

# ATTESTATION ENGAGEMENT

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**Township of Clara**  
**Potter County, Pennsylvania**  
**52-204**  
**Liquid Fuels Tax Fund**  
**For the Period**  
**January 1, 2013 to December 31, 2015**

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June 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 Clara, Potter County, for the period January 1, 2013 to December 31, 2015. 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 Clara, Potter County's Forms MS-965 for the period January 1, 2013 to December 31, 2015 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*.

## Independent Auditor's Report (Continued)

As discussed in Finding No. 1, we were unable to examine the images of the back of the cancelled checks from the township's financial institution because the township failed to obtain them from its financial institution. Consequently we were unable to perform procedures to determine whether disbursements were made in accordance with applicable laws and regulations. Additionally, as discussed in Finding No. 3, the township made payments of \$10,875.15 during 2013 and \$10,890.82 during 2014 on a loan for the purchase of a truck for which bid documents were not maintained.

Although management of the municipality provided us with a management representation letter on the date of our exit conference of March 21, 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 nonpermissible loan payments and the possible effects of the municipality's failure to maintain copies of the backs of cancelled checks and the 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 Township of Clara, Potter County, for the period January 1, 2013 to December 31, 2015, 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.

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 deficiencies below to be material weaknesses:

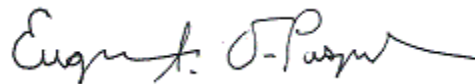
- Electronic Imaging Of Canceled Checks From The Bank Did Not Include The Backs Of The Checks.
  
- One Signature On Liquid Fuels Checks.

As part of obtaining reasonable assurance about whether the Forms MS-965 are free from material misstatement, we performed tests of the Township of Clara, Potter 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*:

- Failure To Maintain Bid Documentation - Recurring.

This report is intended solely for the information and use of the Pennsylvania Department of Transportation and the management of the Township of Clara, Potter 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 Clara, Potter County, to us during the course of our examination. If you have any questions, please feel free to contact Michael B. Kashishian, CPA, CGAP, CFE, Director, Bureau of County Audits, at 717-787-1363.



Eugene A. DePasquale  
Auditor General

March 30, 2016

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TOWNSHIP OF CLARA  
POTTER COUNTY  
LIQUID FUELS TAX FUND  
BACKGROUND  
FOR THE PERIOD  
JANUARY 1, 2013 TO DECEMBER 31, 2015

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 CLARA  
POTTER COUNTY  
LIQUID FUELS TAX FUND  
2013 FORM MS-965 – SECTION 1  
WITH ADJUSTMENTS

| <u>Expenditure Summary</u>                      | <u>Reported</u>         | <u>Adjustments</u> | <u>Adjusted<br/>Amount</u> |
|---|-------------------------|--------------------|----------------------------|
| Major equipment purchases                       | \$ 10,875.15            | \$ -               | \$ 10,875.15               |
| Minor equipment purchases                       | -                       | -                  | -                          |
| Computer/Computer related training              | -                       | -                  | -                          |
| Agility projects                                | -                       | -                  | -                          |
| Cleaning streets and gutters                    | -                       | -                  | -                          |
| Winter maintenance services                     | 13,345.69               | -                  | 13,345.69                  |
| Traffic control devices                         | -                       | -                  | -                          |
| Street lighting                                 | -                       | -                  | -                          |
| Storm sewers and drains                         | -                       | -                  | -                          |
| Repairs of tools and machinery                  | 5,005.71                | -                  | 5,005.71                   |
| Maintenance and repair of<br>roads and bridges  | 24,201.45               | -                  | 24,201.45                  |
| Highway construction and<br>rebuilding projects | -                       | -                  | -                          |
| Miscellaneous (Bank service charges)            | 15.00                   | -                  | 15.00                      |
| <br>Total (To Section 2, Line 5)                | <br><u>\$ 53,443.00</u> | <br><u>\$ -</u>    | <br><u>\$ 53,443.00</u>    |

