



**TOWNSHIP OF WASHINGTON
CLARION COUNTY
16-222**

**LIQUID FUELS TAX FUND
EXAMINATION REPORT**

**FOR THE PERIOD
JANUARY 1, 2009 TO DECEMBER 31, 2011**

Released September 2013

COMMONWEALTH OF PENNSYLVANIA

EUGENE A. DEPASQUALE - AUDITOR GENERAL

DEPARTMENT OF THE AUDITOR GENERAL



Commonwealth of Pennsylvania
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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 Washington, Clarion County, for the period January 1, 2009 to 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 Washington, Clarion County's Forms MS-965 for the period January 1, 2009 to 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. 3, the municipality transferred \$35,000.00 in 2009 and \$8,398.36 in 2010 from the Liquid Fuels Tax Fund to the General Fund. However, the municipality failed to maintain invoices or payroll records to support the transfers. Additionally, as discussed in Finding No. 4, the municipality deposited its 2011 turnback allocation of \$8,480.00 into its General 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 Washington, Clarion County, for the period January 1, 2009 to 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 Washington, Clarion 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 Washington, Clarion County's Forms MS-965 that is more than inconsequential will not be prevented or detected by the Township of Washington, Clarion 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.
- Internal Control Over Transfers To The Liquid Fuels Tax Fund Should Be Improved.
- Documentation Supporting Transfers From The Liquid Fuels Tax Fund Was Not Available For Examination.

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 Washington, Clarion 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. We consider the significant deficiencies described above to be material weaknesses.

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

- Turnback Allocation Deposited Into The General Fund.

We also noted another matter that, while not required to be included in this report by *Government Auditing Standards*, has been included in the finding below:

- Late Receipt Of Allocations.

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



September 28, 2012

EUGENE A. DEPASQUALE
Auditor General

CONTENTS

	<u>Page</u>
Background	1
Financial Section:	
2009 Form MS-965 With Adjustments	2
2010 Form MS-965 With Adjustments	5
2011 Form MS-965 With Adjustments	8
Notes To Forms MS-965 With Adjustments	11
Findings And Recommendations:	
Finding No. 1 - Failure To Properly Prepare Forms MS-965	17
Finding No. 2 - Internal Control Over Transfers To The Liquid Fuels Tax Fund Should Be Improved	19
Finding No. 3 - Documentation Supporting Transfers From The Liquid Fuels Tax Fund Was Not Available For Examination	20
Finding No. 4 - Turnback Allocation Deposited Into The General Fund.....	22
Finding No. 5 - Late Receipt Of Allocations	23
Summary Of Exit Conference.....	25
Report Distribution	26

TOWNSHIP OF WASHINGTON
CLARION COUNTY
LIQUID FUELS TAX FUND
BACKGROUND
FOR THE PERIOD
JANUARY 1, 2009 TO 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.

TOWNSHIP OF WASINGTON
 CLARION 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	\$ -	\$ -	\$ -
Minor equipment purchases	-	-	-
Computer/Computer related training	-	-	-
Agility projects	-	-	-
Cleaning streets and gutters	-	-	-
Winter maintenance services	2,254.55	(3.00)	2,251.55
Traffic control devices	-	-	-
Street lighting	-	-	-
Storm sewers and drains	-	-	-
Repairs of tools and machinery	2,402.07	-	2,402.07
Maintenance and repair of roads and bridges	148,432.99	(43,279.16)	105,153.83
Highway construction and rebuilding projects	9,594.34	8,279.16	17,873.50
Miscellaneous (Note 6)	59.20	35,000.00	35,059.20
	<u> </u>	<u> </u>	<u> </u>
Total (To Section 2, Line 5)	<u>\$ 162,743.15</u>	<u>\$ (3.00)</u>	<u>\$ 162,740.15</u>

