



TOWNSHIP OF GENESEE
POTTER COUNTY
52-207

LIQUID FUELS TAX FUND
EXAMINATION REPORT

FOR THE THREE YEARS ENDED
DECEMBER 31, 2011

Released *March 2013*

COMMONWEALTH OF PENNSYLVANIA

EUGENE A. DEPASQUALE - AUDITOR GENERAL

DEPARTMENT OF THE AUDITOR GENERAL





TOWNSHIP OF GENESEE
POTTER COUNTY
52-207

LIQUID FUELS TAX FUND
EXAMINATION REPORT

FOR THE THREE YEARS ENDED
DECEMBER 31, 2011

CONTENTS

	<u>Page</u>
Background.....	1
Independent Auditor's Report	3
Financial Section:	
2009 Form MS-965 With Adjustments	7
2010 Form MS-965 With Adjustments	10
2011 Form MS-965 With Adjustments	13
Notes To Forms MS-965 With Adjustments.....	16
Findings And Recommendations:	
Finding No. 1 - Failure To Properly Prepare Forms MS-965	25
Finding No. 2 - Duplicate Transfer To The General Fund.....	28
Finding No. 3 - Liquid Fuels Money Deposited Into The General Fund	29
Summary Of Exit Conference.....	31
Report Distribution	33

TOWNSHIP OF GENESEE
POTTER COUNTY
LIQUID FUELS TAX FUND
BACKGROUND
FOR THE THREE YEARS ENDED
DECEMBER 31, 2011

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.





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

EUGENE A. DePASQUALE
AUDITOR GENERAL

Independent Auditor's Report

The Honorable Barry J. Schoch, P.E.
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 Genesee, Potter County, for the three years ended December 31, 2011. 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 Genesee, Potter County's Forms MS-965 for the three years ended December 31, 2011 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. 2, in two transfers from the Liquid Fuels Tax Fund to the General Fund, the municipality included a reimbursement for payroll in the amount of \$3,617.10 for the period ending March 30, 2009. Additionally, as discussed in Finding No. 3, the municipality deposited a bridge reimbursement of \$14,202.46 into the General Fund that was received from the Commonwealth of Pennsylvania for expenditures paid from the Liquid Fuels Tax Fund.

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 Genesee, Potter County, for the three years ended December 31, 2011, in conformity with the criteria set forth in Note 1.

In accordance with *Government Auditing Standards*, we are required to report findings of significant deficiencies in internal control, violations of provisions of contracts or grant agreements, and abuse that are material to the Forms MS-965 and any fraud and illegal acts that are more than inconsequential that come to our attention during our examination. We are also required to obtain the views of management on those matters. We performed our examination to express an opinion on whether the Forms MS-965 are presented in accordance with the criteria described above and not for the purpose of expressing an opinion on the internal control over reporting on the Forms MS-965 or on compliance and other matters; accordingly, we express no such opinions.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Township of Genesee, Potter County's ability to initiate, authorize, record, process, or report data reliably in accordance with the applicable criteria such that there is more than a remote likelihood that a misstatement of the Township of Genesee, Potter County's Forms MS-965 that is more than inconsequential will not be prevented or detected by the Township of Genesee, Potter County's internal control. We consider the deficiencies described in the findings below to be significant deficiencies in internal control over reporting on the Forms MS-965:

- Failure To Properly Prepare Forms MS-965.
- Duplicate Transfer To The General Fund.

Independent Auditor's Report (Continued)

A material weakness is a significant deficiency or combination of significant deficiencies that results in more than a remote likelihood that a material misstatement of the Forms MS-965 will not be prevented or detected by the Township of Genesee, Potter County's internal control. Our consideration of the internal control over reporting on the Forms MS-965 would not necessarily disclose all matters in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider the first bulleted deficiency to be a material weakness.

The results of our tests disclosed the following instance of noncompliance that is required to be reported under *Government Auditing Standards*:

- Liquid Fuels Money Deposited Into The General Fund.