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

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

| <u>Fund Balance</u>                  | <u>Reported</u>     | <u>Adjustments</u> | <u>Adjusted<br/>Amount</u> |
|--------------------------------------|---------------------|--------------------|----------------------------|
| 1. Balance, January 1, 2013          | \$ 7,381.27         | \$ -               | \$ 7,381.27                |
| Receipts:                            |                     |                    |                            |
| 2. State allocation                  | 25,837.69           | -                  | 25,837.69                  |
| 2a. Turnback allocation              | 30,360.00           | -                  | 30,360.00                  |
| 2b. Interest on investments (Note 3) | 13.31               | -                  | 13.31                      |
| 2c. Miscellaneous                    | -                   | -                  | -                          |
| 3. Total receipts                    | <u>56,211.00</u>    | <u>-</u>           | <u>56,211.00</u>           |
| 4. Total funds available             | <u>63,592.27</u>    | <u>-</u>           | <u>63,592.27</u>           |
| 5. Expenditures (Section 1)          | <u>53,443.00</u>    | <u>-</u>           | <u>53,443.00</u>           |
| 6. Balance, December 31, 2013        | <u>\$ 10,149.27</u> | <u>\$ -</u>        | <u>\$ 10,149.27</u>        |

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



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

| <u>Equipment Balance</u>  | <u>Reported</u> | <u>Adjustments</u> | <u>Adjusted<br/>Amount</u> |
|---|-----------------|--------------------|----------------------------|
| 1. Prior year equipment balance   | \$ 7,381.27     | \$ -               | \$ 7,381.27                |
| 2. Add: Current year equipment allocation<br>(20% of Lines 2 + 2a, Section 2)   | 11,239.54       | -                  | 11,239.54                  |
| 3. PENNDOT approved<br>adjustments  | -               | -                  | -                          |
| 4. Total funds available for<br>equipment acquisition   | 18,620.81       | -                  | 18,620.81                  |
| 5. Less: Major equipment<br>expenditures  | 10,875.15       | -                  | 10,875.15                  |
| 6. Remainder  | 7,745.66        | -                  | 7,745.66                   |
| 7. Equipment balance available<br>for subsequent year (Lesser<br>of Line 6 or Section 2 balance,<br>but not less than zero) | \$ 7,745.66     | \$ -               | \$ 7,745.66                |

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

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

| <u>Expenditure Summary</u>                      | <u>Reported</u>         | <u>Adjustments</u> | <u>Adjusted<br/>Amount</u> |
|---|-------------------------|--------------------|----------------------------|
| Major equipment purchases                       | \$ 10,890.82            | \$ -               | \$ 10,890.82               |
| Minor equipment purchases                       | -                       | -                  | -                          |
| Computer/Computer related training              | -                       | -                  | -                          |
| Agility projects                                | -                       | -                  | -                          |
| Cleaning streets and gutters                    | -                       | -                  | -                          |
| Winter maintenance services                     | 15,237.06               | -                  | 15,237.06                  |
| Traffic control devices                         | -                       | -                  | -                          |
| Street lighting                                 | -                       | -                  | -                          |
| Storm sewers and drains                         | -                       | -                  | -                          |
| Repairs of tools and machinery                  | 6,766.92                | -                  | 6,766.92                   |
| Maintenance and repair of<br>roads and bridges  | 51,971.93               | -                  | 51,971.93                  |
| Highway construction and<br>rebuilding projects | -                       | -                  | -                          |
| Miscellaneous                                   | -                       | -                  | -                          |
| <br>Total (To Section 2, Line 5)                | <br><u>\$ 84,866.73</u> | <br><u>\$ -</u>    | <br><u>\$ 84,866.73</u>    |

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

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

| <u>Fund Balance</u>                  | <u>Reported</u>      | <u>Adjustments</u> | <u>Adjusted<br/>Amount</u> |
|--------------------------------------|----------------------|--------------------|----------------------------|
| 1. Balance, January 1, 2014          | \$ 10,149.27         | \$ -               | \$ 10,149.27               |
| Receipts:                            |                      |                    |                            |
| 2. State allocation                  | 27,159.17            | -                  | 27,159.17                  |
| 2a. Turnback allocation              | 30,360.00            | -                  | 30,360.00                  |
| 2b. Interest on investments (Note 3) | 186.39               | -                  | 186.39                     |
| 2c. Miscellaneous (Note 4)           | 508,646.32           | -                  | 508,646.32                 |
| 3. Total receipts                    | <u>566,351.88</u>    | <u>-</u>           | <u>566,351.88</u>          |
| 4. Total funds available             | <u>576,501.15</u>    | <u>-</u>           | <u>576,501.15</u>          |
| 5. Expenditures (Section 1)          | <u>84,866.73</u>     | <u>-</u>           | <u>84,866.73</u>           |
| 6. Balance, December 31, 2014        | <u>\$ 491,634.42</u> | <u>\$ -</u>        | <u>\$ 491,634.42</u>       |