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

TOWNSHIP OF WASHINGTON
 CLARION 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	\$ 15,793.98	\$ -	\$ 15,793.98
Receipts:			
2. State allocation	92,295.04	-	92,295.04
2a. Turnback allocation	8,480.00	-	8,480.00
2b. Interest on investments (Note 3)	55.72	(3.00)	52.72
2c. Miscellaneous (Note 5)	51,865.00	-	51,865.00
3. Total receipts	<u>152,695.76</u>	<u>(3.00)</u>	<u>152,692.76</u>
4. Total funds available	<u>168,489.74</u>	<u>(3.00)</u>	<u>168,486.74</u>
5. Expenditures (Section 1)	<u>162,743.15</u>	<u>(3.00)</u>	<u>162,740.15</u>
6. Balance, December 31, 2009	<u>\$ 5,746.59</u>	<u>\$ -</u>	<u>\$ 5,746.59</u>

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

TOWNSHIP OF WASHINGTON
 CLARION COUNTY
 LIQUID FUELS TAX FUND
 2009 FORM MS-965 – SECTION 3
 WITH ADJUSTMENTS

<u>Equipment Balance</u>	<u>Reported</u>	<u>Adjustments</u>	<u>Adjusted Amount</u>
1. Prior year equipment balance	\$ 15,793.98	\$ -	\$ 15,793.98
2. Add: Current year equipment allocation (20% of Lines 2 + 2a, Section 2)	20,155.01	-	20,155.01
3. PENNDOT approved adjustments	-	-	-
4. Total funds available for equipment acquisition	35,948.99	-	35,948.99
5. Less: Major equipment expenditures	-	-	-
6. Remainder	<u>35,948.99</u>	<u>-</u>	<u>35,948.99</u>
7. Equipment balance available for subsequent year (Lesser of Line 6 or Section 2 balance, but not less than zero)	<u>\$ 5,746.59</u>	<u>\$ -</u>	<u>\$ 5,746.59</u>

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

TOWNSHIP OF WASHINGTON
 CLARION 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	\$ -	\$ -	\$ -
Minor equipment purchases	-	-	-
Computer/Computer related training	-	-	-
Agility projects	-	-	-
Cleaning streets and gutters	-	-	-
Winter maintenance services	8,098.43	-	8,098.43
Traffic control devices	-	-	-
Street lighting	-	-	-
Storm sewers and drains	-	-	-
Repairs of tools and machinery	29,390.02	(8,398.36)	20,991.66
Maintenance and repair of roads and bridges	64,191.52	-	64,191.52
Highway construction and rebuilding projects	-	-	-
Miscellaneous (Note 6)	138.71	8,398.36	8,537.07
 Total (To Section 2, Line 5)	 <u>\$ 101,818.68</u>	 <u>\$ -</u>	 <u>\$ 101,818.68</u>

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

TOWNSHIP OF WASHINGTON
 CLARION COUNTY
 LIQUID FUELS TAX FUND
 2010 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, 2010	\$ 5,746.59	\$ -	\$ 5,746.59
Receipts:			
2. State allocation	88,624.52	-	88,624.52
2a. Turnback allocation	8,480.00	-	8,480.00
2b. Interest on investments (Note 3)	29.70	-	29.70
2c. Miscellaneous	-	-	-
3. Total receipts	<u>97,134.22</u>	<u>-</u>	<u>97,134.22</u>
4. Total funds available	<u>102,880.81</u>	<u>-</u>	<u>102,880.81</u>
5. Expenditures (Section 1)	<u>101,818.68</u>	<u>-</u>	<u>101,818.68</u>
6. Balance, December 31, 2010	<u><u>\$ 1,062.13</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 1,062.13</u></u>