We are concerned in light of the municipality's failure to correct a previously reported finding regarding the failure to properly prepare its Forms MS-965. During our current examination the municipality failed to properly prepare its Forms MS-965, made a duplicate transfer to the General Fund, and deposited Liquid Fuels Tax Fund money into the General Fund. The municipality should strive to implement the recommendations and corrective actions noted in this report.

This report is intended solely for the information and use of the Pennsylvania Department of Transportation and the management of the Township of Genesee, Potter County, and is not intended to be and should not be used by anyone other than these specified parties.



March 8, 2012

EUGENE A. DEPASQUALE
Auditor General



TOWNSHIP OF GENESEE
POTTER COUNTY
LIQUID FUELS TAX FUND
2009 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	\$ 26,573.94	\$ -	\$ 26,573.94
Minor equipment purchases	-	-	-
Computer/Computer related training	-	-	-
Agility projects	-	-	-
Cleaning streets and gutters	-	-	-
Winter maintenance services	18,285.41	10,047.81	28,333.22
Traffic control devices	218.00	-	218.00
Street lighting	-	-	-
Storm sewers and drains	-	-	-
Repairs of tools and machinery	19,669.36	(5,950.00)	13,719.36
Maintenance and repair of roads and bridges	73,131.09	(4,409.87)	68,721.22
Highway construction and rebuilding projects	-	-	-
Miscellaneous	4,575.00	(4,575.00)	-
	<u>4,575.00</u>	<u>(4,575.00)</u>	<u>-</u>
Total (To Section 2, Line 5)	<u>\$ 142,452.80</u>	<u>\$ (4,887.06)</u>	<u>\$ 137,565.74</u>

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

TOWNSHIP OF GENESEE
POTTER COUNTY
LIQUID FUELS TAX FUND
2009 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, 2009	\$ 19,017.39	\$ -	\$ 19,017.39
Receipts:			
2. State allocation	51,170.97	-	51,170.97
2a. Turnback allocation	67,520.00	-	67,520.00
2b. Interest on investments (Note 3)	225.15	(40.50)	184.65
2c. Miscellaneous (Note 5)	22,014.03	114.35	22,128.38
3. Total receipts	<u>140,930.15</u>	<u>73.85</u>	<u>141,004.00</u>
4. Total funds available	<u>159,947.54</u>	<u>73.85</u>	<u>160,021.39</u>
5. Expenditures (Section 1)	<u>142,452.80</u>	<u>(4,887.06)</u>	<u>137,565.74</u>
6. Balance, December 31, 2009	<u>\$ 17,494.74</u>	<u>\$ 4,960.91</u>	<u>\$ 22,455.65</u>

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

TOWNSHIP OF GENESEE
POTTER COUNTY
LIQUID FUELS TAX FUND
2009 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	\$ 15,091.43	\$ (3,919.33)	\$ 11,172.10
2. Add: Current year equipment allocation (20% of Lines 2 + 2a, Section 2)	23,738.20	-	23,738.20
3. PENNDOT approved adjustments	-	-	-
4. Total funds available for equipment acquisition	38,829.63	(3,919.33)	34,910.30
5. Less: Major equipment expenditures	26,573.94	-	26,573.94
6. Remainder	<u>12,255.69</u>	<u>(3,919.33)</u>	<u>8,336.36</u>
7. Equipment balance available for subsequent year (Lesser of Line 6 or Section 2 balance, but not less than zero)	<u>\$ 12,255.69</u>	<u>\$ (3,919.33)</u>	<u>\$ 8,336.36</u>