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

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

| <u>Equipment Balance</u>  | <u>Reported</u>      | <u>Adjustments</u> | <u>Adjusted<br/>Amount</u> |
|---|----------------------|--------------------|----------------------------|
| 1. Prior year equipment balance   | \$ 7,745.66          | \$ -               | \$ 7,745.66                |
| 2. Add: Current year equipment allocation<br>(20% of Lines 2 + 2a, Section 2)   | 11,503.83            | -                  | 11,503.83                  |
| 3. PENNDOT approved<br>adjustments  | <u>95,344.91</u>     | <u>-</u>           | <u>95,344.91</u>           |
| 4. Total funds available for<br>equipment acquisition   | 114,594.40           | -                  | 114,594.40                 |
| 5. Less: Major equipment<br>expenditures  | <u>10,890.82</u>     | <u>-</u>           | <u>10,890.82</u>           |
| 6. Remainder  | <u>103,703.58</u>    | <u>-</u>           | <u>103,703.58</u>          |
| 7. Equipment balance available<br>for subsequent year (Lesser<br>of Line 6 or Section 2 balance,<br>but not less than zero) | <u>\$ 103,703.58</u> | <u>\$ -</u>        | <u>\$ 103,703.58</u>       |

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

TOWNSHIP OF CLARA  
POTTER COUNTY  
LIQUID FUELS TAX FUND  
2015 FORM MS-965 – SECTION 1  
WITH ADJUSTMENTS

| <u>Expenditure Summary</u>                      | <u>Reported</u>          | <u>Adjustments</u> | <u>Adjusted<br/>Amount</u> |
|---|--------------------------|--------------------|----------------------------|
| Major equipment purchases                       | \$ 64,312.00             | \$ -               | \$ 64,312.00               |
| Minor equipment purchases                       | -                        | -                  | -                          |
| Computer/Computer related training              | -                        | -                  | -                          |
| Agility projects                                | -                        | -                  | -                          |
| Cleaning streets and gutters                    | -                        | -                  | -                          |
| Winter maintenance services                     | 4,760.85                 | -                  | 4,760.85                   |
| Traffic control devices                         | 6,400.89                 | -                  | 6,400.89                   |
| Street lighting                                 | -                        | -                  | -                          |
| Storm sewers and drains                         | -                        | -                  | -                          |
| Repairs of tools and machinery                  | 18,593.53                | -                  | 18,593.53                  |
| Maintenance and repair of<br>roads and bridges  | 25,193.96                | -                  | 25,193.96                  |
| Highway construction and<br>rebuilding projects | -                        | -                  | -                          |
| Miscellaneous                                   | -                        | -                  | -                          |
| <br>Total (To Section 2, Line 5)                | <br><u>\$ 119,261.23</u> | <br><u>\$ -</u>    | <br><u>\$ 119,261.23</u>   |

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

TOWNSHIP OF CLARA  
POTTER COUNTY  
LIQUID FUELS TAX FUND  
2015 FORM MS-965 – SECTION 2  
WITH ADJUSTMENTS

| <u>Fund Balance</u>                  | <u>Reported</u>      | <u>Adjustments</u> | <u>Adjusted<br/>Amount</u> |
|--------------------------------------|----------------------|--------------------|----------------------------|
| 1. Balance, January 1, 2015          | \$ 491,634.42        | \$ -               | \$ 491,634.42              |
| Receipts:                            |                      |                    |                            |
| 2. State allocation                  | 30,625.29            | -                  | 30,625.29                  |
| 2a. Turnback allocation              | 30,360.00            | -                  | 30,360.00                  |
| 2b. Interest on investments (Note 3) | 518.88               | -                  | 518.88                     |
| 2c. Miscellaneous                    | -                    | -                  | -                          |
| 3. Total receipts                    | <u>61,504.17</u>     | <u>-</u>           | <u>61,504.17</u>           |
| 4. Total funds available             | <u>553,138.59</u>    | <u>-</u>           | <u>553,138.59</u>          |
| 5. Expenditures (Section 1)          | <u>119,261.23</u>    | <u>-</u>           | <u>119,261.23</u>          |
| 6. Balance, December 31, 2015        | <u>\$ 433,877.36</u> | <u>\$ -</u>        | <u>\$ 433,877.36</u>       |