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

TOWNSHIP OF WASHINGTON
 CLARION COUNTY
 LIQUID FUELS TAX FUND
 2010 FORM MS-965 – SECTION 3
 WITH ADJUSTMENTS

<u>Equipment Balance</u>	<u>Reported</u>	<u>Adjustments</u>	<u>Adjusted Amount</u>
1. Prior year equipment balance	\$ 5,746.59	\$ -	\$ 5,746.59
2. Add: Current year equipment allocation (20% of Lines 2 + 2a, Section 2)	19,420.90	-	19,420.90
3. PENNDOT approved adjustments	-	-	-
4. Total funds available for equipment acquisition	25,167.49	-	25,167.49
5. Less: Major equipment expenditures	-	-	-
6. Remainder	<u>25,167.49</u>	<u>-</u>	<u>25,167.49</u>
7. Equipment balance available for subsequent year (Lesser of Line 6 or Section 2 balance, but not less than zero)	<u>\$ 1,062.13</u>	<u>\$ -</u>	<u>\$ 1,062.13</u>

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

TOWNSHIP OF WASHINGTON
 CLARION 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	\$ -	\$ -	\$ -
Minor equipment purchases	-	-	-
Computer/Computer related training	-	-	-
Agility projects	-	-	-
Cleaning streets and gutters	-	-	-
Winter maintenance services	-	-	-
Traffic control devices	-	-	-
Street lighting	-	-	-
Storm sewers and drains	-	-	-
Repairs of tools and machinery	-	-	-
Maintenance and repair of roads and bridges	55,872.92	32,079.85	87,952.77
Highway construction and rebuilding projects	-	-	-
Miscellaneous	-	-	-
	<hr/>	<hr/>	<hr/>
Total (To Section 2, Line 5)	<u>\$ 55,872.92</u>	<u>\$ 32,079.85</u>	<u>\$ 87,952.77</u>

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

TOWNSHIP OF WASHINGTON
 CLARION 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	\$ 1,062.13	\$ -	\$ 1,062.13
Receipts:			
2. State allocation	83,197.68	7,497.07	90,694.75
2a. Turnback allocation	8,480.00	(8,480.00)	-
2b. Interest on investments (Note 3)	10.79	-	10.79
2c. Miscellaneous (Note 5)	32,000.00	-	32,000.00
3. Total receipts	<u>123,688.47</u>	<u>(982.93)</u>	<u>122,705.54</u>
4. Total funds available	<u>124,750.60</u>	<u>(982.93)</u>	<u>123,767.67</u>
5. Expenditures (Section 1)	<u>55,872.92</u>	<u>32,079.85</u>	<u>87,952.77</u>
6. Balance, December 31, 2011	<u>\$ 68,877.68</u>	<u>\$ (33,062.78)</u>	<u>\$ 35,814.90</u>

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

TOWNSHIP OF WASHINGTON
 CLARION 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	\$ 1,062.13	\$ -	\$ 1,062.13
2. Add: Current year equipment allocation (20% of Lines 2 + 2a, Section 2)	18,335.54	(196.59)	18,138.95
3. PENNDOT approved adjustments	<u>-</u>	<u>-</u>	<u>-</u>
4. Total funds available for equipment acquisition	19,397.67	(196.59)	19,201.08
5. Less: Major equipment expenditures	<u>-</u>	<u>-</u>	<u>-</u>
6. Remainder	<u>19,397.67</u>	<u>(196.59)</u>	<u>19,201.08</u>
7. Equipment balance available for subsequent year (Lesser of Line 6 or Section 2 balance, but not less than zero)	<u>\$ 19,397.67</u>	<u>\$ (196.59)</u>	<u>\$ 19,201.08</u>

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

TOWNSHIP OF WASHINGTON
CLARION COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE PERIOD
JANUARY 1, 2009 TO 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 WASHINGTON
CLARION COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE PERIOD
JANUARY 1, 2009 TO 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 WASHINGTON
CLARION COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE PERIOD
JANUARY 1, 2009 TO 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 WASHINGTON
CLARION COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE PERIOD
JANUARY 1, 2009 TO DECEMBER 31, 2011

2. Deposits (Continued)

Fund Balance

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

Cash	\$35,814.90
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3. Interest On Investments

Our examination disclosed that the municipality deposited idle liquid fuels tax money in interest-bearing accounts which earned \$52.72 during 2009, \$29.70 during 2010, and \$10.79 during 2011, thus providing additional funds for road maintenance and repairs.

