

ATTESTATION ENGAGEMENT

Township of Martic
Lancaster County, Pennsylvania
36-224
Liquid Fuels Tax Fund
For the Period
January 1, 2013 to December 31, 2014

July 2016



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 Martic, Lancaster County, for the period January 1, 2013 to December 31, 2014. 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 Martic, Lancaster County's Forms MS-965 for the period January 1, 2013 to December 31, 2014 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 Finding No. 2, the adjustments included on the Forms MS-965 With Adjustments are made by the Department of the Auditor General.

Independent Auditor's Report (Continued)

As discussed in Finding No. 1, during 2014 the township did not maintain documentation to support transfers of Liquid Fuels Tax Fund money of \$127,162.71 to the General Fund.

In our opinion, except for the matter discussed in the preceding paragraph, the Forms MS-965 With Adjustments present, in all material respects, the information required by the Pennsylvania Department of Transportation for the Liquid Fuels Tax Fund of the Township of Martic, Lancaster County, for the period January 1, 2013 to December 31, 2014, 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 a 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. We consider the deficiencies below to be material weaknesses.

- Documentation Supporting Transfers To The General Fund Were Not Available For Examination.
- Failure To Properly Prepare Forms MS-965 - Recurring.
- Untimely Deposit Of Allocation And Liquid Fuels Allocation Deposited Into The General Fund.

Independent Auditor's Report (Continued)

As part of obtaining reasonable assurance about whether the Forms MS-965 are free from material misstatement, we performed tests of the Township of Martic, Lancaster 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

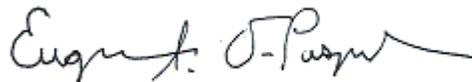
We are concerned that the municipality failed to correct our prior examination finding for *Failure To Properly Prepare Forms MS-965*. During our current examination we noted that documentation for transfers to the General Fund were not available for examination, the municipality failed to properly prepare Forms MS-965, and the municipality deposited its Liquid Fuels Tax Fund allocation untimely and into its General Fund.

Without adequate documentation, we could not determine if the transfers were permissible according to the Liquid Fuels Tax Municipal Allocation Law and the Department of Transportation's Regulations, which could result in the municipality having to reimburse \$127,162.71 to its Liquid Fuels Tax Fund. Additionally, the failure to properly complete Forms MS-965 increases the risk that errors or misappropriations may occur and remain undetected. Furthermore, good internal control procedures require that all funds received be deposited immediately upon receipt. The failure to do so increases the risk that errors and misappropriations may occur and remain undetected. Also, the risk that Liquid Fuels Tax Fund money may be used for unauthorized purposes increases when liquid fuels money is commingled with other funds.

The municipality should strive to implement 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 Martic, Lancaster 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 Martic, Lancaster 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

February 22, 2016

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TOWNSHIP OF MARTIC
LANCASTER COUNTY
LIQUID FUELS TAX FUND
BACKGROUND
FOR THE PERIOD
JANUARY 1, 2013 TO DECEMBER 31, 2014

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 MARTIC
LANCASTER COUNTY
LIQUID FUELS TAX FUND
2013 FORM MS-965 – SECTION 1
WITH ADJUSTMENTS

<u>Expenditure Summary</u>	<u>Reported</u>	<u>Adjustments (Finding No. 2)</u>	<u>Adjusted Amount</u>
Major equipment purchases	\$ 30,159.00	\$ -	\$ 30,159.00
Minor equipment purchases	-	-	-
Computer/Computer related training	-	-	-
Agility projects	-	-	-
Cleaning streets and gutters	-	-	-
Winter maintenance services	18,632.73	-	18,632.73
Traffic control devices	-	-	-
Street lighting	-	-	-
Storm sewers and drains	-	-	-
Repairs of tools and machinery	-	-	-
Maintenance and repair of roads and bridges	-	-	-
Highway construction and rebuilding projects	203,980.03	-	203,980.03
Miscellaneous (Bank service charges)	.14	46.25	46.39
 Total (To Section 2, Line 5)	 <u>\$ 252,771.90</u>	 <u>\$ 46.25</u>	 <u>\$ 252,818.15</u>

