Prepare Forms MS-965 - Recurring

We cited the municipality for failure to properly prepare Forms MS-965 in our prior report for the period January 1, 2009 to December 31, 2011. Our current examination disclosed that there were numerous errors made in the preparation of the municipality's 2012 and 2013 Forms MS-965. These errors resulted in the following adjustments:

2012 - Section 1

- An adjustment of \$500.00 was made to "Repairs of tools and machinery" because check No. 1872591 was not reported.
- An adjustment of \$(91.00) was made to "Maintenance and repair of roads and bridges" because check No.1549 was reported as \$4,656.60 but was issued for \$4,565.60
- An adjustment of \$60.00 was made to "Miscellaneous" expenditures because bank service charges were not reported.

2012 - Section 2

- An adjustment of \$(134,472.87) was made to "Balance, January 1, 2012" because of an incorrect fund balance was reported.
- An adjustment of \$1,023.13 was made to "Miscellaneous" because grants from the General Fund were not reported.

2012 - Section 3

- An adjustment of \$(125,695.04) was made to "Prior year equipment balance" because of prior report adjustments that were not carried forward in the equipment balance.

2013 - Section 1

- Adjustments were made to "Major equipment purchases" and "Miscellaneous" because expenditures of \$40,932.56 were misclassified.
- An adjustment of \$2.00 was made to "Repairs of tools and machinery" because check No. 1565 was reported as \$472.22 but was issued for \$474.22.

TOWNSHIP OF SHENANGO
LAWRENCE COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2012 TO DECEMBER 31, 2013

Finding No. 1 - Failure To Properly Prepare Forms MS-965 - Recurring (Continued)

2013 - Section 1 (Continued)

- An adjustment of \$50.00 was made to “Maintenance and repairs of roads and bridges” because check No. 1572 was reported as \$833.75 but was issued for \$883.75.

2013 - Section 2

An adjustment of \$(133,918.65) was made to “Balance, January 1, 2013” because an incorrect fund balance was reported.

An adjustment of \$700.00 was made to “Miscellaneous” because an unidentified receipt was not reported.

2013 - Section 3

An adjustment of \$(125,695.04) was made to “Prior equipment balance” to reflect the adjustment made to the equipment balance in 2012 - Section 3.

An adjustment of \$40,932.56 was made to “Major equipment expenditures” to reflect the adjustment made to major equipment purchases in 2013 - Section 1.

Good internal controls ensure that the municipality complete its Forms MS-965 accurately and completely. The failure to properly complete Forms MS-965 increases the risk that errors or misappropriations may occur and remain undetected.

Recommendation

We recommend that the municipality ensure that its Forms MS-965 are complete and accurate.

Management’s Response

The municipal officials offered no formal response at this time.

TOWNSHIP OF SHENANGO
LAWRENCE COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2012 TO DECEMBER 31, 2013

Finding No. 1 - Failure To Properly Prepare Forms MS-965 - Recurring (Continued)

Auditor's Conclusion

This is a recurring finding. We strongly recommend that the municipality comply with our recommendation.

TOWNSHIP OF SHENANGO
LAWRENCE COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2012 TO DECEMBER 31, 2013

Finding No. 2 - Internal Control Over Receipts Should Be Improved

Our examination disclosed that there was no explanation for a receipt of \$700.00 that was received on December 27, 2013.

Good internal controls ensure that the municipality complete its Forms MS-965 accurately and completely, including descriptions of the source and purpose of all receipts. Additionally, good internal accounting controls ensure that there is documentation to support all receipts. The failure to properly complete Forms MS-965 increases the risk that errors or misappropriations may occur and remain undetected. Additionally, because documentation for the receipts totaling \$700.00 was not maintained, we were unable to determine if this money should have been deposited into the Liquid Fuels Tax Fund.

The township officials were not aware of the unidentified receipt.

Recommendations

We recommend that the municipality ensure that its Forms MS-965 are complete and accurate.

We further recommend that the municipality maintain adequate documentation to support all receipts.

Management's Response

The municipal officials offered no formal response at this time.

Auditor's Conclusion

The municipal officials should ensure that the source and description be recorded for all money deposited into the Liquid Fuels Tax Fund. During our next examination we will determine if the municipality complied with our recommendation.

TOWNSHIP OF SHENANGO
LAWRENCE COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2012 TO DECEMBER 31, 2013

Finding No. 3 - Liquid Fuels Money Improperly Expended On Project - Recurring

We cited the municipality for improperly spending Liquid Fuels Tax Fund money on a project in our prior report for the period January 1, 2009 to December 31, 2011. Our current examination disclosed that although Liquid Fuels Tax Fund money was not approved to be expended on construction project No. 11-37211-05, \$68,260.95 of Liquid Fuels Tax Fund money was spent on the project. The expenditures related to this project should have been paid directly from the General Fund.

