

ATTESTATION ENGAGEMENT

Borough of New Philadelphia

Schuylkill County, Pennsylvania

53-417

Liquid Fuels Tax Fund

For the Period

January 1, 2013 to December 31, 2014

May 2016



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



Commonwealth of Pennsylvania
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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 Borough of New Philadelphia, Schuylkill 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 Borough of New Philadelphia, Schuylkill 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.1, 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. 2, the 2014 Liquid Fuels Tax Fund allocation of \$25,709.72 had not been received as of May 5, 2016, the exit conference date of this report. Additionally, as discussed in Finding No. 3, the municipality deposited \$4,000.00 of Liquid Fuels Tax Fund money into the General Fund on November 6, 2013, which is in noncompliance with the Liquid Fuels Tax municipal Allocation Law. We further noted that on January 22, 2014, the municipality reimbursed \$3,000.00 to the Liquid Fuels Tax Fund.

Although management of the municipality provided us with a management representation letter on the date of our exit conference of May 5, 2016, held at the municipality, they did not respond to our request for an updated management representation letter including the disclosure of any subsequent events that affected the Forms MS-965 through the date of this report.

In our opinion, except for the failure to receive the 2014 Liquid Fuels Tax Fund allocation, the deposit of Liquid Fuels Tax Fund money into the General Fund, and the possible effects of the municipality's failure to provide an updated management representation letter, 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 Borough of New Philadelphia, Schuylkill 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.

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 Form 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)

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 deficiency below to be a material weakness.

- Failure To Properly Prepare 2013 Form MS-965.

As part of obtaining reasonable assurance about whether the Forms MS-965 are free from material misstatement, we performed tests of the Borough of New Philadelphia, Schuylkill 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 instances of noncompliance that are required to be reported under *Government Auditing Standards*:

- Late Receipt Of 2013 Allocation And Non-Receipt Of 2014 Allocation - Recurring.
- Liquid Fuels Money Deposited Into The General Fund - Recurring.
- Failure To File 2014 Form MS-965.

We are concerned that the borough failed to correct our prior examination findings *Late Receipt of Allocation* and *Liquid Fuels Money Deposited into the Equipment Fund*. During our current examination the borough failed to properly prepare its 2014 Form MS-965, received its 2013 state allocation late, failed to receive the 2014 allocation, deposited Liquid Fuels Tax Fund money into the General Fund, and failed to file its 2014 Form MS-965.

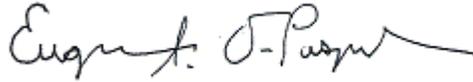
The failure to properly complete Forms MS-965 increases the risk that errors or misappropriations may occur and remain undetected. Additionally, because the municipality failed to file documents and information timely as noted above, the municipality did not have use of the 2013 allocation for five months and the 2014 allocation for more than two years. Furthermore, the failure to follow the Liquid Fuels Tax Municipal Allocation Law as noted above could result in the municipality having to reimburse \$1,000.00 to its Liquid Fuels Tax Fund. Also, because the borough did not file its 2014 Form MS-965, it has not received its 2015 Liquid Fuels Tax Fund allocation as of May 5, 2016, the exit conference date of this examination.

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

Independent Auditor's Report (Continued)

This report is intended solely for the information and use of the Pennsylvania Department of Transportation and the management of the Borough of New Philadelphia, Schuylkill 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 Borough of New Philadelphia, Schuylkill 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.

A handwritten signature in black ink, appearing to read "Eugene A. DePasquale". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Eugene A. DePasquale
Auditor General

May 6, 2016

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BOROUGH OF NEW PHILADELPHIA
SCHUYLKILL 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.