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

TOWNSHIP OF CLARA  
POTTER COUNTY  
LIQUID FUELS TAX FUND  
2015 FORM MS-965 – SECTION 3  
WITH ADJUSTMENTS

| <u>Equipment Balance</u>  | <u>Reported</u>     | <u>Adjustments</u> | <u>Adjusted<br/>Amount</u> |
|---|---------------------|--------------------|----------------------------|
| 1. Prior year equipment balance   | \$ 103,703.58       | \$ -               | \$ 103,703.58              |
| 2. Add: Current year equipment allocation<br>(20% of Lines 2 + 2a, Section 2)   | 12,197.06           | -                  | 12,197.06                  |
| 3. PENNDOT approved<br>adjustments  | -                   | -                  | -                          |
| 4. Total funds available for<br>equipment acquisition   | 115,900.64          | -                  | 115,900.64                 |
| 5. Less: Major equipment<br>expenditures  | 64,312.00           | -                  | 64,312.00                  |
| 6. Remainder  | <u>51,588.64</u>    | <u>-</u>           | <u>51,588.64</u>           |
| 7. Equipment balance available<br>for subsequent year (Lesser<br>of Line 6 or Section 2 balance,<br>but not less than zero) | <u>\$ 51,588.64</u> | <u>\$ -</u>        | <u>\$ 51,588.64</u>        |

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

TOWNSHIP OF CLARA  
 POTTER COUNTY  
 LIQUID FUELS TAX FUND  
 NOTES TO FORMS MS-965 WITH ADJUSTMENTS  
 FOR THE PERIOD  
 JANUARY 1, 2013 TO DECEMBER 31, 2015

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:

| 2012        | 2013        | 2014        | 2015        |
|-------------|-------------|-------------|-------------|
| \$10,000.00 | \$10,200.00 | \$10,300.00 | \$10,500.00 |

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

| 2012        | 2013        | 2014        | 2015        |
|-------------|-------------|-------------|-------------|
| \$10,000.00 | \$10,200.00 | \$10,300.00 | \$10,500.00 |

- 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 CLARA  
POTTER COUNTY  
LIQUID FUELS TAX FUND  
NOTES TO FORMS MS-965 WITH ADJUSTMENTS  
FOR THE PERIOD  
JANUARY 1, 2013 TO DECEMBER 31, 2015

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 CLARA  
POTTER COUNTY  
LIQUID FUELS TAX FUND  
NOTES TO FORMS MS-965 WITH ADJUSTMENTS  
FOR THE PERIOD  
JANUARY 1, 2013 TO DECEMBER 31, 2015

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 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.

TOWNSHIP OF CLARA  
 POTTER COUNTY  
 LIQUID FUELS TAX FUND  
 NOTES TO FORMS MS-965 WITH ADJUSTMENTS  
 FOR THE PERIOD  
 JANUARY 1, 2013 TO DECEMBER 31, 2015

2. Deposits (Continued)

There were no deposits exposed to custodial credit risk as of December 31, 2015. 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, 2015 consists of the following:

|      |                     |
|------|---------------------|
| Cash | <u>\$433,877.36</u> |
|------|---------------------|

3. Interest On Investments

Our examination disclosed that the municipality deposited idle liquid fuels tax money in an interest-bearing account which earned \$13.31 during 2013, \$186.39 during 2014, and \$518.88 during 2015, 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  | 2014                |
|------------------|--|---------------------|
| General Fund     | Reimbursement (Summary Of Prior Examination Recommendations) | \$ 31,921.78        |
| Turnback Account | Unexpended balance   | <u>476,724.54</u>   |
| Total            |  | <u>\$508,646.32</u> |

TOWNSHIP OF CLARA  
POTTER COUNTY  
LIQUID FUELS TAX FUND  
NOTES TO FORMS MS-965 WITH ADJUSTMENTS  
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5. Bank Loan

On May 24, 2011, the municipality purchased a backhoe for \$39,500.00. The municipality made a down payment of \$9,500.00 from the General Fund and borrowed the remaining \$30,000.00 from Northwest Savings Bank. The term of the loan was for three years at an interest rate of 4.25 percent. Principal and interest payments of \$10,875.15 are due annually. Prior years' principal and interest payments from the Liquid Fuels Tax Fund were \$9,582.41 and \$1,292.74, respectively.

