

ATTESTATION ENGAGEMENT

Township of Connellsville

Fayette County, Pennsylvania

26-203

Liquid Fuels Tax Fund

For the Period

January 1, 2015 to December 31, 2016

October 2017



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



Commonwealth of Pennsylvania
Department of the Auditor General
Harrisburg, PA 17120-0018
Facebook: Pennsylvania Auditor General
Twitter: @PAAuditorGen
www.PaAuditor.gov

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 Connellsville, Fayette County, for the period January 1, 2015 to December 31, 2016. The municipality's management is responsible for presenting the Forms MS-965 in accordance with the criteria set forth in Note 1. 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. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether the Forms MS-965 are in accordance with the criteria, in all material respects. An examination involves performing procedures to obtain evidence about the Forms MS-965. The nature, timing and extent of the procedures selected depend on our judgment, including an assessment of the risks of material misstatement of the Forms MS-965, whether due to fraud or error. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

We are mandated by Section 403 of *The Fiscal Code*, 72 P.S. § 403, to audit each municipality's Liquid Fuels Tax Fund to ensure that funds received are expended in accordance with applicable laws and regulations. *Government Auditing Standards* issued by the Comptroller General of the United States include attestation engagements as a separate type of audit. An attestation engagement performed pursuant to *Government Auditing Standards* involves additional standards that exceed the standards provided by the American Institute of Certified Public Accountants. Accordingly, this attestation engagement complies with both *Government Auditing Standards* and Section 403 of *The Fiscal Code*.

As described in Note 4, the adjustments included on the Forms MS-965 With Adjustments are made by the Department of the Auditor General.

Independent Auditor's Report (Continued)

As discussed in the Findings and Recommendations section of this report:

- The township expended \$15,006.30 during 2015 and \$22,344.13 during 2016 from its Liquid Fuels Tax Fund without maintaining documentation to support expenditures (see Finding No 1).
- The township expended \$18,910.80 during 2015 for asphalt. However, documentation for price quotations was not available for examination (see Finding No. 2).
- The township expended \$18,173.00 during 2016 from the Liquid Fuels Tax Fund for audit and accounting services and engineering fees for non-liquid fuels purposes, which are nonpermissible expenditures (see Finding No. 3).

Although management of the municipality provided us with a management representation letter on the date of our exit conference of July 31, 2017, 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 effects of the bulleted matters discussed above 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 Township of Connellsville, Fayette County, for the period January 1, 2015 to December 31, 2016, in accordance 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 deficiency below to be a material weakness:

- Documentation Supporting Expenditures Was Not Available For Examination.

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

- Documentation For Price Quotations Was Not Available For Examination.
- Nonpermissible Expenditures.

The purpose of this report is to determine whether the municipality's Liquid Fuels Tax Fund money is spent in accordance with the laws and regulations identified in the Background section of this report and the Department of Transportation's *Publication 9*. This report is not suitable for any other purpose.

We appreciate the courtesy extended by the Township of Connellsville, Fayette 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

September 14, 2017

CONTENTS

	<u>Page</u>
Background	1
Financial Section:	
2015 Form MS-965 With Adjustments	3
2016 Form MS-965 With Adjustments	6
Notes To Forms MS-965 With Adjustments.....	9
Findings And Recommendations:	
Finding No. 1 - Documentation Supporting Expenditures Was Not Available For Examination.....	16
Finding No. 2- Documentation For Price Quotations Was Not Available For Examination.....	18
Finding No. 3 - Nonpermissible Expenditures	20
Summary Of Exit Conference.....	22
Report Distribution	23

TOWNSHIP OF CONNELLSVILLE
FAYETTE COUNTY
LIQUID FUELS TAX FUND
BACKGROUND
FOR THE PERIOD
JANUARY 1, 2015 TO DECEMBER 31, 2016

Background

The Liquid Fuels Tax Municipal Allocation Law, Act 655 of 1956, as amended, (72 P.S. § 2615.5 et seq.), 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 allocation of Liquid Fuels Tax funds and annual maintenance payments that it receives into a special fund called either 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 such a 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. Department of Transportation's *Publication 9* includes the policies and procedures for the administration of Act 655, as amended, and the Liquid Fuels Tax Fund money. However, if there is a difference between *Publication 9* and any legislation, the legislation shall govern.