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

TOWNSHIP OF GENESEE
POTTER COUNTY
LIQUID FUELS TAX FUND
2010 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	\$ 24,291.22	\$ 4,798.19	\$ 29,089.41
Minor equipment purchases	4,798.19	(4,798.19)	-
Computer/Computer related training	-	-	-
Agility projects	-	-	-
Cleaning streets and gutters	-	-	-
Winter maintenance services	24,989.81	(20,974.37)	4,015.44
Traffic control devices	798.00	-	798.00
Street lighting	-	-	-
Storm sewers and drains	-	-	-
Repairs of tools and machinery	16,831.47	-	16,831.47
Maintenance and repair of roads and bridges	106,089.34	-	106,089.34
Highway construction and rebuilding projects	124,568.49	-	124,568.49
Miscellaneous (Note 6)	32.00	20,974.37	21,006.37
	<u>32.00</u>	<u>20,974.37</u>	<u>21,006.37</u>
Total (To Section 2, Line 5)	<u>\$ 302,398.52</u>	<u>\$ -</u>	<u>\$ 302,398.52</u>

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

TOWNSHIP OF GENESEE
POTTER COUNTY
LIQUID FUELS TAX FUND
2010 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, 2010	\$ 17,494.74	\$ 4,960.91	\$ 22,455.65
Receipts:			
2. State allocation	49,124.07	-	49,124.07
2a. Turnback allocation	67,520.00	-	67,520.00
2b. Interest on investments (Note 3)	86.71	27.11	113.82
2c. Miscellaneous (Note 5)	<u>328,666.45</u>	<u>20,974.37</u>	<u>349,640.82</u>
3. Total receipts	<u>445,397.23</u>	<u>21,001.48</u>	<u>466,398.71</u>
4. Total funds available	<u>462,891.97</u>	<u>25,962.39</u>	<u>488,854.36</u>
5. Expenditures (Section 1)	<u>302,398.52</u>	<u>-</u>	<u>302,398.52</u>
6. Balance, December 31, 2010	<u><u>\$ 160,493.45</u></u>	<u><u>\$ 25,962.39</u></u>	<u><u>\$ 186,455.84</u></u>

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

TOWNSHIP OF GENESEE
POTTER COUNTY
LIQUID FUELS TAX FUND
2010 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	\$ 12,255.69	\$ (3,919.33)	\$ 8,336.36
2. Add: Current year equipment allocation (20% of Lines 2 + 2a, Section 2)	23,328.81	-	23,328.81
3. PENNDOT approved adjustments	-	65,152.68	65,152.68
4. Total funds available for equipment acquisition	35,584.50	61,233.35	96,817.85
5. Less: Major equipment expenditures	24,291.22	4,798.19	29,089.41
6. Remainder	<u>11,293.28</u>	<u>56,435.16</u>	<u>67,728.44</u>
7. Equipment balance available for subsequent year (Lesser of Line 6 or Section 2 balance, but not less than zero)	<u>\$ 11,293.28</u>	<u>\$ 56,435.16</u>	<u>\$ 67,728.44</u>

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

TOWNSHIP OF GENESEE
POTTER COUNTY
LIQUID FUELS TAX FUND
2011 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	\$ 18,529.13	\$ (1,333.34)	\$ 17,195.79
Minor equipment purchases	7,761.74	-	7,761.74
Computer/Computer related training	-	-	-
Agility projects	-	-	-
Cleaning streets and gutters	-	-	-
Winter maintenance services	30,650.71	-	30,650.71
Traffic control devices	-	-	-
Street lighting	-	-	-
Storm sewers and drains	-	-	-
Repairs of tools and machinery	21,527.61	1,333.34	22,860.95
Maintenance and repair of roads and bridges	113,089.45	-	113,089.45
Highway construction and rebuilding projects	-	-	-
Miscellaneous	-	-	-
	<hr/>	<hr/>	<hr/>
Total (To Section 2, Line 5)	<u>\$ 191,558.64</u>	<u>\$ -</u>	<u>\$ 191,558.64</u>