The Department of Transportation's *Publication 9* outlines the policies and procedures for the administration of the Liquid Fuels Tax Fund. *Publication 9*, Chapter Two, Section 2.7.2, states that nonpermissible expenditures include construction and reconstruction projects without prior approval from the Department of Transportation.

This condition occurred because the township failed to file the proper paperwork to the Department of Transportation that would allow the township to expend liquid fuels money on the project.

The failure to comply with the Department of Transportation's *Publication 9* could result in the municipality having to reimburse \$68,260.95 to its Liquid Fuels Tax Fund.

Recommendations

We recommend that the municipality reimburse \$68,260.95 to its Liquid Fuels Tax Fund upon official notification by the Department of Transportation.

We again further recommend that, in the future, no liquid fuels tax funds be expended for construction projects without the prior approval of the Department of Transportation.

Management's Response

The municipal officials offered no formal response at this time.

Auditors Conclusion

This is a recurring finding. We strongly recommended that the municipality comply with our recommendation.

TOWNSHIP OF SHENANGO
LAWRENCE COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2012 TO DECEMBER 31, 2013

Finding No. 4 - Late Receipt Of Allocation - Recurring

Our examination disclosed that the 2012 Liquid Fuels Tax Fund allocation of \$222,128.89, 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 August 22, 2012, 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 2012 allocation for more than four months. Furthermore, had the allocation 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.

Similar findings were written in our prior six reports with the most recent being for the period January 1, 2009 to December 31, 2011. However, we noted that the 2013 allocation was received timely.

Recommendation

We recommend that, in the future, the municipality continue to 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.

TOWNSHIP OF SHENANGO
LAWRENCE COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2012 TO DECEMBER 31, 2013

Finding No. 4 - Late Receipt Of Allocation - Recurring (Continued)

Management's Response

The municipal officials offered no formal response at this time.

TOWNSHIP OF SHENANGO
LAWRENCE COUNTY
LIQUID FUELS TAX FUND
SUMMARY OF PRIOR EXAMINATION RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2012 TO DECEMBER 31, 2013

Summary Of Prior Examination Recommendations

In our prior report, we recommended that the Department of Transportation review our examination finding to determine if the municipality should reimburse \$7,407.59 to its Liquid Fuels Tax Fund for improperly expending liquid fuels money on a project.

During our current examination we reviewed a letter dated August 26, 2013, from the Department of Transportation informing the municipality to reimburse \$7,407.59 to its Liquid Fuels Tax Fund. We noted that the municipality reimbursed this amount to its Liquid Fuels Tax Fund on February 18, 2014, which was subsequent to our examination period.

In our prior report we also recommended:

- That the municipality ensure that its Forms MS-965 are complete and accurate.
- That no Liquid Fuels Tax Funds be expended for construction projects without the prior approval of the Department of Transportation.
- That the municipality comply with the Department of Transportation's *Publication 9* to ensure that the allocations are received during the first week in April.

During our current examination we noted that the municipality did not comply with the first two bulleted recommendations. The municipality only complied with the third bulleted recommendation for the 2013 year (see Finding Nos. 1, 3, and 4).

TOWNSHIP OF SHENANGO
LAWRENCE COUNTY
LIQUID FUELS TAX FUND
SUMMARY OF EXIT CONFERENCE
FOR THE PERIOD
JANUARY 1, 2012 TO DECEMBER 31, 2013

An exit conference was held May 11, 2015. Those participating were:

TOWNSHIP OF SHENANGO

The Honorable Albert D. Burick III, Supervisor

DEPARTMENT OF THE AUDITOR GENERAL

Mr. Edward J. Politylo, Auditor

Ms. Betty Leibert, Auditor

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

TOWNSHIP OF SHENANGO
LAWRENCE COUNTY
LIQUID FUELS TAX FUND
REPORT DISTRIBUTION
FOR THE PERIOD
JANUARY 1, 2012 TO DECEMBER 31, 2013

This report was initially distributed to:

The Honorable Leslie Richards
Secretary
Department of Transportation

Township of Shenango
Lawrence County
1000 Willowbrook Road
New Castle, PA 16101

The Honorable Russell J. Riley

Chairman of the Board of Supervisors

The Honorable Albert D. Burick, III

Supervisor

This report is a matter of public record and is available online at <http://www.PaAuditor.gov>.
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General, Office of Communications, 229 Finance Building, Harrisburg, PA 17120; via email to:
news@PaAuditor.gov.