

ATTESTATION ENGAGEMENT

Township of Graham
Clearfield County, Pennsylvania
17-216
Liquid Fuels Tax Fund
For the Period
January 1, 2013 to December 31, 2015

July 2016



Commonwealth of Pennsylvania
Department of the Auditor General
Eugene A. DePasquale • Auditor General



Commonwealth of Pennsylvania
Department of the 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 Graham, Clearfield 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 Graham, Clearfield 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*.

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

Independent Auditor's Report (Continued)

As discussed in Finding No. 1, during 2013 the township expended \$3,852.00 for a duplicate payment of an invoice and \$3,712.00 for the payment of a credit invoice. Additionally, as discussed in Finding No. 2, during 2015 the township expended \$1,808.00 from its Liquid Fuels Tax Fund for retroactive expenditures.

In our opinion, except for the matters discussed in the preceding paragraph, the Forms MS-965 With Adjustments present, in all material respects, the information required by the Pennsylvania Department of Transportation for the Liquid Fuels Tax Fund of the Township of Graham, Clearfield 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.

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.

- Duplicate Payment Of Invoice And Payment Of A Credit Invoice.

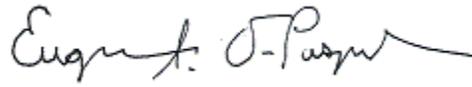
Independent Auditor's Report (Continued)

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

- Retroactive Expenditures.

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

April 26, 2016

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TOWNSHIP OF GRAHAM
CLEARFIELD 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 GRAHAM
 CLEARFIELD COUNTY
 LIQUID FUELS TAX FUND
 2013 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	\$ -	\$ 6,489.00	\$ 6,489.00
Minor equipment purchases	6,489.00	(6,489.00)	-
Computer/Computer related training	-	-	-
Agility projects	-	-	-
Cleaning streets and gutters	-	-	-
Winter maintenance services	12,874.72	-	12,874.72
Traffic control devices	3,920.52	-	3,920.52
Street lighting	-	-	-
Storm sewers and drains	-	-	-
Repairs of tools and machinery	31,608.78	-	31,608.78
Maintenance and repair of roads and bridges	74,873.83	-	74,873.83
Highway construction and rebuilding projects	358,825.17	-	358,825.17
Miscellaneous	-	-	-
 Total (To Section 2, Line 5)	 <u>\$ 488,592.02</u>	 <u>\$ -</u>	 <u>\$ 488,592.02</u>

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

TOWNSHIP OF GRAHAM
 CLEARFIELD 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 Amount</u>
1. Balance, January 1, 2013	\$ 27,259.11	\$ -	\$ 27,259.11
Receipts:			
2. State allocation	52,918.21	-	52,918.21
2a. Turnback allocation	25,320.00	-	25,320.00
2b. Interest on investments (Note 3)	65.69	-	65.69
2c. Miscellaneous (Note 5)	<u>1,094,803.63</u>	<u>-</u>	<u>1,094,803.63</u>
3. Total receipts	<u>1,173,107.53</u>	<u>-</u>	<u>1,173,107.53</u>
4. Total funds available	<u>1,200,366.64</u>	<u>-</u>	<u>1,200,366.64</u>
5. Expenditures (Section 1)	<u>488,592.02</u>	<u>-</u>	<u>488,592.02</u>
6. Balance, December 31, 2013	<u>\$ 711,774.62</u>	<u>\$ -</u>	<u>\$ 711,774.62</u>

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

TOWNSHIP OF GRAHAM
 CLEARFIELD COUNTY
 LIQUID FUELS TAX FUND
 2013 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	\$ 27,259.11	\$ -	\$ 27,259.11
2. Add: Current year equipment allocation (20% of Lines 2 + 2a, Section 2)	15,647.64	-	15,647.64
3. PENNDOT approved adjustments	-	215,835.37	215,835.37
4. Total funds available for equipment acquisition	42,906.75	215,835.37	258,742.12
5. Less: Major equipment expenditures	-	6,489.00	6,489.00
6. Remainder	<u>42,906.75</u>	<u>209,346.37</u>	<u>252,253.12</u>
7. Equipment balance available for subsequent year (Lesser of Line 6 or Section 2 balance, but not less than zero)	<u>\$ 42,906.75</u>	<u>\$ 209,346.37</u>	<u>\$ 252,253.12</u>