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

TOWNSHIP OF GENESEE
POTTER COUNTY
LIQUID FUELS TAX FUND
2011 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, 2011	\$ 186,455.84	\$ -	\$ 186,455.84
Receipts:			
2. State allocation	50,263.79	-	50,263.79
2a. Turnback allocation	67,520.00	-	67,520.00
2b. Interest on investments (Note 3)	248.64	-	248.64
2c. Miscellaneous (Note 5)	-	3,954.06	3,954.06
3. Total receipts	<u>118,032.43</u>	<u>3,954.06</u>	<u>121,986.49</u>
4. Total funds available	<u>304,488.27</u>	<u>3,954.06</u>	<u>308,442.33</u>
5. Expenditures (Section 1)	<u>191,558.64</u>	<u>-</u>	<u>191,558.64</u>
6. Balance, December 31, 2011	<u><u>\$ 112,929.63</u></u>	<u><u>\$ 3,954.06</u></u>	<u><u>\$ 116,883.69</u></u>

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

TOWNSHIP OF GENESEE
POTTER COUNTY
LIQUID FUELS TAX FUND
2011 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	\$ 67,728.44	\$ -	\$ 67,728.44
2. Add: Current year equipment allocation (20% of Lines 2 + 2a, Section 2)	23,556.76	-	23,556.76
3. PENNDOT approved adjustments	<u>-</u>	<u>-</u>	<u>-</u>
4. Total funds available for equipment acquisition	91,285.20	-	91,285.20
5. Less: Major equipment expenditures	<u>18,529.13</u>	<u>(1,333.34)</u>	<u>17,195.79</u>
6. Remainder	<u><u>72,756.07</u></u>	<u><u>1,333.34</u></u>	<u><u>74,089.41</u></u>
7. Equipment balance available for subsequent year (Lesser of Line 6 or Section 2 balance, but not less than zero)	<u><u>\$ 72,756.07</u></u>	<u><u>\$ 1,333.34</u></u>	<u><u>\$ 74,089.41</u></u>

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

TOWNSHIP OF GENESEE
POTTER COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE THREE YEARS ENDED
DECEMBER 31, 2011

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 that cost in excess of \$4,000.00.
- Minor equipment purchases are purchases of road machinery and road equipment that cost \$4,000.00 or less.
- 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 is generally received from the Department of Transportation during the first week in April of each year. The amount the municipality receives is based half on its population and half on its road mileage.
- The turnback allocation is generally received from the Department of Transportation during the first week in April of each year. 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.
- 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.

TOWNSHIP OF GENESEE
POTTER COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE THREE YEARS ENDED
DECEMBER 31, 2011

1. Criteria (Continued)

Section 3 (Continued)

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.

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.

TOWNSHIP OF GENESEE
POTTER COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE THREE YEARS ENDED
DECEMBER 31, 2011

1. Criteria (Continued)

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's 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.

There were no deposits exposed to custodial credit risk as of December 31, 2011. Custodial credit risk, as defined by GASB No. 40, includes deposits that are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the municipality's name.

TOWNSHIP OF GENESEE
POTTER COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE THREE YEARS ENDED
DECEMBER 31, 2011

2. Deposits (Continued)

Fund Balance

The fund balance as of December 31, 2011 consists of the following:

Cash	\$116,883.69
------	--------------

3. Interest On Investments

Our examination disclosed that the municipality deposited idle liquid fuels tax money in interest-bearing accounts which earned \$184.65 during 2009, \$113.82 during 2010, and \$248.64 during 2011, thus providing additional funds for road maintenance and repairs.

4. Adjustments

2009 - Section 1

An adjustment of \$10,047.81 was made to “Winter maintenance services” because these expenditures were understated.

An adjustment of \$(5,950.00) was made to “Repairs of tools and machinery” because these expenditures were overstated.

An adjustment of \$(4,409.87) was made to “Maintenance and repair of roads and bridges” because these expenditures were overstated by \$8,984.87 and expenditures of \$4,575.00 were misclassified as miscellaneous.

