



**TOWNSHIP OF EXETER  
LUZERNE COUNTY  
40-209**

**LIQUID FUELS TAX FUND  
EXAMINATION REPORT**

**FOR THE PERIOD  
JANUARY 1, 2012 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  
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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 Form MS-965 With Adjustments for the Liquid Fuels Tax Fund of the Township of Exeter, Luzerne County, for the period January 1, 2012 to December 31, 2012. The municipality's management is responsible for the Form MS-965. Our responsibility is to express an opinion on the Form 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 Exeter, Luzerne County's Form MS-965 for the period January 1, 2012 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 Note 4, the adjustments included on the Form MS-965 With Adjustments are made by the Department of the Auditor General.

## Independent Auditor's Report (Continued)

In our opinion, the Form MS-965 With Adjustments presents, in all material respects, the information required by the Pennsylvania Department of Transportation for the Liquid Fuels Tax Fund of the Township of Exeter, Luzerne County, for the period January 1, 2012 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 Form 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 Form 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 Form 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 Exeter, Luzerne 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 Exeter, Luzerne County's Form MS-965 that is more than inconsequential will not be prevented or detected by the Township of Exeter, Luzerne County's internal control. We consider the deficiency described in the finding below to be a significant deficiency in internal control over reporting on the Form MS-965:

- Electronic Imaging Of Canceled Checks From The Bank Did Not Include The Back Of the Checks.

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 Form MS-965 will not be prevented or detected by the Township of Exeter, Luzerne County's internal control. Our consideration of the internal control over reporting on the Form 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, we consider the significant deficiency described above 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 Allocation Deposited Into The General Fund.

Independent Auditor's Report (Continued)

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

A handwritten signature in black ink, appearing to read "Eugene A. DePasquale". The signature is fluid and cursive, with a long horizontal stroke at the end.

October 9, 2013

**EUGENE A. DEPASQUALE**  
Auditor General

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TOWNSHIP OF EXETER  
LUZERNE COUNTY  
LIQUID FUELS TAX FUND  
BACKGROUND  
FOR THE PERIOD  
JANUARY 1, 2012 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 EXETER  
 LUZERNE COUNTY  
 LIQUID FUELS TAX FUND  
 2012 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	-	538.54	538.54
Repairs of tools and machinery	7,531.00	-	7,531.00
Maintenance and repair of roads and bridges	40,469.00	(538.54)	39,930.46
Highway construction and rebuilding projects	-	-	-
Miscellaneous	-	-	-
 Total (To Section 2, Line 5)	 <u>\$ 48,000.00</u>	 <u>\$ -</u>	 <u>\$ 48,000.00</u>

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

TOWNSHIP OF EXETER  
 LUZERNE COUNTY  
 LIQUID FUELS TAX FUND  
 2012 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, 2012	\$ 6,250.45	\$ -	\$ 6,250.45
Receipts:			
2. State allocation (Finding No. 2)	62,498.06	-	62,498.06
2a. Turnback allocation	-	-	-
2b. Interest on investments (Note 3)	81.44	-	81.44
2c. Miscellaneous (Note 5)	12,418.45	-	12,418.45
3. Total receipts	<u>74,997.95</u>	<u>-</u>	<u>74,997.95</u>
4. Total funds available	<u>81,248.40</u>	<u>-</u>	<u>81,248.40</u>
5. Expenditures (Section 1)	<u>48,000.00</u>	<u>-</u>	<u>48,000.00</u>
6. Balance, December 31, 2012	<u><u>\$ 33,248.40</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 33,248.40</u></u>

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



TOWNSHIP OF EXETER  
 LUZERNE COUNTY  
 LIQUID FUELS TAX FUND  
 2012 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	\$ 6,250.45	\$ -	\$ 6,250.45
2. Add: Current year equipment allocation (20% of Lines 2 + 2a, Section 2)	12,499.61	-	12,499.61
3. PENNDOT approved adjustments	<u>-</u>	<u>-</u>	<u>-</u>
4. Total funds available for equipment acquisition	18,750.06	-	18,750.06
5. Less: Major equipment expenditures	<u>-</u>	<u>-</u>	<u>-</u>
6. Remainder	<u>18,750.06</u>	<u>-</u>	<u>18,750.06</u>
7. Equipment balance available for subsequent year (Lesser of Line 6 or Section 2 balance, but not less than zero)	<u>\$ 18,750.06</u>	<u>\$ -</u>	<u>\$ 18,750.06</u>

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

TOWNSHIP OF EXETER  
LUZERNE COUNTY  
LIQUID FUELS TAX FUND  
NOTES TO FORM MS-965 WITH ADJUSTMENTS  
FOR THE PERIOD  
JANUARY 1, 2012 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 EXETER  
LUZERNE COUNTY  
LIQUID FUELS TAX FUND  
NOTES TO FORM MS-965 WITH ADJUSTMENTS  
FOR THE PERIOD  
JANUARY 1, 2012 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 Form MS-965 has 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 Form MS-965 With Adjustments is restricted to the Liquid Fuels Tax Fund, which represents a segment of the entity.