4. Adjustments

2009 - Section 1

An adjustment of \$(3.00) was made to "Winter maintenance services" because check No. 1048 was reported as \$2,254.55 but was issued for \$2,251.55.

Adjustments were made to "Maintenance and repair of roads and bridges," "Highway construction and rebuilding projects," and "Miscellaneous" because expenditures of \$43,279.16 were misclassified.

2009 - Section 2

An adjustment of \$(3.00) was made to "Interest on investments" because interest earnings were overstated.

2010 - Section 1

Adjustments were made to "Repairs of tools and machinery" and "Miscellaneous" because expenditures of \$8,398.36 were misclassified.

TOWNSHIP OF WASHINGTON
 CLARION COUNTY
 LIQUID FUELS TAX FUND
 NOTES TO FORMS MS-965 WITH ADJUSTMENTS
 FOR THE PERIOD
 JANUARY 1, 2009 TO DECEMBER 31, 2011

4. Adjustments (Continued)

2011 - Section 1

An adjustment of \$32,079.85 was made to “Maintenance and repair of roads and bridges” because check No. 157 was not reported.

2011 - Section 2

An adjustment of \$7,497.07 was made to “State allocation” because this receipt was understated.

An adjustment of \$(8,480.00) was made to “Turnback allocation” because this receipt was incorrectly deposited into the General Fund but was reported as a Liquid Fuels deposit.

2011 - Section 3

An adjustment of \$(196.59) was made to “Current year equipment allocation” because the state allocation from 2011 - Section 2, which is used to calculate this figure, was understated and the turnback allocation from 2011 - Section 2, which is also used to calculate this figure, was deposited into the General Fund.

5. Miscellaneous Receipts

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

<u>Source</u>	<u>Description</u>	<u>2009</u>	<u>2011</u>
General Fund	Unidentified transfers (Finding No. 2)	\$14,000.00	\$ -
General Fund	County aid	37,865.00	-
General Fund	Reimbursement for stone	-	32,000.00
	Total	<u>\$51,865.00</u>	<u>\$32,000.00</u>

TOWNSHIP OF WASHINGTON
 CLARION COUNTY
 LIQUID FUELS TAX FUND
 NOTES TO FORMS MS-965 WITH ADJUSTMENTS
 FOR THE PERIOD
 JANUARY 1, 2009 TO 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>2009</u>	<u>2010</u>
General Fund	Undocumented transfers (Finding No. 3)	\$35,000.00	\$8,398.36
Financial institution	Bank service charges	<u>59.20</u>	<u>138.71</u>
Total		<u><u>\$35,059.20</u></u>	<u><u>\$8,537.07</u></u>

TOWNSHIP OF WASHINGTON
CLARION COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2009 TO 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 \$(3.00) was made to "Winter maintenance services" because check No. 1048 was reported as \$2,254.55 but was issued for \$2,251.55.
- Adjustments were made to "Maintenance and repair of roads and bridges," "Highway construction and rebuilding projects," and "Miscellaneous" because expenditures of \$43,279.16 were misclassified.

2009 - Section 2

- An adjustment of \$(3.00) was made to "Interest on investments" because interest earnings were overstated.

2010 - Section 1

- Adjustments were made to "Repairs of tools and machinery" and "Miscellaneous" because expenditures of \$8,398.36 were misclassified.

2011 - Section 1

- An adjustment of \$32,079.85 was made to "Maintenance and repair of roads and bridges" because check No. 157 was not reported.

2011 - Section 2

- An adjustment of \$7,497.07 was made to "State allocation" because this receipt was understated.
- An adjustment of \$(8,480.00) was made to "Turnback allocation" because this receipt was incorrectly deposited into the General Fund but was reported as a Liquid Fuels deposit.

TOWNSHIP OF WASHINGTON
CLARION COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2009 TO DECEMBER 31, 2011

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

2011 - Section 3

- An adjustment of \$(196.59) was made to “Current year equipment allocation” because the state allocation from 2011 - Section 2, which is used to calculate this figure, was understated and the turnback allocation from 2011 - Section 2, which is also used to calculate this figure, was deposited into the General Fund.