An adjustment of \$(4,575.00) was made to “Miscellaneous” because expenditures for maintenance and repair of roads and bridges were misclassified.

2009 - Section 2

An adjustment of \$(40.50) was made to “Interest on investments” because interest earnings were overstated.

An adjustment of \$114.35 was made to “Miscellaneous” because these receipts were understated.

TOWNSHIP OF GENESEE
POTTER COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE THREE YEARS ENDED
DECEMBER 31, 2011

4. Adjustments (Continued)

2009 - Section 3

An adjustment of \$(3,919.33) was made to "Prior year equipment balance" because an incorrect equipment balance was carried forward.

2010 - Section 1

Adjustments were made to "Major equipment purchases" and "Minor equipment purchases" because expenditures of \$4,798.19 were misclassified.

Adjustments were made to "Winter maintenance services" and "Miscellaneous" because expenditures of \$20,974.37 were misclassified.

2010 - Section 2

An adjustment of \$4,960.91 was made to "Balance, January 1, 2010" to reflect the adjustments made in 2009 - Section 1 and 2009 - Section 2.

An adjustment of \$27.11 was made to "Interest on investments" because interest earnings were understated.

An adjustment of \$20,974.37 was made to "Miscellaneous" because a transfer in error from the General Fund was not reported.

2010 - Section 3

An adjustment of \$(3,919.33) was made to "Prior year equipment balance" to reflect the adjustment made to the equipment balance in 2009 - Section 3.

An adjustment of \$65,152.68 was made to "PENNDOT approved adjustments" because 20 percent of the unexpended balance in the turnback account of \$325,763.42 was not reported as an approved adjustment.

An adjustment of \$4,798.19 was made to "Major equipment expenditures" to reflect the adjustment made to major equipment purchases in 2010 - Section 1.

TOWNSHIP OF GENESEE
POTTER COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE THREE YEARS ENDED
DECEMBER 31, 2011

4. Adjustments (Continued)

2011 - Section 1

Adjustments were made to “Major equipment purchases” and “Repairs of tools and machinery” because expenditures of \$1,333.34 were misclassified.

2011 - Section 2

An adjustment of \$3,954.06 was made to “Miscellaneous” because these receipts were not reported.

2011 - Section 3

An adjustment of \$(1,333.34) was made to “Major equipment expenditures” to reflect the adjustment made to major equipment purchases in 2011 - Section 1.

5. Miscellaneous Receipts

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

Source	Description	2009	2010	2011
Solid Waste Fund	Reimbursement for tires	\$ 726.60	\$ -	\$ -
General Fund	Reimbursement for anti-skid	6,088.31	-	-
General Fund	Reimbursement for fuel	2,144.00	2,903.03	-
Bratton Township	Sale of equipment	13,000.00	-	-
General Fund	Transfer in error (Note 11)	-	20,974.37	-
Turnback Account	Unexpended balance	-	325,763.42	-
Department of Environmental Protection	Deposit in error (Note 12)	-	-	954.06
Dominion Transmission	Reimbursement for road damage	-	-	3,000.00
General Fund	Reimbursement for materials	169.47	-	-
Totals		<u>\$22,128.38</u>	<u>\$349,640.82</u>	<u>\$3,954.06</u>

TOWNSHIP OF GENESEE
POTTER COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE THREE YEARS ENDED
DECEMBER 31, 2011

6. Miscellaneous Expenditures

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

<u>Payee</u>	<u>Description</u>	<u>2010</u>
Financial institution	Bank service charges	\$ 32.00
General Fund	Correction of transfer in error (Note 11)	<u>20,974.37</u>
Total		<u><u>\$21,006.37</u></u>

7. Lease-Purchase Agreement

On July 21, 2003, the municipality entered into a lease-purchase agreement with Caterpillar Financial Services Corporation to purchase an excavator for \$81,305.00. The agreement was for a term of six years at an interest rate of 4.25 percent. Principal and interest payments of \$13,114.14 are due annually. Prior years' principal and interest payments from the Liquid Fuels Tax Fund were \$44,975.86 and \$7,480.70, respectively. Additionally, the municipality paid principal of \$23,544.86 and interest of \$2,683.42 from the General Fund.

