



**TOWNSHIP OF DAMASCUS
WAYNE COUNTY
63-206**

**LIQUID FUELS TAX FUND
EXAMINATION REPORT**

**FOR THE PERIOD
JANUARY 1, 2010 TO DECEMBER 31, 2012**

COMMONWEALTH OF PENNSYLVANIA

EUGENE A. DEPASQUALE - AUDITOR GENERAL

DEPARTMENT OF THE AUDITOR GENERAL





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 Damascus, Wayne County, for the period January 1, 2010 to December 31, 2012. 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 Damascus, Wayne County's Forms MS-965 for the period January 1, 2010 to December 31, 2012 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 Finding No. 1, the adjustments included on the Forms MS-965 With Adjustments are made by the Department of the Auditor General.

Independent Auditor's Report (Continued)

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

- The township expended \$12,480.21 during 2012 for repairs to the DeCourt Street Bridge. However, documentation for price quotations was not available for examination and the municipality failed to submit specifications for approval to the Department of Transportation for these repairs (see Finding No. 3).
- The township expended \$4,000.00 from the Liquid Fuels Tax Fund to rent a portable crusher to crush shale and \$5,586.25 to blast and drill the shale quarry, which are nonpermissible expenditures (see Finding No. 4).
- The municipality entered into a lease-purchase agreement totaling \$30,710.16 for a 2010 Chevrolet pick-up truck without advertising for bids. During our current examination period the township paid \$2,559.18 in 2011 and \$6,448.77 in 2012 from the Liquid Fuels Tax Fund on the lease. On July 31, 2012 the township reimbursed \$6,448.77 to its Liquid Fuels Tax Fund (see Finding No. 5), leaving \$2,559.18 due the Liquid Fuels Tax Fund.

In our opinion, except for the bulleted items discussed above, 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 Damascus, Wayne County, for the period January 1, 2010 to December 31, 2012, 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 Damascus, Wayne 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 Damascus, Wayne County's Forms MS-965 that is more than inconsequential will not be prevented or detected by the Township of Damascus, Wayne County's internal control.

Independent Auditor's Report (Continued)

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 - Recurring.
- Duplicate Payment Of Invoices.

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 Damascus, Wayne 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 instances of noncompliance that are required to be reported under *Government Auditing Standards*:

- Purchases Over \$10,000.00 In Noncompliance With Advertising And Bidding Requirements.
- Documentation For Price Quotations Was Not Available For Examination And Failure To Obtain Project Approval.
- Nonpermissible Expenditures.

We are concerned in light of the municipality's failure to correct a previously reported finding regarding a failure to properly prepare its Forms MS-965. During our current examination we noted that the Forms MS-965 were not properly prepared, duplicate payments were made, documentation for price quotations were not available for examination, the municipality failed to obtain project approval, there were nonpermissible expenditures, and purchases over \$10,000.00 were in noncompliance with advertising bidding requirements. 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 Damascus, Wayne County, and is not intended to be and should not be used by anyone other than these specified parties.



September 13, 2013

EUGENE A. DEPASQUALE
Auditor General

CONTENTS

	<u>Page</u>
Background.....	1
Financial Section:	
2010 Form MS-965 With Adjustments	2
2011 Form MS-965 With Adjustments	5
2012 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 - Recurring	16
Finding No. 2 - Duplicate Payment Of Invoices	20
Finding No. 3 - Documentation For Price Quotations Was Not Available For Examination And Failure To Obtain Project Approval.....	21
Finding No. 4 - Nonpermissible Expenditures	24
Finding No. 5 - Purchases Over \$10,000.00 In Noncompliance With Advertising And Bidding Requirements	26
Summary Of Exit Conference.....	28
Report Distribution	29

TOWNSHIP OF DAMASCUS
WAYNE COUNTY
LIQUID FUELS TAX FUND
BACKGROUND
FOR THE PERIOD
JANUARY 1, 2010 TO DECEMBER 31, 2012

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 DAMASCUS
WAYNE COUNTY
LIQUID FUELS TAX FUND
2010 FORM MS-965 – SECTION 1
WITH ADJUSTMENTS