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

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

<u>Fund Balance</u>	<u>Reported</u>	<u>Adjustments (Finding No. 2)</u>	<u>Adjusted Amount</u>
1. Balance, January 1, 2013	\$ 622,862.12	\$ 75,954.18	\$ 698,816.30
Receipts:			
2. State allocation	174,263.84	-	174,263.84
2a. Turnback allocation	-	-	-
2b. Interest on investments (Note 3)	17,333.66	-	17,333.66
2c. Miscellaneous	-	-	-
3. Total receipts	<u>191,597.50</u>	<u>-</u>	<u>191,597.50</u>
4. Total funds available	<u>814,459.62</u>	<u>75,954.18</u>	<u>890,413.80</u>
5. Expenditures (Section 1)	<u>252,771.90</u>	<u>46.25</u>	<u>252,818.15</u>
6. Balance, December 31, 2013	<u>\$ 561,687.72</u>	<u>\$ 75,907.93</u>	<u>\$ 637,595.65</u>

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

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

<u>Equipment Balance</u>	<u>Reported</u>	<u>Adjustments (Finding No. 2)</u>	<u>Adjusted Amount</u>
1. Prior year equipment balance	\$ 250,771.99	\$ 38,408.57	\$ 289,180.56
2. Add: Current year equipment allocation (20% of Lines 2 + 2a, Section 2)	34,852.77	-	34,852.77
3. PENNDOT approved adjustments	-	-	-
4. Total funds available for equipment acquisition	285,624.76	38,408.57	324,033.33
5. Less: Major equipment expenditures	30,159.00	-	30,159.00
6. Remainder	<u>255,465.76</u>	<u>38,408.57</u>	<u>293,874.33</u>
7. Equipment balance available for subsequent year (Lesser of Line 6 or Section 2 balance, but not less than zero)	<u>\$ 255,465.76</u>	<u>\$ 38,408.57</u>	<u>\$ 293,874.33</u>

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

TOWNSHIP OF MARTIC
LANCASTER COUNTY
LIQUID FUELS TAX FUND
2014 FORM MS-965 – SECTION 1
WITH ADJUSTMENTS

<u>Expenditure Summary</u>	<u>Reported</u>	<u>Adjustments (Finding No. 2)</u>	<u>Adjusted Amount</u>
Major equipment purchases	\$ 224,998.76	\$ -	\$ 224,998.76
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	-	-	-
Repairs of tools and machinery	-	-	-
Maintenance and repair of roads and bridges	-	-	-
Highway construction and rebuilding projects	162,771.87	(162,771.87)	-
Miscellaneous (Finding No. 1)	-	127,162.71	127,162.71
 Total (To Section 2, Line 5)	 <u>\$ 387,770.63</u>	 <u>\$ (35,609.16)</u>	 <u>\$ 352,161.47</u>

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

TOWNSHIP OF MARTIC
LANCASTER COUNTY
LIQUID FUELS TAX FUND
2014 FORM MS-965 – SECTION 2
WITH ADJUSTMENTS

<u>Fund Balance</u>	<u>Reported</u>	<u>Adjustments (Finding No. 2)</u>	<u>Adjusted Amount</u>
1. Balance, January 1, 2014	\$ 561,687.62	\$ 75,908.03	\$ 637,595.65
Receipts:			
2. State allocation	186,316.18	-	186,316.18
2a. Turnback allocation	-	-	-
2b. Interest on investments (Note 3)	17,746.38	851.87	18,598.25
2c. Miscellaneous	-	-	-
3. Total receipts	<u>204,062.56</u>	<u>851.87</u>	<u>204,914.43</u>
4. Total funds available	<u>765,750.18</u>	<u>76,759.90</u>	<u>842,510.08</u>
5. Expenditures (Section 1)	<u>387,770.63</u>	<u>(35,609.16)</u>	<u>352,161.47</u>
6. Balance, December 31, 2014	<u>\$ 377,979.55</u>	<u>\$ 112,369.06</u>	<u>\$ 490,348.61</u>