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

TOWNSHIP OF GRAHAM
 CLEARFIELD COUNTY
 LIQUID FUELS TAX FUND
 2014 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	\$ 20,000.00	\$ -	\$ 20,000.00
Minor equipment purchases	5,000.00	-	5,000.00
Computer/Computer related training	-	-	-
Agility projects	-	-	-
Cleaning streets and gutters	-	-	-
Winter maintenance services	5,723.53	-	5,723.53
Traffic control devices	1,533.37	-	1,533.37
Street lighting	-	-	-
Storm sewers and drains	-	-	-
Repairs of tools and machinery	38,875.49	-	38,875.49
Maintenance and repair of roads and bridges	36,178.38	99.50	36,277.88
Highway construction and rebuilding projects	327,711.39	-	327,711.39
Miscellaneous	99.50	(99.50)	-
 Total (To Section 2, Line 5)	 <u>\$ 435,121.66</u>	 <u>\$ -</u>	 <u>\$ 435,121.66</u>

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

TOWNSHIP OF GRAHAM
 CLEARFIELD COUNTY
 LIQUID FUELS TAX FUND
 2014 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, 2014	\$ 711,774.62	\$ -	\$ 711,774.62
Receipts:			
2. State allocation	57,285.07	-	57,285.07
2a. Turnback allocation	25,320.00	-	25,320.00
2b. Interest on investments (Note 3)	121.99	-	121.99
2c. Miscellaneous (Note 5)	1,139.93	-	1,139.93
3. Total receipts	83,866.99	-	83,866.99
4. Total funds available	795,641.61	-	795,641.61
5. Expenditures (Section 1)	435,121.66	-	435,121.66
6. Balance, December 31, 2014	\$ 360,519.95	\$ -	\$ 360,519.95

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

TOWNSHIP OF GRAHAM
 CLEARFIELD COUNTY
 LIQUID FUELS TAX FUND
 2014 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	\$ 42,907.25	\$ 209,345.87	\$ 252,253.12
2. Add: Current year equipment allocation (20% of Lines 2 + 2a, Section 2)	16,521.01	-	16,521.01
3. PENNDOT approved adjustments	-	-	-
4. Total funds available for equipment acquisition	59,428.26	209,345.87	268,774.13
5. Less: Major equipment expenditures	20,000.00	-	20,000.00
6. Remainder	<u>39,428.26</u>	<u>209,345.87</u>	<u>248,774.13</u>
7. Equipment balance available for subsequent year (Lesser of Line 6 or Section 2 balance, but not less than zero)	<u>\$ 39,428.26</u>	<u>\$ 209,345.87</u>	<u>\$ 248,774.13</u>

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

TOWNSHIP OF GRAHAM
CLEARFIELD 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	\$ 4,000.00	\$ (4,000.00)	\$ -
Minor equipment purchases	3,150.00	4,000.00	7,150.00
Computer/Computer related training	-	-	-
Agility projects	-	-	-
Cleaning streets and gutters	-	-	-
Winter maintenance services	15,332.58	-	15,332.58
Traffic control devices	753.00	-	753.00
Street lighting	-	-	-
Storm sewers and drains	1,808.00	-	1,808.00
Repairs of tools and machinery	25,670.61	-	25,670.61
Maintenance and repair of roads and bridges	182,727.79	926.70	183,654.49
Highway construction and rebuilding projects	176,715.10	(926.70)	175,788.40
Miscellaneous	-	-	-
 Total (To Section 2, Line 5)	 <u>\$ 410,157.08</u>	 <u>\$ -</u>	 <u>\$ 410,157.08</u>

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

TOWNSHIP OF GRAHAM
 CLEARFIELD 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 Amount</u>
1. Balance, January 1, 2015	\$ 360,519.95	\$ -	\$ 360,519.95
Receipts:			
2. State allocation	62,782.73	-	62,782.73
2a. Turnback allocation	25,320.00	-	25,320.00
2b. Interest on investments (Note 3)	85.02	-	85.02
2c. Miscellaneous (Note 5)	12,961.86	-	12,961.86
3. Total receipts	101,149.61	-	101,149.61
4. Total funds available	461,669.56	-	461,669.56
5. Expenditures (Section 1)	410,157.08	-	410,157.08
6. Balance, December 31, 2015	\$ 51,512.48	\$ -	\$ 51,512.48