During the current examination period, the municipality paid principal of \$20,417.59 and interest of \$1,348.38 from the Liquid Fuels Tax Fund. These amounts are reflected in major equipment purchases on the 2013 and 2014 Forms MS-965 - Section 1. Because the municipality failed to maintain bid documentation in the prior examination period, payments were not eligible to be made from the Liquid Fuels Tax Fund (see Finding No. 3). The loan was paid-in-full on March 14, 2014.

TOWNSHIP OF CLARA  
POTTER COUNTY  
LIQUID FUELS TAX FUND  
FINDINGS AND RECOMMENDATIONS  
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**Finding No. 1 - Electronic Imaging Of Canceled Checks From The Bank Did Not Include The Back Of The Checks**

Our examination disclosed that the imaging of canceled checks from the bank for the Liquid Fuels Tax Fund account was not acceptable because the bank provides only an image of the front side of the canceled checks. For us to properly complete our examination testing, we have to examine the front and back of the canceled checks. Because the test of disbursements was limited, we had to qualify our opinion as stated in the Independent Auditor's Report.

Good internal controls and the Commonwealth of Pennsylvania Management Directive 210.11, dated June 16, 1997, require that imaging systems comply with the provisions of the Internal Revenue Service (IRS) procedures for record keeping with electronic imaging. To be acceptable, the documents provided by the system must meet IRS procedures governing size, content, format, and pattern. Those procedures require that all images produced by the imaging system exhibit a high degree of legibility and readability when displayed on paper. Legibility includes the ability to identify all letters and numerals positively and quickly. Readability includes the ability to recognize a group of letters or numerals as words or completed numbers. Imaged documents must include the front and back of a document in which both the front and back are used.

Further, good internal controls ensure that by having a municipal official review the front and back of the canceled checks, any errors or misappropriations can be detected on a timely basis.

Without this control, the potential exists for errors or misappropriations to go undetected for long periods of time.

**Recommendations**

We recommend that the municipal officials obtain images of the front and back of canceled checks in accordance with Directive 210.11. Additionally, municipal officials should review the front and back of each canceled check for any errors or misappropriations.

**Management's Response**

The municipal officials stated:

They are starting to print the backs of the checks.

**Auditor's Conclusion**

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

TOWNSHIP OF CLARA  
POTTER COUNTY  
LIQUID FUELS TAX FUND  
FINDINGS AND RECOMMENDATIONS  
FOR THE PERIOD  
JANUARY 1, 2013 TO DECEMBER 31, 2015

**Finding No. 2 - One Signature On Liquid Fuels Tax Fund Checks**

Our examination disclosed that only one signature was required to authorize checks drawn on the Liquid Fuels Tax Fund. When only one signature is required there is a significant risk of unauthorized disbursements, errors, or misappropriations occurring and remaining undetected. To decrease this risk, good internal controls require that at least two authorized signatures be required to authorize checks drawn on the Liquid Fuels Tax Fund.

Recommendation

We recommend that the municipality improve internal control procedures over disbursements by requiring at least two signatures on all disbursements from the Liquid Fuels Tax Fund account.

Management's Response

The municipal officials stated:

We will begin to require two signatures on checks.