<u>Expenditure Summary</u>	<u>Reported</u>	<u>Adjustments</u>	<u>Adjusted Amount</u>
Major equipment purchases	\$ 37,584.45	\$ -	\$ 37,584.45
Minor equipment purchases	797.89	-	797.89
Computer/Computer related training	-	-	-
Agility projects	-	-	-
Cleaning streets and gutters	-	-	-
Winter maintenance services	17,984.33	-	17,984.33
Traffic control devices	6,125.28	-	6,125.28
Street lighting	-	-	-
Storm sewers and drains	37,002.80	-	37,002.80
Repairs of tools and machinery	29,527.14	-	29,527.14
Maintenance and repair of roads and bridges	151,364.94	-	151,364.94
Highway construction and rebuilding projects	-	-	-
Miscellaneous (Bank service charges)	5.00	-	5.00
 Total (To Section 2, Line 5)	 <u>\$ 280,391.83</u>	 <u>\$ -</u>	 <u>\$ 280,391.83</u>

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

TOWNSHIP OF DAMASCUS
WAYNE COUNTY
LIQUID FUELS TAX FUND
2010 FORM MS-965 – SECTION 2
WITH ADJUSTMENTS

<u>Fund Balance</u>	<u>Reported</u>	<u>Adjustments (Finding No. 1)</u>	<u>Adjusted Amount</u>
1. Balance, January 1, 2010	\$ 51,160.28	\$ -	\$ 51,160.28
Receipts:			
2. State allocation	248,237.17	-	248,237.17
2a. Turnback allocation	1,920.00	-	1,920.00
2b. Interest on investments (Note 3)	165.14	-	165.14
2c. Miscellaneous	2,154.24	(2,154.24)	-
3. Total receipts	<u>252,476.55</u>	<u>(2,154.24)</u>	<u>250,322.31</u>
4. Total funds available	<u>303,636.83</u>	<u>(2,154.24)</u>	<u>301,482.59</u>
5. Expenditures (Section 1)	<u>280,391.83</u>	<u>-</u>	<u>280,391.83</u>
6. Balance, December 31, 2010	<u>\$ 23,245.00</u>	<u>\$ (2,154.24)</u>	<u>\$ 21,090.76</u>

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

TOWNSHIP OF DAMASCUS
WAYNE 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	\$ 51,160.28	\$ -	\$ 51,160.28
2. Add: Current year equipment allocation (20% of Lines 2 + 2a, Section 2)	50,031.43	-	50,031.43
3. PENNDOT approved adjustments	<u>-</u>	<u>-</u>	<u>-</u>
4. Total funds available for equipment acquisition	101,191.71	-	101,191.71
5. Less: Major equipment expenditures	<u>37,584.45</u>	<u>-</u>	<u>37,584.45</u>
6. Remainder	<u><u>63,607.26</u></u>	<u><u>-</u></u>	<u><u>63,607.26</u></u>
7. Equipment balance available for subsequent year (Lesser of Line 6 or Section 2 balance, but not less than zero)	<u><u>\$ 23,245.00</u></u>	<u><u>\$ (2,154.24)</u></u>	<u><u>\$ 21,090.76</u></u>

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

TOWNSHIP OF DAMASCUS
WAYNE COUNTY
LIQUID FUELS TAX FUND
2011 FORM MS-965 – SECTION 1
WITH ADJUSTMENTS

<u>Expenditure Summary</u>	<u>Reported</u>	<u>Adjustments (Finding No. 1)</u>	<u>Adjusted Amount</u>
Major equipment purchases	\$ 39,210.25	\$ 6,349.19	\$ 45,559.44
Minor equipment purchases	5,069.60	(5,069.60)	-
Computer/Computer related training	-	-	-
Agility projects	-	-	-
Cleaning streets and gutters	-	-	-
Winter maintenance services	39,751.12	10,010.11	49,761.23
Traffic control devices	-	-	-
Street lighting	-	-	-
Storm sewers and drains	20,230.18	-	20,230.18
Repairs of tools and machinery	26,375.83	(11,357.09)	15,018.74
Maintenance and repair of roads and bridges	49,194.93	12,388.39	61,583.32
Highway construction and rebuilding projects	-	-	-
Miscellaneous	-	-	-
	<hr/>	<hr/>	<hr/>
Total (To Section 2, Line 5)	<u>\$ 179,831.91</u>	<u>\$ 12,321.00</u>	<u>\$ 192,152.91</u>