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

TOWNSHIP OF GRAHAM
CLEARFIELD 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	\$ 39,428.26	\$ 209,345.87	\$ 248,774.13
2. Add: Current year equipment allocation (20% of Lines 2 + 2a, Section 2)	17,620.55	-	17,620.55
3. PENNDOT approved adjustments	-	2,443.20	2,443.20
4. Total funds available for equipment acquisition	57,048.81	211,789.07	268,837.88
5. Less: Major equipment expenditures	4,000.00	(4,000.00)	-
6. Remainder	<u>53,048.81</u>	<u>215,789.07</u>	<u>268,837.88</u>
7. Equipment balance available for subsequent year (Lesser of Line 6 or Section 2 balance, but not less than zero)	<u>\$ 51,512.48</u>	<u>\$ -</u>	<u>\$ 51,512.48</u>

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

TOWNSHIP OF GRAHAM
 CLEARFIELD 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 GRAHAM
CLEARFIELD 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 GRAHAM
CLEARFIELD 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 GRAHAM
CLEARFIELD 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>\$51,512.48</u>
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3. Interest On Investments

Our examination disclosed that the municipality deposited idle liquid fuels tax money in an interest-bearing account which earned \$65.69 during 2013, \$121.99 during 2014, and \$85.02 during 2015, thus providing additional funds for road maintenance and repairs.

4. Adjustments

2013 - Section 1

Adjustments were made to "Major equipment purchases" and "Minor equipment purchases" because expenditures of \$6,489.00 were misclassified.

2013 - Section 3

An adjustment of \$215,835.37 was made to "PENNDOT approved adjustments" because the twenty percent of the unexpended balance in the Turnback Account was not reported as an approved adjustment.

An adjustment of \$6,489.00 was made to "Major equipment expenditures" to reflect the adjustment made to major equipment purchases in 2013 - Section 1.

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

4. Adjustments (Continued)

2014 - Section 1

Adjustments were made to “Maintenance and repair of roads and bridges” and “Miscellaneous” because expenditures of \$99.50 were misclassified.

2014 - Section 3

An adjustment of \$209,345.87 was made to “Prior year equipment balance” to reflect the adjustment made to the equipment balance in 2013 - Section 3.

2015 - Section 1

Adjustments were made to “Major equipment purchases” and “Minor equipment purchases” because expenditures of \$4,000.00 were misclassified.

Adjustments were made to “Maintenance and repair of roads and bridges” and “Highway construction and rebuilding projects” because expenditures of \$926.70 were misclassified.

2015 - Section 3

An adjustment of \$209,345.87 was made to “Prior year equipment balance” to reflect the adjustment made to the equipment balance in 2014 - Section 3.

An adjustment of \$2,443.20 was made to “PENNDOT approved adjustments” because the twenty percent of the unexpended balance in the Turnback Account was not reported as an approved adjustment.

An adjustment of \$(4,000.00) was made to “Major equipment expenditures” to reflect the adjustment made to major equipment purchases in 2015 - Section 1.

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

5. Miscellaneous Receipts

The following miscellaneous receipts were deposited into the Liquid Fuels Tax Fund during the examination period:

Source	Description	2013	2014	2015
Turnback Account	Unexpended balance	\$1,079,176.86	\$ -	\$12,215.99
Resident Clearfield County	Sale of pipe County aid	364.71 15,262.06	- -	- -
Vendor	Refund for returned part	-	1,139.93	-
Commonwealth of Pennsylvania	Deposit error (Note 6)	-	-	745.87
Total		<u>\$1,094,803.63</u>	<u>\$1,139.93</u>	<u>\$12,961.86</u>

6. Deposit Error

On December 1, 2015, the Commonwealth of Pennsylvania electronically deposited \$745.87 of state police fines in to the Liquid Fuels Tax Fund in error. The township transferred \$745.87 from its Liquid Fuels Tax Fund to the General Fund on January 20, 2016, which was subsequent to our examination period.

7. Lease-Purchase Agreement

On February 12, 2008, the municipality entered into a lease-purchase agreement with Catalyst Capital Corporation to purchase a new truck for \$110,970.00. The agreement was for a term of five years at an interest rate of 5.85 percent. Principal and interest payments of \$26,489.00 are due annually. Prior years' principal and interest payments from the Liquid Fuels Tax Fund were \$63,609.87 and \$15,857.13, respectively. Additionally, the municipality paid principal of \$22,335.17 and interest of \$4,153.83 from the General Fund.

During the current examination period, the municipality paid principal of \$6,489.00 from the Liquid Fuels Tax Fund. This amount is reflected in major equipment purchases on the 2013 Form MS-965 - Section 1. Additionally, the municipality paid principal of \$18,535.96 and interest of \$1,464.04 from the General Fund. The agreement was paid-in-full on April 8, 2013.