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

TOWNSHIP OF MARTIC
LANCASTER COUNTY
LIQUID FUELS TAX FUND
2014 FORM MS-965 – SECTION 3
WITH ADJUSTMENTS

<u>Equipment Balance</u>	<u>Reported</u>	<u>Adjustments (Finding No. 2)</u>	<u>Adjusted Amount</u>
1. Prior year equipment balance	\$ 255,465.76	\$ 38,408.57	\$ 293,874.33
2. Add: Current year equipment allocation (20% of Lines 2 + 2a, Section 2)	37,263.24	-	37,263.24
3. PENNDOT approved adjustments	<u>-</u>	<u>-</u>	<u>-</u>
4. Total funds available for equipment acquisition	292,729.00	38,408.57	331,137.57
5. Less: Major equipment expenditures	<u>224,998.76</u>	<u>-</u>	<u>224,998.76</u>
6. Remainder	<u>67,730.24</u>	<u>38,408.57</u>	<u>106,138.81</u>
7. Equipment balance available for subsequent year (Lesser of Line 6 or Section 2 balance, but not less than zero)	<u>\$ 67,730.24</u>	<u>\$ 38,408.57</u>	<u>\$ 106,138.81</u>

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

TOWNSHIP OF MARTIC
LANCASTER COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE PERIOD
JANUARY 1, 2013 TO DECEMBER 31, 2014

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 was received from the Department of Transportation during the first week in April of each year through 2013. Municipalities began receiving the state allocation in March of each year beginning in 2014. The amount the municipality receives is based half on its population and half on its road mileage.
- The turnback allocation was received from the Department of Transportation during the first week in April of each year through 2013. Municipalities began receiving the turnback allocation in March of each year beginning in 2014. 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 MARTIC
LANCASTER COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE PERIOD
JANUARY 1, 2013 TO DECEMBER 31, 2014

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 MARTIC
LANCASTER COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE PERIOD
JANUARY 1, 2013 TO DECEMBER 31, 2014

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 And Investments

The Second Class Township Code, Title 53 P.S. § 68204, authorizes the township to deposit and invest its funds in the following:

- United States Treasury Bills.
- Short-term obligations of the United States government or its agencies or instrumentalities.
- 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.
- Obligations of the United States of America or any of its agencies or instrumentalities backed by the full faith and credit of the United States of America, the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the Commonwealth of Pennsylvania, or any political subdivision of the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the political subdivision.

TOWNSHIP OF MARTIC
LANCASTER COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE PERIOD
JANUARY 1, 2013 TO DECEMBER 31, 2014

2. Deposits And Investments (Continued)

- Shares of an investment company registered under the Investment Company Act of 1940, whose shares are registered under the Securities Act of 1933, provided that the only investments of that company are in authorized investments for first class township funds.
- 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

Deposits consist of receipts and deposits in 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.

There were no deposits exposed to custodial credit risk as of December 31, 2014. 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 MARTIC
LANCASTER COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE PERIOD
JANUARY 1, 2013 TO DECEMBER 31, 2014

2. Deposits And Investments (Continued)

Investments

The township is authorized to invest Liquid Fuels Tax Fund money in legal investments permitted by *The Second Class Township Code* (see above).