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

TOWNSHIP OF DAMASCUS
WAYNE COUNTY
LIQUID FUELS TAX FUND
2011 FORM MS-965 – SECTION 2
WITH ADJUSTMENTS

<u>Fund Balance</u>	<u>Reported</u>	<u>Adjustments (Finding No. 1)</u>	<u>Adjusted Amount</u>
1. Balance, January 1, 2011	\$ 23,245.00	\$ (2,154.24)	\$ 21,090.76
Receipts:			
2. State allocation	253,989.03	-	253,989.03
2a. Turnback allocation	1,920.00	-	1,920.00
2b. Interest on investments (Note 3)	55.37	10.05	65.42
2c. Miscellaneous (Finding No. 2)	2,199.12	2,154.24	4,353.36
3. Total receipts	<u>258,163.52</u>	<u>2,164.29</u>	<u>260,327.81</u>
4. Total funds available	<u>281,408.52</u>	<u>10.05</u>	<u>281,418.57</u>
5. Expenditures (Section 1)	<u>179,831.91</u>	<u>12,321.00</u>	<u>192,152.91</u>
6. Balance, December 31, 2011	<u><u>\$ 101,576.61</u></u>	<u><u>\$ (12,310.95)</u></u>	<u><u>\$ 89,265.66</u></u>

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

TOWNSHIP OF DAMASCUS
WAYNE COUNTY
LIQUID FUELS TAX FUND
2011 FORM MS-965 – SECTION 3
WITH ADJUSTMENTS

<u>Equipment Balance</u>	<u>Reported</u>	<u>Adjustments (Finding No. 1)</u>	<u>Adjusted Amount</u>
1. Prior year equipment balance	\$ 23,245.00	\$ (2,154.24)	\$ 21,090.76
2. Add: Current year equipment allocation (20% of Lines 2 + 2a, Section 2)	51,181.81	-	51,181.81
3. PENNDOT approved adjustments	-	-	-
4. Total funds available for equipment acquisition	74,426.81	(2,154.24)	72,272.57
5. Less: Major equipment expenditures	39,210.25	6,349.19	45,559.44
6. Remainder	<u>35,216.56</u>	<u>(8,503.43)</u>	<u>26,713.13</u>
7. Equipment balance available for subsequent year (Lesser of Line 6 or Section 2 balance, but not less than zero)	<u>\$ 35,216.56</u>	<u>\$ (8,503.43)</u>	<u>\$ 26,713.13</u>

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

TOWNSHIP OF DAMASCUS
WAYNE COUNTY
LIQUID FUELS TAX FUND
2012 FORM MS-965 – SECTION 1
WITH ADJUSTMENTS

<u>Expenditure Summary</u>	<u>Reported</u>	<u>Adjustments (Finding No. 1)</u>	<u>Adjusted Amount</u>
Major equipment purchases	\$ 37,584.45	\$ 6,448.77	\$ 44,033.22
Minor equipment purchases	2,564.06	-	2,564.06
Computer/Computer related training	-	-	-
Agility projects	-	-	-
Cleaning streets and gutters	-	-	-
Winter maintenance services	24,789.32	-	24,789.32
Traffic control devices	93.90	-	93.90
Street lighting	-	-	-
Storm sewers and drains	-	-	-
Repairs of tools and machinery	17,429.32	(2.95)	17,426.37
Maintenance and repair of roads and bridges	68,982.34	(5,169.18)	63,813.16
Highway construction and rebuilding projects	113,620.14	-	113,620.14
Miscellaneous	-	-	-
	<u> </u>	<u> </u>	<u> </u>
Total (To Section 2, Line 5)	<u>\$ 265,063.53</u>	<u>\$ 1,276.64</u>	<u>\$ 266,340.17</u>