During the current examination period the municipality paid principal of \$12,784.28 and interest of \$329.86 from the Liquid Fuels Tax Fund. These amounts are reflected in major equipment purchases on the 2009 Form MS-965 - Section 1. The agreement was paid-in-full on July 27, 2009.

8. Lease-Purchase Agreement

On March 15, 2005, the municipality entered into a lease-purchase agreement with Caterpillar Financial Services Corporation to purchase a loader for \$87,331.00. The municipality made a down payment of \$25,000.00 from the Liquid Fuels Tax Fund, leaving a balance of \$62,331.00 to be financed. The agreement was for a term of five years at an interest rate of 4.75 percent. Principal and interest payments of \$14,343.24 are due annually. Prior years' principal and interest payments from the Liquid Fuels Tax Fund were \$35,710.02 and \$7,319.70, respectively.

TOWNSHIP OF GENESEE
POTTER COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE THREE YEARS ENDED
DECEMBER 31, 2011

8. Lease-Purchase Agreement (Continued)

During the current examination period the municipality paid principal of \$14,751.19 and interest of \$821.15 from the Liquid Fuels Tax Fund. These amounts are reflected in major equipment purchases on the 2009 and 2010 Forms MS-965 - Section 1. Additionally, the municipality paid principal of \$11,869.79 and interest of \$1,244.35 from the General Fund. The agreement was paid-in-full on March 29, 2010.

9. Bank Loan

On June 13, 2008, the municipality borrowed \$75,000.00 from the First Citizens National Bank to purchase a used Peterbuilt truck. The term of the loan was for five years at an interest rate of 5.0 percent. Principal and interest payments of \$1,421.14 are due monthly. Prior years' principal and interest payments from the Liquid Fuels Tax Fund were \$3,389.29 and \$874.13, respectively. Additionally, the municipality paid principal of \$3,203.52 and interest of \$1,059.90 from the General Fund.

During the current examination period the municipality paid principal of \$29,784.14 and interest of \$4,465.33 from the Liquid Fuels Tax Fund. These amounts are reflected in major equipment purchases on the 2009, 2010, and 2011 Forms MS-965 - Section 1. Additionally, the municipality paid principal of \$14,224.43 and interest of \$2,829.25 from the General Fund. The outstanding balance of the loan as of December 31, 2011 was \$24,398.62, plus interest.

10. Bank Loan

On August 19, 2010, the municipality borrowed \$300,000.00 from the First Citizens National Bank for project No. 10-52207-02. The term of the loan was for five months at an interest rate of 3.75 percent. The principal balance of \$300,000.00, plus interest, was due December 31, 2010.

During the current examination period the municipality paid principal of \$100,000.00 and interest of \$3,427.08 from the Liquid Fuels Tax Fund. These amounts are reflected in construction and rebuilding projects on the 2010 Form MS-965 - Section 1. Additionally, the municipality paid principal of \$200,000.00 from the General Fund. The loan was paid-in-full on November 29, 2010.

TOWNSHIP OF GENESEE
POTTER COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE THREE YEARS ENDED
DECEMBER 31, 2011

11. Transfer In Error

On May 17, 2010, the municipality transferred \$20,974.37 from its General Fund to its Liquid Fuels Tax Fund. On June 11, 2010, the municipality transferred this amount from its Liquid Fuels Tax Fund to its General Fund to correct the deposit in error.

12. Deposit In Error

On March 24, 2011, the municipality deposited a grant of \$954.06 into its Liquid Fuels Tax Fund that was received from the Department of Environmental Protection for a spray that was purchased from the General Fund. As of the date of this report that amount remained in the Liquid Fuels Tax Fund.