Auditor's Conclusion

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

TOWNSHIP OF CLARA  
POTTER COUNTY  
LIQUID FUELS TAX FUND  
FINDINGS AND RECOMMENDATIONS  
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**Finding No. 3 - Failure To Maintain Bid Documentation - Recurring**

Our examination disclosed that the township purchased a used backhoe during 2011 for \$39,500.00 (see Note 5). The township borrowed \$30,000.00 to finance the purchase and a principal and interest payment of \$10,875.15 was made from the Liquid Fuels Tax Fund during 2012. During our current examination period, principal and interest payments of \$10,875.15 during 2013 and \$10,890.82 during 2014 were made from the Liquid Fuels Tax Fund. The municipality held a special meeting during the prior examination period to open bids for a backhoe. However, the municipality did not maintain minutes for that meeting and only documentation for the accepted bid was maintained by the municipality.

Because the township failed to maintain bid documentation, we were unable to determine if the purchase of the backhoe in 2011 and all loan payments were made in compliance with the advertising, bidding, and contract requirements of *The Second Class Township Code*, 53 P.S. § 68102(a), (also found at § 3102(a) of *The Second Class Township Code* as published by the Local Government Commission), which requires that purchases over \$10,000.00 during 2011 must be advertised, bid, and awarded by contract. The bidding threshold increased to purchases over \$18,500.00 for 2012, \$18,900.00 for 2013, \$19,100.00 for 2014, and \$19,400.00 for 2015 and 2016. *The Second Class Township Code*, 53 P.S. § 68104(a), (also found at § 3104(a) of *The Second Class Township Code* as published by the Local Government Commission) further states that advertising, bidding and contract requirements should not be evaded through piecemeal purchases.

The failure to comply with *The Second Class Township Code* could result in the municipality having to reimburse \$21,765.97 to its Liquid Fuels Tax Fund.

A similar finding was written in our prior report. However, the municipality maintained bid documents during 2015.

**Recommendations**

We recommend that the municipality reimburse \$21,765.97 to its Liquid Fuels Tax Fund upon official notification by the Department of Transportation.

We further recommend that, in the future, the municipality continue to comply with *The Second Class Township Code* as noted in this finding.

TOWNSHIP OF CLARA  
POTTER COUNTY  
LIQUID FUELS TAX FUND  
FINDINGS AND RECOMMENDATIONS  
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**Finding No. 3 - Failure To Maintain Bid Documentation - Recurring (Continued)**

Management's Response

The municipal officials stated:

We will keep all bid documents from now on.

Auditor's Conclusion

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



TOWNSHIP OF CLARA  
POTTER COUNTY  
LIQUID FUELS TAX FUND  
SUMMARY OF PRIOR EXAMINATION RECOMMENDATIONS  
FOR THE PERIOD  
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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 \$31,921.78 to its Liquid Fuels Tax Fund for failure to maintain bid documentation for the purchase of stone and a backhoe.

During our current examination we reviewed a letter dated April 24, 2014, from the Department of Transportation informing the municipality to reimburse \$31,921.78 to its Liquid Fuels Tax Fund. We noted that the municipality reimbursed this amount to its Liquid Fuels Tax Fund on September 3, 2014.

In our prior report we also recommended that the municipality maintain bid documentation for all items that are bid, including accepted and rejected bids, as well as entering all bids in the minutes of the township supervisor's meetings.

During our current examination we noted that the municipality complied with our recommendation during 2015 (see Finding No. 3).

TOWNSHIP OF CLARA  
POTTER COUNTY  
LIQUID FUELS TAX FUND  
SUMMARY OF EXIT CONFERENCE  
FOR THE PERIOD  
JANUARY 1, 2013 TO DECEMBER 31, 2015

An exit conference was held March 21, 2016. Those participating were:

TOWNSHIP OF CLARA

The Honorable Randy Pesock, Supervisor/Treasurer

DEPARTMENT OF THE AUDITOR GENERAL

Mr. Christopher Heglen, Auditor

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

TOWNSHIP OF CLARA  
POTTER COUNTY  
LIQUID FUELS TAX FUND  
REPORT DISTRIBUTION  
FOR THE PERIOD  
JANUARY 1, 2013 TO DECEMBER 31, 2015

This report was initially distributed to:

**The Honorable Leslie Richards**  
Secretary  
Department of Transportation

**Township of Clara**  
Potter County  
566 Clara Road  
Shinglehouse, PA 16748

**The Honorable Richard Bryant**  
Chairman of the Board of Supervisors

**The Honorable Randy Pesock**  
Supervisor/Treasurer

**Ms. Bobbi J. Cornelius**  
Secretary

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