To qualify for the annual allocation of Liquid Fuels Tax funds, *Publication 9* indicates that each municipality shall:

1. Submit annual reports (MS-965, Actual Use Report, MS-965P, Project and Miscellaneous Receipts, and MS-965S, Record of Checks).
2. Make deposits and payments or expenditures in compliance with Act 655 of 1956, as amended. Failure to do so may result in not receiving allocations from PennDOT until all discrepancies are resolved. *Publication 9*, Section 2.6, includes information about investing Liquid Fuels Tax monies, using loan or bond proceeds, and types of receipts into the Liquid Fuels Tax Fund.

TOWNSHIP OF CONNELLSVILLE
FAYETTE COUNTY
LIQUID FUELS TAX FUND
BACKGROUND
FOR THE PERIOD
JANUARY 1, 2015 TO DECEMBER 31, 2016

Background (Continued)

3. 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.
4. Ensure resolution of all Contractor Responsibility Program (CRP) holds and blocks imposed by the Department of Revenue and the Department of Labor and Industry.
5. Ensure resolution of all reimbursements required as a result of audits performed by the Department of the Auditor General or monitoring reviews performed by the Department of Transportation's Financial Consultants.

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

<u>Expenditure Summary</u>	<u>Reported</u>	<u>Adjustments (Note 4)</u>	<u>Adjusted Amount</u>
Major equipment purchases	\$ 15,478.54	\$ -	\$ 15,478.54
Minor equipment purchases	8,360.00	(775.00)	7,585.00
Computer/Computer related training	-	-	-
Agility projects	-	-	-
Cleaning streets and gutters	-	-	-
Winter maintenance services	11,543.78	-	11,543.78
Traffic control devices	495.33	-	495.33
Street lighting	-	-	-
Storm sewers and drains	1,868.00	-	1,868.00
Repairs of tools and machinery	8,780.15	(4,440.95)	4,339.20
Maintenance and repair of roads and bridges	33,483.66	(9,205.35)	24,278.31
Highway construction and rebuilding projects	-	-	-
Miscellaneous	585.00	14,421.30	15,006.30
 Total (To Section 2, Line 5)	 <u>\$ 80,594.46</u>	 <u>\$ -</u>	 <u>\$ 80,594.46</u>

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

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

<u>Fund Balance</u>	<u>Reported</u>	<u>Adjustments (Note 4)</u>	<u>Adjusted Amount</u>
1. Balance, January 1, 2015	\$ 2,478.22	\$ 799.37	\$ 3,277.59
Receipts:			
2. State allocation	86,308.62	(.80)	86,307.82
2a. Turnback allocation	-	-	-
2b. Interest on investments (Note 3)	10.45	-	10.45
2c. Miscellaneous	-	-	-
3. Total receipts	<u>86,319.07</u>	<u>(.80)</u>	<u>86,318.27</u>
4. Total funds available	<u>88,797.29</u>	<u>798.57</u>	<u>89,595.86</u>
5. Expenditures (Section 1)	<u>80,594.46</u>	<u>-</u>	<u>80,594.46</u>
6. Balance, December 31, 2015	<u>\$ 8,202.83</u>	<u>\$ 798.57</u>	<u>\$ 9,001.40</u>