TOWNSHIP OF GENESEE
POTTER COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE THREE YEARS ENDED
DECEMBER 31, 2011

Finding No. 1 - Failure To Properly Prepare Forms MS-965

Our examination disclosed that there were numerous errors made in the preparation of the municipality's 2009, 2010, and 2011 Forms MS-965. These adjustments, which are disclosed in Note 4, are as follows:

2009 - Section 1

- An adjustment of \$10,047.81 was made to "Winter maintenance services" because these expenditures were understated.
- An adjustment of \$(5,950.00) was made to "Repairs of tools and machinery" because these expenditures were overstated.
- An adjustment of \$(4,409.87) was made to "Maintenance and repair of roads and bridges" because these expenditures were overstated by \$8,984.87 and expenditures of \$4,575.00 were misclassified as miscellaneous.
- An adjustment of \$(4,575.00) was made to "Miscellaneous" because expenditures for maintenance and repair of roads and bridges were misclassified.

2009 - Section 2

- An adjustment of \$(40.50) was made to "Interest on investments" because interest earnings were overstated.
- An adjustment of \$114.35 was made to "Miscellaneous" because these receipts were understated.

2009 - Section 3

- An adjustment of \$(3,919.33) was made to "Prior year equipment balance" because an incorrect equipment balance was carried forward.

2010 - Section 1

- Adjustments were made to "Major equipment purchases" and "Minor equipment purchases" because expenditures of \$4,798.19 were misclassified.

TOWNSHIP OF GENESEE
POTTER COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE THREE YEARS ENDED
DECEMBER 31, 2011

Finding No. 1 - Failure To Properly Prepare Forms MS-965 (Continued)

2010 - Section 1 (Continued)

- Adjustments were made to “Winter maintenance services” and “Miscellaneous” because expenditures of \$20,974.37 were misclassified.

2010 - Section 2

- An adjustment of \$4,960.91 was made to “Balance, January 1, 2010” to reflect the adjustments made in 2009 - Section 1 and 2009 - Section 2.
- An adjustment of \$27.11 was made to “Interest on investments” because interest earnings were understated.
- An adjustment of \$20,974.37 was made to “Miscellaneous” because a transfer in error from the General Fund was not reported.

2010 - Section 3

- An adjustment of \$(3,919.33) was made to “Prior year equipment balance” to reflect the adjustment made to the equipment balance in 2009 - Section 3.
- An adjustment of \$65,152.68 was made to “PENNDOT approved adjustments” because 20 percent of the unexpended balance in the turnback account of \$325,763.42 was not reported as an approved adjustment.
- An adjustment of \$4,798.19 was made to “Major equipment expenditures” to reflect the adjustment made to major equipment purchases in 2010 - Section 1.

2011 - Section 1

- Adjustments were made to “Major equipment purchases” and “Repairs of tools and machinery” because expenditures of \$1,333.34 were misclassified.

2011 - Section 2

- An adjustment of \$3,954.06 was made to “Miscellaneous” because these receipts were not reported.

TOWNSHIP OF GENESEE
POTTER COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE THREE YEARS ENDED
DECEMBER 31, 2011

Finding No. 1 - Failure To Properly Prepare Forms MS-965 (Continued)

2011 - Section 3

- An adjustment of \$(1,333.34) was made to “Major equipment expenditures” to reflect the adjustment made to major equipment purchases in 2011 - Section 1.

Good internal controls ensure that the municipality completes its Forms MS-965 accurately and completely. The failure to properly complete Forms MS-965 increases the risk that errors or irregularities may occur and remain undetected.

A similar finding was also written in our prior report.

Recommendation

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

Management’s Response

The secretary/treasurer stated:

I agree with this finding. I am continuing to learn about the filing of the MS-965. We did two bridge projects simultaneously, one being a turnback and one being a TIP project. This seemed to complicate matters when it was MS-965 time.