BOROUGH OF NEW PHILADELPHIA
SCHUYLKILL 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	\$ 5,681.86	\$ 562.56	\$ 6,244.42
Minor equipment purchases	-	-	-
Computer/Computer related training	-	-	-
Agility projects	-	-	-
Cleaning streets and gutters	-	-	-
Winter maintenance services	4,353.02	-	4,353.02
Traffic control devices	1,026.73	-	1,026.73
Street lighting	11,880.03	(662.56)	11,217.47
Storm sewers and drains	-	-	-
Repairs of tools and machinery	3,273.73	-	3,273.73
Maintenance and repair of roads and bridges	8,344.11	-	8,344.11
Highway construction and rebuilding projects	-	-	-
Miscellaneous (Note 5)	41,372.78	4,000.00	45,372.78
 Total (To Section 2, Line 5)	 <u>\$ 75,932.26</u>	 <u>\$ 3,900.00</u>	 <u>\$ 79,832.26</u>

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

BOROUGH OF NEW PHILADELPHIA
SCHUYLKILL 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	\$ 30,637.56	\$ -	\$ 30,637.56
Receipts:			
2. State allocation	23,859.16	24,253.43	48,112.59
2a. Turnback allocation	-	-	-
2b. Interest on investments (Note 3)	99.72	-	99.72
2c. Miscellaneous (Note 4)	24,253.43	32,119.35	56,372.78
3. Total receipts	<u>48,212.31</u>	<u>56,372.78</u>	<u>104,585.09</u>
4. Total funds available	<u>78,849.87</u>	<u>56,372.78</u>	<u>135,222.65</u>
5. Expenditures (Section 1)	<u>75,932.26</u>	<u>3,900.00</u>	<u>79,832.26</u>
6. Balance, December 31, 2013	<u>\$ 2,917.61</u>	<u>\$ 52,472.78</u>	<u>\$ 55,390.39</u>

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

BOROUGH OF NEW PHILADELPHIA
SCHUYLKILL 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	\$ 30,637.56	\$ -	\$ 30,637.56
2. Add: Current year equipment allocation (20% of Lines 2 + 2a, Section 2)	9,622.52	-	9,622.52
3. PENNDOT approved adjustments	<u>-</u>	<u>-</u>	<u>-</u>
4. Total funds available for equipment acquisition	40,260.08	-	40,260.08
5. Less: Major equipment expenditures	<u>5,681.86</u>	<u>562.56</u>	<u>6,244.42</u>
6. Remainder	<u>34,578.22</u>	<u>(562.56)</u>	<u>34,015.66</u>
7. Equipment balance available for subsequent year (Lesser of Line 6 or Section 2 balance, but not less than zero)	<u>\$ 2,917.61</u>	<u>\$ 31,098.05</u>	<u>\$ 34,015.66</u>

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

BOROUGH OF NEW PHILADELPHIA
SCHUYLKILL COUNTY
LIQUID FUELS TAX FUND
2014 FORM MS-965 – SECTION 1
WITH ADJUSTMENTS

<u>Expenditure Summary</u>	<u>Reported</u>	<u>Adjustments (Finding No.4)</u>	<u>Adjusted Amount</u>
Major equipment purchases	\$ -	\$ 7,150.72	\$ 7,150.72
Minor equipment purchases	-	-	-
Computer/Computer related training	-	-	-
Agility projects	-	-	-
Cleaning streets and gutters	-	-	-
Winter maintenance services	-	10,733.44	10,733.44
Traffic control devices	-	287.60	287.60
Street lighting	-	11,482.35	11,482.35
Storm sewers and drains	-	787.50	787.50
Repairs of tools and machinery	-	3,797.64	3,797.64
Maintenance and repair of roads and bridges	-	1,081.34	1,081.34
Highway construction and rebuilding projects	-	-	-
Miscellaneous (Bank service charges)	-	9.00	9.00
 Total (To Section 2, Line 5)	 <u>\$ -</u>	 <u>\$ 35,329.59</u>	 <u>\$ 35,329.59</u>