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

TOWNSHIP OF DAMASCUS
WAYNE COUNTY
LIQUID FUELS TAX FUND
2012 FORM MS-965 – SECTION 2
WITH ADJUSTMENTS

<u>Fund Balance</u>	<u>Reported</u>	<u>Adjustments (Finding No. 1)</u>	<u>Adjusted Amount</u>
1. Balance, January 1, 2012	\$ 101,576.61	\$ (12,310.95)	\$ 89,265.66
Receipts:			
2. State allocation	260,542.31	-	260,542.31
2a. Turnback allocation	1,920.00	-	1,920.00
2b. Interest on investments (Note 3)	68.26	2.91	71.17
2c. Miscellaneous (Finding No. 5)	6,448.77	-	6,448.77
3. Total receipts	<u>268,979.34</u>	<u>2.91</u>	<u>268,982.25</u>
4. Total funds available	<u>370,555.95</u>	<u>(12,308.04)</u>	<u>358,247.91</u>
5. Expenditures (Section 1)	<u>265,063.53</u>	<u>1,276.64</u>	<u>266,340.17</u>
6. Balance, December 31, 2012	<u><u>\$ 105,492.42</u></u>	<u><u>\$ (13,584.68)</u></u>	<u><u>\$ 91,907.74</u></u>

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

TOWNSHIP OF DAMASCUS
WAYNE COUNTY
LIQUID FUELS TAX FUND
2012 FORM MS-965 – SECTION 3
WITH ADJUSTMENTS

<u>Equipment Balance</u>	<u>Reported</u>	<u>Adjustments (Finding No. 1)</u>	<u>Adjusted Amount</u>
1. Prior year equipment balance	\$ 35,216.56	\$ (8,503.43)	\$ 26,713.13
2. Add: Current year equipment allocation (20% of Lines 2 + 2a, Section 2)	52,492.46	-	52,492.46
3. PENNDOT approved adjustments	-	-	-
4. Total funds available for equipment acquisition	87,709.02	(8,503.43)	79,205.59
5. Less: Major equipment expenditures	37,584.45	6,448.77	44,033.22
6. Remainder	<u>50,124.57</u>	<u>(14,952.20)</u>	<u>35,172.37</u>
7. Equipment balance available for subsequent year (Lesser of Line 6 or Section 2 balance, but not less than zero)	<u>\$ 50,124.57</u>	<u>\$ (14,952.20)</u>	<u>\$ 35,172.37</u>

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

TOWNSHIP OF DAMASCUS
WAYNE COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE PERIOD
JANUARY 1, 2010 TO DECEMBER 31, 2012

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 prior to 2012 and in excess of \$10,000.00 during 2012 and subsequent years.
- Minor equipment purchases are purchases of road machinery and road equipment that cost \$4,000.00 or less prior to 2012 and \$10,000.00 or less during 2012 and subsequent years.
- 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.

TOWNSHIP OF DAMASCUS
WAYNE COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE PERIOD
JANUARY 1, 2010 TO DECEMBER 31, 2012

1. Criteria (Continued)

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.

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 DAMASCUS
WAYNE COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE PERIOD
JANUARY 1, 2010 TO DECEMBER 31, 2012

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 financial institutions. 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, 2012. 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 DAMASCUS
WAYNE COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE PERIOD
JANUARY 1, 2010 TO DECEMBER 31, 2012

2. Deposits (Continued)

Fund Balance

The fund balance as of December 31, 2012 consists of the following:

Cash	\$91,907.74
------	-------------

3. Interest On Investments

Our examination disclosed that the municipality deposited idle liquid fuels tax money in interest-bearing accounts which earned \$165.14 during 2010, \$65.42 during 2011, and \$71.17 during 2012, thus providing additional funds for road maintenance and repairs.