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

Recommendation

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

Management’s Response

The municipal officials stated:

We will double check the written check list.

Auditor’s Conclusion

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

TOWNSHIP OF WASHINGTON
CLARION COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2009 TO DECEMBER 31, 2011

Finding No. 2 - Internal Control Over Transfers To The Liquid Fuels Tax Fund Should Be Improved

Our examination disclosed that there was no supporting documentation for transfers from the General Fund to the Liquid Fuels Tax Fund of \$11,000.00 and \$3,000.00 that were received on June 24, 2009, and November 6, 2009, respectively.

Good internal controls ensure that the municipality complete its Forms MS-965 accurately and completely, including descriptions of the source and purpose of all transfers to the Liquid Fuels Tax Fund. Additionally, good internal accounting controls ensure that there is documentation to support all transfers. The failure to properly complete Forms MS-965 increases the risk that errors or misappropriations may occur and remain undetected. Additionally, because documentation for the total transfers of \$14,000.00 was not maintained, we were unable to determine if this money should have been transferred to the Liquid Fuels Tax Fund.

Recommendations

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

We further recommend that the municipality maintain adequate documentation to support all transfers.

Management's Response

The municipal officials stated:

The documents exist and we will more clearly document transfers separately labeled liquid fuels.

Auditor's Conclusion

The municipality was unable to provide us with the purpose of the transfers. During our next examination we will determine if the municipality complied with our recommendations.

TOWNSHIP OF WASHINGTON
 CLARION COUNTY
 LIQUID FUELS TAX FUND
 FINDINGS AND RECOMMENDATIONS
 FOR THE PERIOD
 JANUARY 1, 2009 TO DECEMBER 31, 2011

Finding No. 3 - Documentation Supporting Transfers From The Liquid Fuels Tax Fund Was Not Available For Examination

Our examination disclosed that the municipality made transfers totaling \$35,000.00 from its Liquid Fuels Tax Fund to its General Fund during 2009. These transfers were as follows:

<u>Date</u>	<u>Amount</u>
01/24/09	\$10,000.00
04/16/09	5,000.00
11/30/09	15,000.00
12/04/09	5,000.00
Total	<u>\$35,000.00</u>

Additionally, on August 10, 2010, the municipality closed a Liquid Fuels Tax Fund checking account and transferred the balance of \$8,398.36 to the General Fund. However, the municipality did not maintain invoices or payroll records to support the transfers during 2009-2010.

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

Without adequate documentation, we could not determine if the transfers were permissible according to the Liquid Fuels Tax Municipal Allocation Law and the Department of Transportation's Regulations.

TOWNSHIP OF WASHINGTON
CLARION COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2009 TO DECEMBER 31, 2011

Finding No. 3 - Documentation Supporting Transfers From The Liquid Fuels Tax Fund Was Not Available For Examination (Continued)

The failure to maintain documentation to support transfers could result in the municipality having to reimburse \$43,398.36 to its Liquid Fuels Tax Fund.

Recommendations

We recommend that the municipality reimburse \$43,398.36 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 transfers by maintaining adequate documentation to support all transfers.

Management's Response

The municipal officials stated:

The documents exist and we will more clearly document transfers separately labeled liquid fuels.

Auditor's Conclusion

The municipality was unable to provide us with invoices or payroll records to support the transfers. During our next examination we will determine if the municipality complied with our recommendations.

TOWNSHIP OF WASHINGTON
CLARION COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2009 TO DECEMBER 31, 2011

Finding No. 4 - Turnback Allocation Deposited Into The General Fund

Our examination disclosed that the municipality erroneously deposited the 2011 annual turnback allocation of \$8,480.00 into the General Fund on April 1, 2011. This turnback allocation was made to the municipality in accordance with *The Vehicle Code*, 75 Pa. C.S.A. § 9511(4), which requires that “Annual maintenance payments . . . shall be deposited into the municipality’s liquid fuels tax account. . . .”