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

BOROUGH OF NEW PHILADELPHIA
SCHUYLKILL COUNTY
LIQUID FUELS TAX FUND
2014 FORM MS-965 – SECTION 2
WITH ADJUSTMENTS

<u>Fund Balance</u>	<u>Reported</u>	<u>Adjustments (Finding No.4)</u>	<u>Adjusted Amount</u>
1. Balance, January 1, 2014	\$ -	\$ 55,390.39	\$ 55,390.39
Receipts:			
2. State allocation	-	-	-
2a. Turnback allocation	-	-	-
2b. Interest on investments (Note 3)	-	75.21	75.21
2c. Miscellaneous (Note 4)	-	3,000.00	3,000.00
3. Total receipts	-	3,075.21	3,075.21
4. Total funds available	-	58,465.60	58,465.60
5. Expenditures (Section 1)	-	35,329.59	35,329.59
6. Balance, December 31, 2014	\$ -	\$ 23,136.01	\$ 23,136.01

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

BOROUGH OF NEW PHILADELPHIA
SCHUYLKILL COUNTY
LIQUID FUELS TAX FUND
2014 FORM MS-965 – SECTION 3
WITH ADJUSTMENTS

<u>Equipment Balance</u>	<u>Reported</u>	<u>Adjustments (Finding No.4)</u>	<u>Adjusted Amount</u>
1. Prior year equipment balance	\$ -	\$ 34,015.66	\$ 34,015.66
2. Add: Current year equipment allocation (20% of Lines 2 + 2a, Section 2)	-	-	-
3. PENNDOT approved adjustments	-	-	-
4. Total funds available for equipment acquisition	-	34,015.66	34,015.66
5. Less: Major equipment expenditures	-	7,150.72	7,150.72
6. Remainder	-	26,864.94	26,864.94
7. Equipment balance available for subsequent year (Lesser of Line 6 or Section 2 balance, but not less than zero)	\$ -	\$ 23,136.01	\$ 23,136.01

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

BOROUGH OF NEW PHILADELPHIA
SCHUYLKILL 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.

BOROUGH OF NEW PHILADELPHIA
SCHUYLKILL 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.

BOROUGH OF NEW PHILADELPHIA
SCHUYLKILL 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

The Borough Code, Title 53 P.S § 46316, authorizes the borough 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 institution. Pennsylvania statutes require all deposits to be insured and, for any amount above the insured maximum, to be secured with approved collateral as defined.

BOROUGH OF NEW PHILADELPHIA
SCHUYLKILL COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE PERIOD
JANUARY 1, 2013 TO DECEMBER 31, 2014

2. Deposits (Continued)

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.

Fund Balance

The fund balance as of December 31, 2014 consists of the following:

Cash	\$ 5,303.29
Certificate of deposit	<u>17,832.72</u>
Total	<u>\$23,136.01</u>

3. Interest On Investments

Our examination disclosed that the municipality deposited idle liquid fuels tax money in an interest-bearing account and a certificate of deposit which earned \$99.72 during 2013, and \$75.21 during 2014, 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:

Source	Description	2013	2014
General Fund	Deposit in error (Note 6)	\$41,372.78	\$ -
General Fund	Reimbursement (Summary of prior examination recommendation)	15,000.00	-
General Fund	Reimbursement (Finding No. 3)	<u>-</u>	<u>3,000.00</u>
Total		<u>\$56,372.78</u>	<u>\$3,000.00</u>

BOROUGH OF NEW PHILADELPHIA
SCHUYLKILL COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE PERIOD
JANUARY 1, 2013 TO DECEMBER 31, 2014

5. Miscellaneous Expenditures

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

Payee	Description	2013
General Fund	Correction of deposit in error (Note 6)	\$41,372.78
General Fund	(Finding No. 1)	4,000.00
Total		\$45,372.78

6. Deposit In Error

On May 13, 2013, the municipality deposited \$41,372.78 into its Liquid Fuels Tax Fund in error. On June 4, 2013, the municipality transferred this amount from its Liquid Fuels Tax Fund to its General Fund to correct the deposit in error.

7. Bank Loan

On February 21, 2012, the municipality purchased a Ford F-450 truck for \$62,683.29. The municipality received a Rural Housing Grant of \$32,560.00 for the truck. On July 14, 2011, the municipality borrowed the remaining \$30,123.29 from Union Bank and Trust Company. The term of the loan was for five years at an interest rate 4.5 percent. Principal and interest payments of \$562.56 are due monthly. Prior years' principal and interest payments from the Liquid Fuels Tax Fund were \$4,129.81 and \$933.23, respectively. Additionally, the municipality paid principal of \$3,738.07 and interest of \$762.41 from the General Fund.