As of December 31, 2014, the township's Liquid Fuels Tax Fund had the following investments:

<u>Investment Type</u>	<u>Maturity Date</u>	<u>Cost</u>	<u>Fair Value</u>
GNMA Security	06/20/33	\$101,005.00	\$109,052.00
GNMA Security	07/20/33	37,375.00	39,293.23
GNMA Security	03/16/34	24,245.00	26,669.52
GNMA Security	09/20/34	39,395.00	41,489.76
GNMA Security	08/20/35	96,965.00	105,072.00
GNMA Security	06/20/40	11,136.00	11,995.20
GNMA Security	12/16/40	28,005.00	31,200.40
GNMA Security	03/16/42	9,143.50	10,301.90
GNMA Security	01/20/43	36,636.00	30,483.93
Total		<u>\$383,905.50</u>	<u>\$405,557.94</u>

There were no investments exposed to custodial credit risk as of December 31, 2014.

Credit Risk: As of December 31, 2014, the township's investments in GNMA are guaranteed by the United States Government.

Interest Rate Risk. The township does not have a formal investment policy that limits investments maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Fund Balance

The fund balance consists of the following:

Cash	\$106,443.11
Investments	383,905.50
Total	<u>\$490,348.61</u>

TOWNSHIP OF MARTIC
LANCASTER COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE PERIOD
JANUARY 1, 2013 TO DECEMBER 31, 2014

3. Interest On Investments

Our examination disclosed that the municipality deposited idle liquid fuels tax money in interest-bearing accounts and approved investments which earned \$17,333.66 during 2013, and \$18,598.25 during 2014, thus providing additional funds for road maintenance and repairs.

TOWNSHIP OF MARTIC
LANCASTER COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2013 TO DECEMBER 31, 2014

Finding No. 1 - Documentation Supporting Transfers To The General Fund Were Not Available For Examination

Our examination disclosed that the municipality did not maintain documentation, such as invoices or payroll records, to support transfers totaling \$127,162.71 from the Liquid Fuels Tax Fund to the General Fund during 2014.

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

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

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

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

The failure to maintain documentation to support transfers could result in the municipality having to reimburse \$127,162.71 to its Liquid Fuels Tax Fund.

Recommendations

We recommend that the municipality reimburse \$127,162.71 to its Liquid Fuels Tax Fund upon official notification by the Department of Transportation.

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

TOWNSHIP OF MARTIC
LANCASTER COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2013 TO DECEMBER 31, 2014

Finding No. 1 - Documentation Supporting Transfers To The General Fund Were Not Available For Examination (Continued)

Management's Response

The municipal officials offered no formal response at this time.

Auditor's Conclusion

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

TOWNSHIP OF MARTIC
LANCASTER COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2013 TO DECEMBER 31, 2014

Finding No. 2 - Failure To Properly Prepare Forms MS-965 - Recurring

We cited the municipality for failure to properly prepare Forms MS-965 in our prior examination for the period January 1, 2010 to December 31, 2012. Our current examination again disclosed that there were numerous errors made in the preparation of the municipality's 2013 and 2014 Forms MS-965. These errors resulted in the following adjustments:

2013 - Section 1

- An adjustment of \$46.25 was made to "Miscellaneous" because bank service charges were understated.

2013 - Section 2

- An adjustment of \$75,954.18 was made to "Balance, January 1, 2014" because of prior report adjustments that were not carried forward in the fund balance.

2013 - Section 3

- An adjustment of \$38,408.57 was made to "Prior year equipment balance" because of prior report adjustments that were not carried forward in the equipment balance.

2014 - Section 1

- An adjustment of \$(162,771.87) was made to "Highway construction and rebuilding projects" because miscellaneous expenditures of \$127,162.71 were misclassified and these expenditures were overstated by \$35,609.16.
- An adjustment of \$127,162.71 was made to "Miscellaneous" because these expenditures were misclassified as highway construction and rebuilding projects.

2014 - Section 2

- An adjustment of \$75,908.03 was made to "Balance, January 1, 2014" because an incorrect fund balance was carried forward.
- An adjustment of \$851.87 was made to "Interest on investments" because interest earnings were understated.