4. Lease-Purchase Agreement

On March 14, 2008, the municipality entered into a lease-purchase agreement with PNC Equipment Finance to purchase three dump trucks totaling \$265,333.68. The agreement was for a term of five years. Principal and interest payments of \$5,069.60 are due monthly. The total to be repaid including principal and interest is \$304,176.00. Prior years' principal and interest payments from the Liquid Fuels Tax Fund were \$20,278.40. Additionally, the municipality paid principal and interest of \$91,252.80 from the Road Machinery Fund.

During the current examination period the municipality paid principal and interest of \$81,113.60 plus a late fee of \$101.39 from the Liquid Fuels Tax Fund. These amounts are reflected in major equipment purchases on the 2010, 2011, and 2012 Forms MS-965 - Section 1. Additionally, the municipality paid principal and interest of \$101,392.00 plus a late fee of \$101.39 from the Road Equipment Fund. The outstanding balance of the lease-purchase agreement as of December 31, 2012 was \$10,139.20, plus interest.

TOWNSHIP OF DAMASCUS
WAYNE COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE PERIOD
JANUARY 1, 2010 TO DECEMBER 31, 2012

5. Bank Loan

On July 11, 2006, the municipality borrowed \$174,000.00 from Wayne Bank to purchase a grader. The term of the loan was for seven years at an interest rate of 4.78 percent. Principal and interest payments of \$2,447.29 are due monthly. Prior years' principal and interest payments from the Liquid Fuels Tax Fund were \$12,090.42 and \$2,593.32, respectively. Additionally, the municipality paid principal of \$65,453.16 and interest of \$20,201.99 from the Road Equipment Fund.

During the current examination period the municipality paid principal of \$33,251.87, interest of \$3,579.94, and late fees of \$122.36 from the Liquid Fuels Tax Fund. These amounts are reflected in major equipment purchases on the 2010, 2011, and 2012 Forms MS-965 - Section 1. Additionally, the municipality paid principal of \$46,406.98 and interest of \$4,990.11 from the Road Equipment Fund. The outstanding balance of the loan as of December 31, 2012 was \$16,797.57, plus interest.

6. Lease-Purchase Agreement

On September 11, 2011, the municipality entered into a lease-purchase agreement with Acme Auto Leasing to purchase a 2010 Chevrolet Silverado 3500 HD pick up. The agreement was for a term of two years with principal and interest payments of \$1,279.59 due monthly. The total amount to be repaid including principal and interest is \$30,710.16. Because the municipality did not advertise for bids for the purchase of the truck, the payments are not eligible to be paid from the Liquid Fuels Tax Fund (see Finding No. 5).

During the current examination period the municipality paid principal and interest of \$8,957.13 and late fees of \$50.82 from the Liquid Fuels Tax Fund. These amounts are reflected in major equipment purchases on the 2011 and 2012 Forms MS-965 - Section 1. Additionally, the municipality paid principal and interest payments of \$21,753.03 from the General Fund. The lease-purchase agreement was paid-in-full on August 3, 2012.

TOWNSHIP OF DAMASCUS
WAYNE COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2010 TO DECEMBER 31, 2012

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

We cited the municipality for failing to properly prepare its Forms MS-965 in our prior report for the period ending December 31, 2009. However, our current examination disclosed that there were numerous errors made in the preparation of the municipality's 2010, 2011, and 2012 Forms MS-965. These adjustments are as follows:

2010 - Section 2

- An adjustment of \$(2,154.24) was made to "Miscellaneous" because a reimbursement for a payment in error was received in 2011 but was reported in 2010.

2011 - Section 1

- An adjustment of \$6,349.19 was made to "Major equipment purchases" because expenditures of \$1,279.59 were misclassified as maintenance and repair of roads and bridges and expenditures of \$5,069.60 were misclassified as minor equipment purchases.
- An adjustment of \$(5,069.60) was made to "Minor equipment purchases" because expenditures for major equipment purchases were misclassified.
- An adjustment of \$10,010.11 was made to "Winter maintenance services" because check No. 1599 for \$1,408.82 and check No. 1601 for \$8,601.29 were not reported.
- An adjustment of \$(11,357.09) was made to "Repairs of tools and machinery" because expenditures for maintenance and repair of roads and bridges were misclassified.
- An adjustment of \$12,388.39 was made to "Maintenance and repair of roads and bridges" because expenditures of \$11,357.09 were misclassified as repairs of tools and machinery and expenditures of \$1,279.59 for major equipment purchases were misclassified. Additionally check No. 1616 was reported as \$4,406.89 but was issued for \$4,460.89 and check No. 1600 for \$2,256.89 was not reported.