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

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

<u>Equipment Balance</u>	<u>Reported</u>	<u>Adjustments (Note 4)</u>	<u>Adjusted Amount</u>
1. Prior year equipment balance	\$ 2,478.22	\$ 799.37	\$ 3,277.59
2. Add: Current year equipment allocation (20% of Lines 2 + 2a, Section 2)	17,261.72	(.16)	17,261.56
3. PENNDOT approved adjustments	-	-	-
4. Total funds available for equipment acquisition	19,739.94	799.21	20,539.15
5. Less: Major equipment expenditures	15,478.54	-	15,478.54
6. Remainder	<u>4,261.40</u>	<u>799.21</u>	<u>5,060.61</u>
7. Equipment balance available for subsequent year (Lesser of Line 6 or Section 2 balance, but not less than zero)	<u>\$ 4,261.40</u>	<u>\$ 799.21</u>	<u>\$ 5,060.61</u>

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

TOWNSHIP OF CONNELLSVILLE
 FAYETTE COUNTY
 LIQUID FUELS TAX FUND
 2016 FORM MS-965 – SECTION 1
 WITH ADJUSTMENTS

<u>Expenditure Summary</u>	<u>Reported</u>	<u>Adjustments (Note 4)</u>	<u>Adjusted Amount</u>
Major equipment purchases	\$ 21,087.00	\$ -	\$ 21,087.00
Minor equipment purchases	3,354.05	(2,097.15)	1,256.90
Computer/Computer related training	-	-	-
Agility projects	-	-	-
Cleaning streets and gutters	-	-	-
Winter maintenance services	10,936.85	-	10,936.85
Traffic control devices	-	-	-
Street lighting	-	-	-
Storm sewers and drains	3,000.00	3,190.10	6,190.10
Repairs of tools and machinery	11,063.03	(54.84)	11,008.19
Maintenance and repair of roads and bridges	5,316.23	-	5,316.23
Highway construction and rebuilding projects	-	-	-
Miscellaneous (Note 5)	42,202.92	(1,685.79)	40,517.13
 Total (To Section 2, Line 5)	 <u>\$ 96,960.08</u>	 <u>\$ (647.68)</u>	 <u>\$ 96,312.40</u>

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

TOWNSHIP OF CONNELLSVILLE
 FAYETTE COUNTY
 LIQUID FUELS TAX FUND
 2016 FORM MS-965 – SECTION 2
 WITH ADJUSTMENTS

<u>Fund Balance</u>	<u>Reported</u>	<u>Adjustments (Note 4)</u>	<u>Adjusted Amount</u>
1. Balance, January 1, 2016	\$ 9,002.20	\$ (.80)	\$ 9,001.40
Receipts:			
2. State allocation	100,753.11	-	100,753.11
2a. Turnback allocation	-	-	-
2b. Interest on investments (Note 3)	78.51	-	78.51
2c. Miscellaneous	-	-	-
3. Total receipts	<u>100,831.62</u>	<u>-</u>	<u>100,831.62</u>
4. Total funds available	<u>109,833.82</u>	<u>(.80)</u>	<u>109,833.02</u>
5. Expenditures (Section 1)	<u>96,960.08</u>	<u>(647.68)</u>	<u>96,312.40</u>
6. Balance, December 31, 2016	<u>\$ 12,873.74</u>	<u>\$ 646.88</u>	<u>\$ 13,520.62</u>

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

TOWNSHIP OF CONNELLSVILLE
 FAYETTE COUNTY
 LIQUID FUELS TAX FUND
 2016 FORM MS-965 – SECTION 3
 WITH ADJUSTMENTS

<u>Equipment Balance</u>	<u>Reported</u>	<u>Adjustments (Note 4)</u>	<u>Adjusted Amount</u>
1. Prior year equipment balance	\$ 5,060.77	\$ (.16)	\$ 5,060.61
2. Add: Current year equipment allocation (20% of Lines 2 + 2a, Section 2)	20,150.62	-	20,150.62
3. PENNDOT approved adjustments	-	-	-
4. Total funds available for equipment acquisition	25,211.39	(.16)	25,211.23
5. Less: Major equipment expenditures	21,087.00	-	21,087.00
6. Remainder	<u>4,124.39</u>	<u>(.16)</u>	<u>4,124.23</u>
7. Equipment balance available for subsequent year (Lesser of Line 6 or Section 2 balance, but not less than zero)	<u>\$ 4,124.39</u>	<u>\$ (.16)</u>	<u>\$ 4,124.23</u>