TOWNSHIP OF MARTIC
LANCASTER COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2013 TO DECEMBER 31, 2014

Finding No. 2 - Failure To Properly Prepare Forms MS-965 - Recurring (Continued)

2014 - Section 3

- An adjustment of \$38,408.57 was made to “Prior year equipment balance” to reflect the adjustment made to the equipment balance in 2013 - Section 3.

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.

This condition occurred because the municipality failed to comply with our prior examination recommendation to ensure that its Forms MS-965 are complete and accurate.

Recommendation

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

Management’s Response

The secretary stated:

Information given to the township by PENNDOT was incorrect.

Auditor’s Conclusion

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

TOWNSHIP OF MARTIC
LANCASTER COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2013 TO DECEMBER 31, 2014

Finding No. 3 - Untimely Deposit Of Allocation And Liquid Fuels Allocation Deposited Into The General Fund

Our examination disclosed that the 2014 Liquid Fuels Tax Fund allocation of \$186,316.18, which was received from the Department of Transportation on March 3, 2014, was deposited into the General Fund and transferred to the Liquid Fuels Tax Fund May 19, 2014, which is in noncompliance with the Liquid Fuels Tax Municipal Allocation Law.

Good internal control procedures require that all funds received be deposited immediately upon receipt. The failure to do so increases the risk that errors and misappropriations may occur and remain undetected. Additionally, had the allocation been deposited in a timely manner, money may have been available for investment, potentially earning interest income which could have been used for road maintenance and repairs.

Furthermore, the practice of depositing liquid fuels money into any account other than the Liquid Fuels Tax Fund account is contrary to the Act of June 1, 1956, P.L. (1955) 1944, 72 P.S. § 2615.5, known as the Liquid Fuels Tax Municipal Allocation Law, which states:

. . .each city, borough, town and township, shall . . . Establish and maintain a special fund into which the moneys liquid fuels tax funds . . . shall be deposited and into which no other moneys may be deposited or commingled . . .

The risk that Liquid Fuels Tax Fund money may be used for unauthorized purposes increases when liquid fuels money is commingled with other funds.

Recommendations

We recommend that the municipal officials consider using the electronic transfer of funds offered by the Department of Transportation.

We also recommend that, in the future, the municipality deposit all liquid fuels tax money promptly into the Liquid Fuels Tax Fund.

Management's Response

The municipal officials offered no formal response at this time.

TOWNSHIP OF MARTIC
LANCASTER COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2013 TO DECEMBER 31, 2014

**Finding No. 3 - Untimely Deposit Of Allocation And Liquid Fuels Allocation Deposited Into
The General Fund**

Auditor's Conclusion

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

TOWNSHIP OF MARTIC
LANCASTER COUNTY
LIQUID FUELS TAX FUND
SUMMARY OF EXIT CONFERENCE
FOR THE PERIOD
JANUARY 1, 2013 TO DECEMBER 31, 2014

An exit conference was held February 17, 2016. Those participating were:

TOWNSHIP OF MARTIC

Ms. Karen Sellers, Secretary

DEPARTMENT OF THE AUDITOR GENERAL

Mr. Stephen P. Stoppie, Auditor

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

TOWNSHIP OF MARTIC
LANCASTER COUNTY
LIQUID FUELS TAX FUND
REPORT DISTRIBUTION
FOR THE PERIOD
JANUARY 1, 2013 TO DECEMBER 31, 2014

This report was initially distributed to:

The Honorable Leslie Richards
Secretary
Department of Transportation

Township of Martic
Lancaster County
370 Steinman Farm Road
Pequea, PA 17565

The Honorable Duane Sellers
Chairman of the Board of Supervisors

The Honorable Carl T. Drexel
Vice-Chairman of the Board of Supervisors

Ms. Karen Sellers
Secretary

This report is a matter of public record and is available online at www.PaAuditor.gov. Media questions about the report can be directed to the Pennsylvania Department of the Auditor General, Office of Communications, 229 Finance Building, Harrisburg, PA 17120; via email to: news@PaAuditor.gov.