During the current examination period, the municipality paid principal of \$11,913.44, interest of \$1,425.44, and late fees of \$56.26 from the Liquid Fuels Tax Fund. These amounts are reflected in major equipment purchases on the 2013 and 2014 Forms MS-965 - Section 1. Additionally, the municipality paid principal of \$482.09 and interest of \$49.65 from the General Fund. The outstanding balance of the loan as of December 31, 2014 was \$9,859.88, plus interest.

BOROUGH OF NEW PHILADELPHIA
SCHUYLKILL COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2013 TO DECEMBER 31, 2014

Finding No. 1 - Failure To Properly Prepare 2013 Form MS-965

Our examination disclosed that there were numerous errors made in the preparation of the municipality's 2013 Form MS-965. These errors resulted in the following adjustments:

2013 Section 1

- An adjustment of \$562.56 was made to "Major equipment purchases" because these expenditures were misclassified as street lighting.
- An adjustment of \$(662.56) was made to "Street Lighting" because major equipment purchases of \$562.56 were misclassified and because check No. 1153 was reported as \$1,104.58 but was issued for \$1,004.58.
- An adjustment of \$4,000.00 was made to "Miscellaneous" because these expenditures were understated.

2013 Section 2

- An adjustments of \$24,253.43 were made to "State allocation" because the 2012 state allocation, which was received during 2013, was misclassified as miscellaneous.
- An adjustment of \$32,119.35 was made to "Miscellaneous" because the 2012 state allocation of \$24,253.41 was misclassified and receipts of \$56,372.78 were not reported.

2013 Section 3

- An adjustment of \$562.56 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.

BOROUGH OF NEW PHILADELPHIA
SCHUYLKILL COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2013 TO DECEMBER 31, 2014

Finding No. 1 - Failure To Properly Prepare 2013 Form MS-965 (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 recommendation.

BOROUGH OF NEW PHILADELPHIA
SCHUYLKILL COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2013 TO DECEMBER 31, 2014

Finding No. 2 - Late Receipt Of 2013 Allocation And Non-Receipt Of Allocation - Recurring

We cited the municipality for receiving its Liquid Fuels Tax Fund allocations late in our last six examinations with the most recent being for the period January 1, 2011 to December 31, 2012. Our current examination disclosed that the 2013 Liquid Fuels Tax Fund allocation of \$23,859.16, which should have been distributed from the Department of Transportation to the municipality during the first week of April of 2013, was not received until September 6, 2013. Additionally, the 2014 Liquid Fuels Tax Fund allocation of \$25,709.72, which should have been distributed from the Department of Transportation to the municipality during the first week of March of 2014, was not received as of the exit conference date of this examination of May 5, 2016. The 2013 allocation was received late and the 2014 allocation was not received 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 2013 allocation for five months and the 2014 allocation for more than two years. Furthermore, had the allocations 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.

BOROUGH OF NEW PHILADELPHIA
SCHUYLKILL COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2013 TO DECEMBER 31, 2014

**Finding No. 2 - Late Receipt Of 2013 Allocation And Non-Receipt Of Allocation - Recurring
(Continued)**

This condition occurred because the municipality failed to comply with our prior examinations' recommendation to comply with the Department of Transportation's *Publication 9* to ensure that the allocations are received timely.

Recommendation

We again recommend that, in the future, the municipality complies with the Department of Transportation's *Publication 9* to ensure that the allocations are received timely.

Management's Response

The secretary stated:

I acknowledge that the Forms MS-965 were filed late but thought that they had to be filed electronically until our Municipal Services Representative told us that it could be manually completed and mailed to the Department of Transportation.

Auditor's Conclusion

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

BOROUGH OF NEW PHILADELPHIA
SCHUYLKILL COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2013 TO DECEMBER 31, 2014

Finding No. 3 - Liquid Fuels Money Deposited Into The General Fund - Recurring

Our examination disclosed that the municipality deposited \$4,000.00 of Liquid Fuels Tax Fund money into the General Fund on November 6, 2013, which is in noncompliance with the Liquid Fuels Tax Municipal Allocation Law.