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

TOWNSHIP OF CONNELLSVILLE
 FAYETTE COUNTY
 LIQUID FUELS TAX FUND
 NOTES TO FORMS MS-965 WITH ADJUSTMENTS
 FOR THE PERIOD
 JANUARY 1, 2015 TO DECEMBER 31, 2016

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	2015/2016
\$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	2015/2016
\$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 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 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 CONNELLSVILLE
FAYETTE COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE PERIOD
JANUARY 1, 2015 TO DECEMBER 31, 2016

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 CONNELLSVILLE
FAYETTE COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE PERIOD
JANUARY 1, 2015 TO DECEMBER 31, 2016

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 CONNELLSVILLE
FAYETTE COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE PERIOD
JANUARY 1, 2015 TO DECEMBER 31, 2016

2. Deposits (Continued)

There were no deposits exposed to custodial credit risk as of December 31, 2016. Custodial credit risk, as defined by GASB No. 40, as amended, 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, 2016, consists of the following

Cash	<u>\$13,520.62</u>
------	--------------------

3. Interest On Investments

Our examination disclosed that the municipality deposited idle liquid fuels tax money in an interest-bearing account which earned \$10.45 during 2015, and \$78.51 during 2016, thus providing additional funds for road maintenance and repairs.

4. Adjustments

2015 - Section 1

Adjustments were made to "Minor equipment purchases," "Repairs of tools and machinery," "Maintenance and repair of roads and bridges," and "Miscellaneous" because expenditures of \$14,421.30 were misclassified.

2015 - Section 2

An adjustment of \$799.37 was made to "Balance, January 1, 2015" because an incorrect fund balance was reported.

An adjustment of \$(.80) was made to "State allocation" because this receipt was overstated.

TOWNSHIP OF CONNELLSVILLE
FAYETTE COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE PERIOD
JANUARY 1, 2015 TO DECEMBER 31, 2016

4. Adjustments (Continued)

2015 - Section 3

An adjustment of \$799.37 was made to “Prior year equipment balance” because an incorrect equipment balance was carried forward.

An adjustment of \$(.16) was made to “Current year equipment allocation” because the state allocation of \$86,307.82 from 2015 - Section 2, which is used to calculate this figure, was overstated.

2016 - Section 1

An adjustment of \$(2,097.15) was made to “Minor equipment purchases” because these expenditures were overstated.

An adjustment of \$3,190.10 was made to “Storm sewers and drains” because these expenditures were understated.

An adjustment of \$(54.84) was made to “Repairs of tools and machinery” because check No. 915 was voided but was included as an expenditure.

An adjustment of \$(1,685.89) was made to “Miscellaneous” because these expenditures were overstated.

2016 - Section 2

An adjustment of \$(.80) was made to “Balance, January 1, 2016” because the beginning balance was overstated.

2016 - Section 3

An adjustment of \$(.16) was made to “Prior year equipment balance” because the beginning balance was overstated.

TOWNSHIP OF CONNELLSVILLE
 FAYETTE COUNTY
 LIQUID FUELS TAX FUND
 NOTES TO FORMS MS-965 WITH ADJUSTMENTS
 FOR THE PERIOD
 JANUARY 1, 2015 TO DECEMBER 31, 2016

5. Miscellaneous Expenditures

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

Payee	Description	2015	2016
Various vendors	Unknown (Finding No.1)	\$15,006.30	\$22,344.13
Vendor	Accounting and auditing services (Finding No. 3)	-	13,373.00
Vendor	Engineering fees for non-liquid fuels purposes (Finding No. 3)	-	4,800.00
	Total	<u>\$15,006.30</u>	<u>\$40,517.13</u>

6. Lease Purchase Agreement

On March 5, 2014, the municipality entered into a lease-purchase agreement with F.N.B. Commercial Leasing to purchase a 2014 dump truck with plow and spreader for \$71,664.00. The agreement was for a term of five years at an interest rate of 3.77 percent. Principal and interest payments of \$15,478.54 are due annually. Prior years' principal and interest payments from the Liquid Fuels Tax Fund were \$14,140.35 and \$1,838.19, respectively.