Auditor’s Conclusion

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

TOWNSHIP OF GENESEE
POTTER COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE THREE YEARS ENDED
DECEMBER 31, 2011

Finding No. 2 - Duplicate Transfer To The General Fund

Our examination disclosed that on April 3, 2009, the municipality transferred \$15,517.11 from its Liquid Fuels Tax Fund to its General Fund for the reimbursement of payroll paid from January 18, 2009 to March 30, 2009. On June 23, 2009, the municipality transferred \$24,495.59 from its Liquid Fuels Tax Fund to its General Fund for the reimbursement of payroll paid from March 16, 2009 to June 20, 2009. Both transfers included the pay period ending March 30, 2009, totaling \$3,617.10.

Although this money should be returned to the Liquid Fuels Tax Fund, the primary concern is the inadequate internal controls which enabled a duplicate transfer of \$3,617.10 to remain undetected.

Good internal controls ensure that all transfers are reviewed timely to avoid duplicate transfers. The failure to follow this procedure increases the possibility of duplicate transfers being made and going undetected for long periods of time.

Recommendations

We recommend that the township reimburse \$3,617.10 to its Liquid Fuels Tax Fund upon official notification by the Department of Transportation.

We further recommend that, in the future, the municipality improve their internal controls to prevent duplicate transfers.

Management's Response

The secretary/treasurer stated:

I agree with this finding. When this error occurred I was still in the learning period of my position.

Auditor's Conclusion

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

TOWNSHIP OF GENESEE
POTTER COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE THREE YEARS ENDED
DECEMBER 31, 2011

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

Our examination disclosed that during 2011 the municipality expended \$17,753.07 from the Liquid Fuels Tax Fund for the construction of Cemetary Road Bridge. The municipality had signed a reimbursement agreement with the Commonwealth of Pennsylvania for the reimbursement of 80 percent of costs associated with the bridge construction. The municipality received a reimbursement of \$14,202.46 for these costs on August 4, 2011. However, the reimbursement was deposited into the General Fund.

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

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

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

The failure to follow the Liquid Fuels Tax Municipal Allocation Law as noted above could result in the municipality having to reimburse \$14,202.46 to its Liquid Fuels Tax Fund.

Recommendations

We recommend that the municipality reimburse \$14,202.46 to its Liquid Fuels Tax Fund upon official notification by the Department of Transportation.

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

Management's Response

The secretary/treasurer stated:

I agree with this finding. Again, an error that occurred during the two bridge projects. I was not aware that I should reimburse the Liquid Fuels account for 80 percent of the cost of the few invoices that were paid by Liquid Fuel Monies.

TOWNSHIP OF GENESEE
POTTER COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE THREE YEARS ENDED
DECEMBER 31, 2011

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

Auditor's Conclusion

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

TOWNSHIP OF GENESEE
POTTER COUNTY
LIQUID FUELS TAX FUND
SUMMARY OF EXIT CONFERENCE
FOR THE THREE YEARS ENDED
DECEMBER 31, 2011

An exit conference was held March 8, 2012. Those participating were:

TOWNSHIP OF GENESEE

Ms. Susan Williams, 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 GENESEE
POTTER COUNTY
LIQUID FUELS TAX FUND
REPORT DISTRIBUTION
FOR THE THREE YEARS ENDED
DECEMBER 31, 2011

This report was initially distributed to:

The Honorable Barry J. Schoch, P.E.
Secretary
Department of Transportation

Township of Genesee
Potter County
P.O. Box 1
120 Hickox Road
Genesee, PA 16923

The Honorable Arlen Calcote

Chairman of the Board of Supervisors

Ms. Susan Williams

Secretary/Treasurer

This report is a matter of public record. Copies of this report may be obtained from the Pennsylvania Department of the Auditor General, Office of Communications, 318 Finance Building, Harrisburg, PA 17120. To view this report online or to contact the Department of the Auditor General, please access our web site at www.auditorgen.state.pa.us.