TOWNSHIP OF DAMASCUS
WAYNE COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2010 TO DECEMBER 31, 2012

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

2011 - Section 2

- An adjustment of \$(2,154.24) was made to “Balance, January 1, 2011” to reflect the adjustment made to the fund balance in 2010 - Section 2.
- An adjustment of \$10.05 was made to “Interest on investments” because interest earned was understated.
- An adjustment of \$2,154.24 was made to “Miscellaneous” because a reimbursement for a payment in error was received in 2011 but was reported in 2010.

2011 - Section 3

- An adjustment of \$(2,154.24) was made to “Prior year equipment balance” to reflect the adjustment made to the equipment balance in 2010 - Section 3.
- An adjustment of \$6,349.19 was made to “Major equipment expenditures” to reflect the adjustment made to major equipment purchases in 2011 - Section 1.

2012 - Section 1

- An adjustment of \$6,448.77 was made to “Major equipment purchases” because check No. 1670 for \$1,279.59 was not reported and expenditures of \$5,169.18 were misclassified as maintenance and repair of roads and bridges.
- An adjustment of \$(2.95) was made to “Repairs of tools and machinery” because check No. 1732 was reported as \$57.32 but was issued for \$57.36, and check No. 1764 was reported as \$3,897.04 but was issued for \$3,894.05.
- An adjustment of \$(5,169.18) was made to “Maintenance and repair of roads and bridges” because major equipment purchases were misclassified.

TOWNSHIP OF DAMASCUS
WAYNE COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2010 TO DECEMBER 31, 2012

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

2012 - Section 2

- An adjustment of \$(12,310.95) was made to “Balance, January 1, 2012” to reflect the adjustment made to the fund balance in 2011 - Section 2.
- An adjustment of \$2.91 was made to “Interest on investments” because interest earnings were understated.

2012 - Section 3

- An adjustment of \$(8,503.43) was made to “Prior year equipment balance” because an incorrect equipment balance was carried forward.
- An adjustment of \$6,448.77 was made to “Major equipment expenditures” to reflect the adjustment made to major equipment purchases in 2012 - Section 1.

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 irregularities may occur and remain undetected.

This condition occurred because the municipality failed to comply with our prior examination recommendation to ensure that its Forms MS-965 are complete and accurate.

Recommendation

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

Management’s Response

The treasurer stated:

Simple mistakes were made.

TOWNSHIP OF DAMASCUS
WAYNE COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2010 TO DECEMBER 31, 2012

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

Auditor's Conclusion

This is a recurring finding. We strongly recommend that the municipality comply with our recommendation.

TOWNSHIP OF DAMASCUS
WAYNE COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2010 TO DECEMBER 31, 2012

Finding No. 2 - Duplicate Payment Of Invoices

Our examination disclosed that the municipality paid the following invoices 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>
454635	1591	11-29-10	1598	12-14-10	\$2,154.24
961183	1616	06-14-11	1627	09-06-11	<u>2,199.12</u>
				Total	<u>\$4,353.36</u>

Although the vendor reimbursed \$2,154.24 and \$2,199.12 to the Liquid Fuels Tax Fund on January 20, 2011 and December 6, 2011, respectively, the primary concern is the inadequate internal controls which enabled the duplicate payments to remain undetected for one month and three months, respectively.

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.

Recommendation

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

Management's Response

The treasurer stated:

Duplicate payments were made by mistake and reimbursements were made to the Liquid Fuels Tax Fund.