During the current examination period, the municipality paid principal of \$27,921.09, interest of \$3,035.99, and late fees of \$3,095.70, from the Liquid Fuels Tax Fund. These amounts are reflected in major equipment purchases on the 2015 and 2016 Forms MS-965 - Section 1. The outstanding balance of the loan as of December 31, 2016 was \$29,602.56, plus interest.

TOWNSHIP OF CONNELLSVILLE
FAYETTE COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE PERIOD
JANUARY 1, 2015 TO DECEMBER 31, 2016

7. Bank Loan

On December 15, 2014, the municipality borrowed \$63,575.00 from Somerset Trust Company to purchase a 2015 Ford F550 dump truck with body and plow. The term of the loan was for five years at an interest rate of 2.95 percent. Principal and interest payments of \$1,142.16 are due monthly.

During the current examination period, the municipality paid principal of \$2,171.20, interest of \$227.34, and late fees of \$114.22, from the Liquid Fuels Tax Fund. These amounts are reflected in major equipment purchases on the 2016 Form MS-965 - Section 1. Additionally, the municipality paid principal of \$26,449.72, interest of \$2,748.38, and late fees of \$1,027.98, from the General Fund. The outstanding balance of the loan as of December 31, 2016 was \$34,954.08, plus interest.

TOWNSHIP OF CONNELLSVILLE
FAYETTE COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2015 TO DECEMBER 31, 2016

Finding No. 1 - Documentation Supporting Expenditures Was Not Available For Examination

Our examination disclosed that the municipality did not maintain documentation, such as invoices or payroll records, to support expenditures of \$15,006.30 during 2015 and \$22,344.13 during 2016.

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

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 expenditures 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 expenditures made without supporting documentation, are outside the scope of permissible expenditures.

Without adequate documentation, we could not determine if the expenditures 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 expenditures could result in the municipality having to reimburse \$37,350.43 to its Liquid Fuels Tax Fund.

Recommendations

We recommend that the municipality reimburse \$37,350.43 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 expenditures by maintaining adequate documentation to support all expenditures.

TOWNSHIP OF CONNELLSVILLE
FAYETTE COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2015 TO DECEMBER 31, 2016

Finding No. 1 - Documentation Supporting Expenditures Was 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 CONNELLSVILLE
 FAYETTE COUNTY
 LIQUID FUELS TAX FUND
 FINDINGS AND RECOMMENDATIONS
 FOR THE PERIOD
 JANUARY 1, 2015 TO DECEMBER 31, 2016

Finding No. 2 - Documentation For Price Quotations Was Not Available For Examination

Our examination disclosed that the township expended \$18,910.80 during 2015 from the Liquid Fuels Tax Fund for the purchase of antiskid. The township was required to obtain three written or telephonic price quotations for these expenditures. However, documentation for price quotations was not available for examination. The antiskid purchases were as follows:

<u>Invoice Number</u>	<u>Invoice Date</u>	<u>Check Number</u>	<u>Check Date</u>	<u>Amount</u>
2792008	08-26-15	862	09-24-15	\$11,466.00
2793192	08-27-15	862	09-24-15	4,081.20
2798198	09-03-15	874	11-12-15	3,363.60
Total				\$18,910.80

The above expenditures were not made in compliance with the contract requirements of *The Second Class Township Code*, 53 P.S. § 68102(b), (also found at § 3102(b) of *The Second Class Township Code* as published by the Local Government Commission), which states, in part:

Written or telephonic price quotations from at least three qualified and responsible contractors shall be requested for all contracts [during 2012] that exceed ten thousand dollars (\$10,000.00) but are less than the amount [in excess of \$18,500.00] requiring advertisement and competitive bidding or, in lieu of price quotations, a memorandum shall be kept on file showing that fewer than three qualified contractors exist in the market area within which it is practicable to obtain quotations. A written record of telephonic price quotations shall be made and shall contain at least the date of the quotation, the name of the contractor and the contractor's representative, the construction, reconstruction, repair, maintenance or work which was the subject of the quotation and the price. Written price quotations, written records of telephonic price quotations and memoranda shall be retained for a period of three years.

The thresholds for obtaining price quotations increased to purchases between \$10,500.00 and \$19,400.00 for 2015 and 2016.

The failure to comply with *The Second Class Township Code* could result in the township having to reimburse \$18,910.80 to its Liquid Fuels Tax Fund.

TOWNSHIP OF CONNELLSVILLE
FAYETTE COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2015 TO DECEMBER 31, 2016

Finding No. 2 - Documentation For Price Quotations Was Not Available For Examination
(Continued)

Recommendations

We recommend that the township reimburse \$18,910.80 to its Liquid Fuels Tax Fund upon official notification by the Department of Transportation.

We further recommend that, in the future, the township complies with *The Second Class Township Code* as noted in this finding.

Management's Response

The township 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 CONNELLSVILLE
 FAYETTE COUNTY
 LIQUID FUELS TAX FUND
 FINDINGS AND RECOMMENDATIONS
 FOR THE PERIOD
 JANUARY 1, 2015 TO DECEMBER 31, 2016

Finding No. 3 - Nonpermissible Expenditures

Our examination disclosed that the municipality expended \$18,173.00 during 2016 from the Liquid Fuels Tax Fund for the following nonpermissible items:

<u>Description</u>	<u>Amount</u>
Audit and accounting services (not liquid fuels)	\$13,373.00
Engineering fees for non-liquid fuel purposes	4,800.00
	<hr/>
2016 Total	<u><u>\$18,173.00</u></u>

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 expenditures 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 non-liquid fuels accounting and auditing services and engineering fees for non-liquid fuel purposes, are outside the scope of permissible expenditures.

The failure to follow the Liquid Fuels Tax Municipal Allocation Law and the Department of Transportation's Regulations as noted above could result in the municipality having to reimburse \$18,173.00 to its Liquid Fuels Tax Fund.

Recommendations

We recommend that the municipality reimburse \$18,173.00 to its Liquid Fuels Tax Fund upon official notification by the Department of Transportation.

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

TOWNSHIP OF CONNELLSVILLE
FAYETTE COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2015 TO DECEMBER 31, 2016

Finding No. 3 - Nonpermissible Expenditures (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 CONNELLSVILLE
FAYETTE COUNTY
LIQUID FUELS TAX FUND
SUMMARY OF EXIT CONFERENCE
FOR THE PERIOD
JANUARY 1, 2015 TO DECEMBER 31, 2016

An exit conference was held July 31, 2017. Those participating were:

TOWNSHIP OF CONNELLSVILLE

Ms. Darla S. Hann, Secretary

DEPARTMENT OF THE AUDITOR GENERAL

Mrs. Michele Simpson, Auditor

Brian Delaney, CFE, Audit Supervisor

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

TOWNSHIP OF CONNELLSVILLE
FAYETTE COUNTY
LIQUID FUELS TAX FUND
REPORT DISTRIBUTION
FOR THE PERIOD
JANUARY 1, 2015 TO DECEMBER 31, 2016

This report was initially distributed to:

The Honorable Leslie Richards
Secretary
Department of Transportation

Township of Connellsville
Fayette County
166 McCoy Hollow Road
Connellsville, PA 15425

Mr. Thomas Cesario
Chairman of the Board of Supervisors

Ms. Darla S. Hann
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.