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.

We further noted that on January 22, 2014, the municipality reimbursed \$3,000.00 to the Liquid Fuels Tax Fund.

The failure to follow the Liquid Fuels Tax Municipal Allocation Law as noted above could result in the municipality having to reimburse \$1,000.00 to its Liquid Fuels Tax Fund.

A similar finding was written in our prior report. However, the municipality did not deposit Liquid Fuels Tax Fund money into other funds during 2014.

Recommendations

We recommend that the municipality reimburse \$1,000.00 to its Liquid Fuels Tax Fund upon official notification by the Department of Transportation.

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

BOROUGH OF NEW PHILADELPHIA
SCHUYLKILL COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2013 TO DECEMBER 31, 2014

**Finding No. 3 - Liquid Fuels Money Deposited Into The General Fund - Recurring
(Continued)**

Auditor's Conclusion

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

BOROUGH OF NEW PHILADELPHIA
SCHUYLKILL COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2013 TO DECEMBER 31, 2014

Finding No. 4 - Failure To File 2014 Form MS-965

Our examination disclosed that the municipality did not file its 2014 Form MS-965 with the Department of Transportation. The Department of Transportation's *Publication 9* requires municipalities to file a Form MS-965 by January 31 each year for the preceding year.

Additionally, a municipality is not eligible to receive its Liquid Fuels Tax Fund allocation until the Form MS-965 for the prior year is filed. Because the borough did not file its 2014 Form MS-965, it has not received its 2015 Liquid Fuels Tax Fund allocation as of May 5, 2016, the exit conference date of this examination.

Recommendations

We recommend that the municipality ensure that its Forms MS-965 are complete and accurate and submitted to the Department of Transportation timely.

We further recommend that the municipality immediately file its 2014 Form MS-965 with the Department of Transportation.

Management's Response

The secretary stated:

I acknowledge that the Forms MS-965 were filed late but thought that they had to be filed electronically until our Municipal Services Representative told us that it could be manually completed and mailed to the Department of Transportation.

Auditor's Conclusion

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

BOROUGH OF NEW PHILADELPHIA
SCHUYLKILL COUNTY
LIQUID FUELS TAX FUND
SUMMARY OF PRIOR EXAMINATION RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2013 TO DECEMBER 31, 2014

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 \$15,000.00 to its Liquid Fuels Tax Fund for liquid fuels money deposited into the Equipment Fund.

During our current examination we reviewed a letter dated June 2, 2014 from the Department of Transportation informing the municipality to reimburse \$15,000.00 to its Liquid Fuels Tax Fund. We noted that the municipality reimbursed this amount to its Liquid Fuels Tax Fund on December 2, 2013.

In our prior report we also recommended that:

- The municipality deposit all liquid fuels tax money promptly into the Liquid Fuels Tax Fund.
- The municipality comply with the Department of Transportation's *Publication 9* to ensure that the allocations are received timely.

During our current examination we noted that the municipality did not comply with our recommendations (see Findings No. 2 and No. 3).

BOROUGH OF NEW PHILADELPHIA
SCHUYLKILL COUNTY
LIQUID FUELS TAX FUND
SUMMARY OF EXIT CONFERENCE
FOR THE PERIOD
JANUARY 1, 2013 TO DECEMBER 31, 2014

An exit conference was held May 5, 2016. Those participating were:

BOROUGH OF NEW PHILADELPHIA

Ms. Elaine L. Dalavet, Secretary

DEPARTMENT OF THE AUDITOR GENERAL

Mr. Brian P. Dries, Auditor

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

BOROUGH OF NEW PHILADELPHIA
SCHUYLKILL 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

Borough of New Philadelphia
Schuylkill County
15 Macomb Street
New Philadelphia, PA 17959

The Honorable Christine Carey
President of Council

Ms. Lisa Schneck
Treasurer

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