Auditor's Conclusion

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

TOWNSHIP OF DAMASCUS
WAYNE COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2010 TO DECEMBER 31, 2012

Finding No. 3 - Documentation For Price Quotations Was Not Available For Examination
And Failure To Obtain Project Approval

Our examination disclosed that the township expended \$12,480.21 during 2012 from the Liquid Fuels Tax Fund for DeCourt Street Bridge repairs. The township was required to obtain three written or telephonic price quotations for these expenditures. However, documentation for price quotations was not available for examination. Additionally, the township was required to obtain the approval of the Department for the repairs of the bridge. However, the township did not file an application with the Department of Transportation for the project and also failed to submit specifications for approval.

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

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

Additionally, 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 that nonpermissible expenditures include "Construction and reconstruction projects without prior PENNDOT approval."

TOWNSHIP OF DAMASCUS
WAYNE COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2010 TO DECEMBER 31, 2012

Finding No. 3 - Documentation For Price Quotations Was Not Available For Examination
And Failure To Obtain Project Approval (Continued)

Futhermore, *Publication 9*, Chapter Two, Section 2.8, states, in part:

The following criteria is used to determine when a project is required for work on local roads utilizing Liquid Fuels Tax Funds, when construction, reconstruction and/or resurfacing work exceeds one inch or more in depth as well as other activities.

Bridges: For bridge maintenance/preservation activities, confer with Municipal Services to determine if a project approval is required. All rehabilitations, replacements, or any other work that affects the carrying capacity of the structure or the waterway areas require project approval.

The failure to comply with *The Second Class Township Code* and the Department of Transportation's *Publication 9* could result in the township having to reimburse \$12,480.21 to its Liquid Fuels Tax Fund.

Recommendations

We recommend that the township reimburse \$12,480.21 to its Liquid Fuels Tax Fund upon official notification by the Department of Transportation.

We further recommend that, in the future, the township comply with *The Second Class Township Code* and the Department of Transportation's *Publication 9* as noted in this finding. The thresholds for obtaining price quotations were increased to purchases between \$10,200.00 and \$18,900.00 for 2013 and \$10,300.00 and \$19,100.00 for 2014.

We also recommend that before the township expends money on a project, it applies for and obtains prior approval for the project, and when the project is completed it obtains approval of the completed work.

TOWNSHIP OF DAMASCUS
WAYNE COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2010 TO DECEMBER 31, 2012

Finding No. 3 - Documentation For Price Quotations Was Not Available For Examination
And Failure To Obtain Project Approval (Continued)

Management's Response

The treasurer stated:

The DeCourt Street Bridge project was an emergency closure by the Department of Transportation. The Department of Transportation knew about the project. So we felt we did not need project approval.

Auditor's Conclusion

The township provided us with documentation that states the Department of Transportation recommended closing the bridge on August 24, 2012, after an inspection performed on the same date. The repairs were made in February and March of 2012. Additionally, the repairs to the bridge required the township to obtain the approval of the Department of Transportation before making the repairs. During our next examination we will determine if the township complied with our recommendations.

TOWNSHIP OF DAMASCUS
WAYNE COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2010 TO DECEMBER 31, 2012

Finding No. 4 - Nonpermissible Expenditures

Our examination disclosed that during 2012 the municipality expended \$4,000.00 from the Liquid Fuels Tax Fund to rent a portable crusher to crush shale and \$5,586.25 to blast and drill the shale quarry, which are nonpermissible 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 blasting, drilling, and crushing shale, are outside the scope of permissible expenditures.

The failure to follow the Liquid Fuels Tax Municipal Allocation Law and the Department of Transportation's Regulations as noted above could result in the municipality having to reimburse \$9,586.25 to its Liquid Fuels Tax Fund.

Recommendations

We recommend that the municipality reimburse \$9,586.25 to its Liquid Fuels Tax Fund upon official notification by the Department of Transportation.

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

TOWNSHIP OF DAMASCUS
WAYNE COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2010 TO DECEMBER 31, 2012

Finding No. 4 - Nonpermissible Expenditures (Continued)

Management's Response

The treasurer stated:

I did not realize that I could not use money for a Dirt and Gravel grant. I will reimburse when the grant comes in.