If the turnback allocation was deposited into the Liquid Fuels Tax Fund, money may have been available for investment purposes, potentially earning interest income which could have been used for road maintenance and repairs. In addition, 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 Vehicle Code* as noted above could result in the municipality having to reimburse \$8,480.00 to its Liquid Fuels Tax Fund.

Recommendations

We recommend that the municipality reimburse \$8,480.00 to its Liquid Fuels Tax Fund upon official notification by the Department of Transportation.

We further recommend that, in the future, the municipality deposit turnback allocations received for annual maintenance immediately into the Liquid Fuels Tax Fund.

Management’s Response

The municipal officials stated:

This was an error in labeling the paper check.

Auditor’s Conclusion

The municipality should ensure that the turnback allocations that are received for annual maintenance are immediately deposited into the Liquid Fuels Tax Fund. During our next examination we will determine if the municipality complied with our recommendations.

TOWNSHIP OF WASHINGTON
CLARION COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2009 TO DECEMBER 31, 2011

Finding No. 5 - Late Receipt Of Allocations

Our examination disclosed that the 2009 and 2011 Liquid Fuels Tax Fund allocations of \$92,295.04 and \$90,694.75, respectively, which should have been distributed from the Department of Transportation to the municipality during the first week of April of each year, were not received until June 26, 2009, and May 17, 2011, respectively, because the municipality failed to comply with the Department of Transportation's *Publication 9*, Chapter Two, Section 2.4, which states:

To qualify for the annual liquid fuels tax allocation, a municipality shall:

- Submit annual reports (MS-965, Actual Use Report, MS-965P, Project and Miscellaneous Receipts, and MS-965S, Record of Checks).
- Make deposits and payments or expenditures in compliance with the Act 655. Failure to do so may result in not receiving allocations from PENNDOT until all discrepancies are resolved.
- Submit the Pennsylvania Department of Community and Economic Development's (DCED) Report of Elected and Appointed Officials by January 31st and the Survey of Financial Condition by March 15th.
- Ensure resolution of all Contractor Responsibility Program (CRP) holds and blocks imposed by the Department of Revenue and the Department of Labor and Industry.

Because the municipality failed to file documents and information timely as noted above, the municipality did not have use of the 2009 allocation for almost three months and the 2011 allocation for more than one month. Furthermore, had the allocations been received timely, money may have been available for investment purposes, potentially earning interest income which could have been used for road maintenance and repairs.

Recommendation

We recommend that, in the future, the municipality comply with the Department of Transportation's *Publication 9* to ensure that the allocations are received during the first week in April as outlined above.

TOWNSHIP OF WASHINGTON
CLARION COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2009 TO DECEMBER 31, 2011

Finding No. 5 - Late Receipt Of Allocations (Continued)

Management's Response

The municipal officials stated:

We agree with the dates for state receipt of the funds.

Auditor's Conclusion

The municipal officials should ensure that all required documents and information are filed timely. During our next examination we will determine if the municipality complied with our recommendation.

TOWNSHIP OF WASHINGTON
CLARION COUNTY
LIQUID FUELS TAX FUND
SUMMARY OF EXIT CONFERENCE
FOR THE PERIOD
JANUARY 1, 2009 TO DECEMBER 31, 2011

An exit conference was held September 28, 2012. Those participating were:

TOWNSHIP OF WASHINGTON

Ms. Jacqueline Blose, 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 WASHINGTON
CLARION COUNTY
LIQUID FUELS TAX FUND
REPORT DISTRIBUTION
FOR THE PERIOD
JANUARY 1, 2009 TO DECEMBER 31, 2011

This report was initially distributed to:

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

Township of Washington
Clarion County
P. O. Box 124
Fryburg, PA 16236

The Honorable Robert A. Carbaugh III	Chairman of the Board of Supervisors
Ms. Jacqueline Blose	Secretary/Treasurer

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