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

Finding No. 1 - Duplicate Payment Of Invoice And Payment Of A Credit Invoice

Our examination disclosed that the municipality paid the following invoice twice:

<u>Invoice Number</u>	<u>First Check No.</u>	<u>First Date Paid</u>	<u>Second Check No.</u>	<u>Second Date Paid</u>	<u>Invoice Amount</u>
None	2632	06/10/13	2638	07/08/13	<u>\$3,852.00</u>

In addition, our examination disclosed that the municipality paid a credit invoice of \$3,712.00 with check No. 2646 on August 12, 2013. The credit of \$3,712.00 was generated by netting an invoice of \$140.00 against the duplicate payment of \$3,852.00 leaving a credit balance of \$3,712.00. The duplicate payment of \$3,852.00 plus the \$3,712.00 payment of a credit invoice leaves a balance of \$7,564.00 to be reimbursed to the Liquid Fuels Tax fund.

Although this money should be reimbursed to the Liquid Fuels Tax Fund, the primary concern is the inadequate internal controls which enabled the duplicate payment and payment of a credit invoice totaling \$7,564.00 to remain undetected.

Good internal controls ensure that all invoices are reviewed timely to avoid duplicate payments. The failure to follow this procedure increases the possibility that duplicate payments can be made on vendor invoices and go undetected for long periods of time.

Recommendations

We recommend that the municipality reimburse \$7,564.00 to its Liquid Fuels Tax Fund upon official notification by the Department of Transportation. We also recommend that the municipal officials contact the vendor as soon as possible to obtain reimbursement.

We further recommend that the municipality establish and implement internal controls to ensure vendor invoices are reviewed timely to avoid duplicate payments.

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

Finding No. 1 - Duplicate Payment Of Invoice And Payment Of A Credit Invoice (Continued)

Management's Response

The municipal officials stated:

I understand that I made the mistake of overpaying. The invoices were confusing. I did not realize I was overpaying until the vendor's bookkeeper wrote on an invoice that I was overpaid and had a credit of over \$6,000.00. I could not find the error in my books. I called the bookkeeper and asked her about the credit. She said yes you have a credit, I will talk to the owner about a refund check. I never got anything in the mail. After a month or so I called back. The bookkeeper did not talk to the owner yet. I called a couple more times and got nowhere. Finally, I called the owner, she said "that bookkeeper is not here anymore and we do not owe you a credit." I left it at that.

I will refund the state account \$7,564.00 from our General Fund and then try to collect from the vendor.

Auditor's Conclusion

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

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

Finding No. 2 - Retroactive Expenditures

Our examination disclosed that on March 9, 2015, the municipality paid \$1,808.00 from its Liquid Fuels Tax Fund for invoices from June 3, 2014 to September 10, 2014, which are retroactive expenditures.

The Department of Transportation's *Publication 9* contains the policies and procedures for the administration of the Liquid Fuels Tax Fund. *Publication 9*, Chapter Two, Section 2.7.2, states, in relevant part:

Examples of what Liquid Fuels Tax Fund monies may not be expended for are:

- 8. Repayments of prior year's expenditures.
- 17. Retroactive expenditures or repayment of other funds for prior period expenditures.

Because these expenditures were incurred from June 3, 2014 to September 10, 2014 and were not paid until March 9, 2015, the expenditures incurred were not paid in a reasonable period of time. Therefore, the municipality did not comply with the Department of Transportation's *Publication 9*.

The failure to follow the Department of Transportation's *Publication 9* as noted above could result in the municipality having to reimburse \$1,808.00 to its Liquid Fuels Tax Fund.

Recommendations

We recommend that the municipality reimburse \$1,808.00 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 Department of Transportation's *Publication 9* as noted above.

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

Finding No. 2 - Retroactive Expenditures (Continued)

Management's Response

The municipal officials stated:

I did not pay the invoice in a timely manner because I assumed I had a credit balance. This is the same vendor mentioned in Finding No. 1. I will continue to pay my invoices in a timely manner.

Auditor's Conclusion

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

TOWNSHIP OF GRAHAM
CLEARFIELD 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 31, 2016. Those participating were:

TOWNSHIP OF GRAHAM

Ms. Linda J. Bowes, Secretary/Treasurer

DEPARTMENT OF THE AUDITOR GENERAL

Mr. Christopher Heglen, Auditor

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

TOWNSHIP OF GRAHAM
CLEARFIELD 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 Graham
Clearfield County
3395 Deer Creek Road
Morrisdale, PA 16858

The Honorable Jeffery Williams
Chairman of the Board of Supervisors

Ms. Linda J. Bowes
Secretary/Treasurer

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.