Auditor's Conclusion

Department of Transportation Regulations do not permit the municipality to expend Liquid Fuels Tax Fund monies for shale. During our next examination we will determine if the municipality complied with our recommendations.

TOWNSHIP OF DAMASCUS
WAYNE COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2010 TO DECEMBER 31, 2012

Finding No. 5 - Purchases Over \$10,000.00 In Noncompliance With Advertising And Bidding Requirements

Our examination disclosed that on September 20, 2010, the municipality entered into a lease-purchase agreement with Acme Auto Leasing to purchase a 2010 Chevrolet pick-up truck without advertising for bids. The total amount to be repaid for the truck, including principal and interest, is \$30,710.16. During our current examination period the township expended \$2,559.18 in 2011 and \$6,448.77 in 2012 from the Liquid Fuels Tax Fund (see Note 6).

The above expenditures were not made in compliance with the advertising, bidding, and contract requirements of *The Second Class Township Code*, 53 P.S. § 68102(a), (also found at § 3102(a) of *The Second Class Township Code* as published by the Local Government Commission), which requires that purchases over \$10,000.00 must be advertised, bid, and awarded by contract. *The Second Class Township Code*, 53 P.S. § 68104(a), (also found at § 3104(a) of *The Second Class Township Code* as published by the Local Government Commission) further states that advertising, bidding and contract requirements should not be evaded through piecemeal purchases.

On July 31, 2012, the municipality reimbursed \$6,448.77 to its Liquid Fuels Tax Fund.

The failure to comply with *The Second Class Township Code* could result in the municipality having to reimburse \$2,559.18 to its Liquid Fuels Tax Fund.

Recommendations

We recommend that the municipality reimburse \$2,559.18 to its Liquid Fuels Tax Fund upon official notification by the Department of Transportation.

We further recommend that, in the future, the municipality comply with *The Second Class Township Code* as noted in this finding. The thresholds of advertising for bids increased to purchases over \$18,500.00 for 2012, \$18,900.00 for 2013, and \$19,100.00 for 2014.

TOWNSHIP OF DAMASCUS
WAYNE COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2010 TO DECEMBER 31, 2012

Finding No. 5 - Purchases Over \$10,000.00 In Noncompliance With Advertising And Bidding Requirements (Continued)

Management's Response

The treasurer stated:

The municipality did not realize the truck had to be bid out.

Auditor's Conclusion

The purchase price of the truck was \$30,710.16, which exceeds \$10,000.00. Therefore, the truck needed to be advertised and bid. The Department of Transportation will determine if the municipality must reimburse \$2,559.18 to its Liquid Fuels Tax Fund. During our next examination we will determine if the municipality complied with our recommendations.

TOWNSHIP OF DAMASCUS
WAYNE COUNTY
LIQUID FUELS TAX FUND
SUMMARY OF EXIT CONFERENCE
FOR THE PERIOD
JANUARY 1, 2010 TO DECEMBER 31, 2012

An exit conference was held September 13, 2013. Those participating were:

TOWNSHIP OF DAMASCUS

Ms. Dolores Card, Treasurer

DEPARTMENT OF THE AUDITOR GENERAL

Mr. Jerome Werner, Auditor

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

TOWNSHIP OF DAMASCUS
WAYNE COUNTY
LIQUID FUELS TAX FUND
REPORT DISTRIBUTION
FOR THE PERIOD
JANUARY 1, 2010 TO DECEMBER 31, 2012

This report was initially distributed to:

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

Township of Damascus
Wayne County
60 Conklin Hill Road
Damascus, PA 18415-3012

The Honorable Jeffery R. Dexter	Chairman of the Board of Supervisors
Ms. Dolores Card	Treasurer
Ms. Karyle A. Woods	Secretary

This report is a matter of public record and is available online at www.auditorgen.state.pa.us. Media questions about the report can be directed to the Pennsylvania Department of the Auditor General, Office of Communications, 231 Finance Building, Harrisburg, PA 17120; via email to: news@auditorgen.state.pa.us.