Basis Of Accounting

The accompanying Form MS-965 With Adjustments is 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 EXETER  
LUZERNE COUNTY  
LIQUID FUELS TAX FUND  
NOTES TO FORM MS-965 WITH ADJUSTMENTS  
FOR THE PERIOD  
JANUARY 1, 2012 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 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, 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 EXETER  
 LUZERNE COUNTY  
 LIQUID FUELS TAX FUND  
 NOTES TO FORM MS-965 WITH ADJUSTMENTS  
 FOR THE PERIOD  
 JANUARY 1, 2012 TO DECEMBER 31, 2012

2. Deposits (Continued)

Fund Balance

The fund balance consists of the following:

Cash	\$33,248.40
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3. Interest On Investments

Our examination disclosed that the municipality deposited idle liquid fuels tax money in an interest-bearing account which earned \$81.44 during 2012, thus providing additional funds for road maintenance and repairs.

4. Adjustments

Section 1

Adjustments were made to “Storm sewers and drains” and “Maintenance and repair of roads and bridges” because expenditures of \$538.54 were misclassified.

5. Miscellaneous Receipts

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

Source	Description	Amount
General Fund	Reimbursement (Comment No. 1)	\$ 7,377.85
General Fund	Reimbursement (Comment No. 2)	5,040.60
Total		\$12,418.45

TOWNSHIP OF EXETER  
LUZERNE COUNTY  
LIQUID FUELS TAX FUND  
NOTES TO FORM MS-965 WITH ADJUSTMENTS  
FOR THE PERIOD  
JANUARY 1, 2012 TO DECEMBER 31, 2012

6. Bank Loan

During 2010 the municipality purchased a GMC Model 5500 4x4 snow plow prep package for \$74,800.00. The municipality made a down payment of \$11,800.00 from the Liquid Fuels Tax Fund. Additionally, the municipality received a trade-in-allowance of \$15,000.00. The municipality borrowed the balance of \$48,000.00 from PNC Bank. The term of the loan was for five years at an interest rate of 3.75 percent. Principal and interest payments of \$879.85 are due monthly. Prior years' principal and interest payments from the General Fund were \$14,222.23 and \$4,075.58, respectively.

During the current examination period the municipality paid principal of \$33,777.77 and interest of \$811.22 from the General Fund. The loan was paid-in-full on September 12, 2012.

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

Finding No. 1 - Electronic Imaging Of Canceled Checks From The Bank Did Not Include The Back Of The Checks

Our examination disclosed that the municipality made transfers from the Liquid Fuels Tax Fund to the General Fund for the reimbursement of expenditures that could have been paid from the Liquid Fuels Tax Fund. Therefore, our disbursement test included checks from the General Fund account. During our testing, we discovered that the imaging of canceled checks from the General Fund bank account was not acceptable because the bank provides only the front side of the canceled checks. For us to properly complete our examination testing, we have to examine the front and back of the canceled checks.

Good internal controls and the Commonwealth of Pennsylvania Management Directive 210.11, dated June 16, 1997, require that imaging systems comply with the provisions of the Internal Revenue Service (IRS) procedures for record keeping with electronic imaging. To be acceptable, the documents provided by the system must meet IRS procedures governing size, content, format, and pattern. Those procedures require that all images produced by the imaging system exhibit a high degree of legibility and readability when displayed on paper. Legibility includes the ability to identify all letters and numerals positively and quickly. Readability includes the ability to recognize a group of letters or numerals as words or completed numbers. Imaged documents must include the front and back of a document in which both the front and back are used.

Further, good internal controls ensure that by having a municipal official review the front and back of the canceled checks, any errors or misappropriations can be detected on a timely basis.

Without this control, the potential exists for errors or misappropriations to go undetected for long periods of time.

The municipality obtained and provided us with copies of the backs of the canceled checks requested for examination.

Recommendation

We recommend that the municipal officials obtain images of the front and back of canceled checks in accordance with Directive 210.11. Additionally, municipal officials should review the front and back of each canceled check for any errors or misappropriations.

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

Finding No. 1 - Electronic Imaging Of Canceled Checks From The Bank Did Not Include The Back Of The Checks (Continued)

Management's Response

The municipal officials stated:

The bank doesn't send the backs of canceled checks, only the front. We will call the bank and see if they will include the actual cancelled checks with the statements.

Auditor's Conclusion

The failure to review the front and back of canceled checks increases the risk that errors or misappropriations will not be detected on a timely basis. The municipality should check with its financial institution to see if copies of the checks are available on line. If available, the municipality could then print the checks. During our next examination we will determine if the municipality complied with our recommendation.



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

Finding No. 2 - Liquid Fuels Allocation Deposited Into The General Fund

Our examination disclosed that the municipality deposited its 2012 Liquid Fuels Tax Fund allocation of \$62,498.06 into the General Fund on April 1, 2012, which is in noncompliance with the Liquid Fuels Tax Municipal Allocation Law.

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.

On September 4, 2012, the municipality reimbursed \$62,498.06 to the Liquid Fuels Tax Fund.

Recommendation

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 municipal officials stated:

The state allocation was received on time but we deposited mistakenly in the General Fund under F.E.M.A. flood allocations. We didn't realize this and called the state agency and they sent me the canceled check. We then went through all my funds – found the location and transferred it to the Liquid Fuels Fund.

Auditor's Conclusion

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

TOWNSHIP OF EXETER  
LUZERNE COUNTY  
LIQUID FUELS TAX FUND  
COMMENTS  
FOR THE PERIOD  
JANUARY 1, 2012 TO DECEMBER 31, 2012

Comment No. 1 - Summary Of 2009-2010 Examination Recommendation

In our 2009-2010 report we recommended that the Department of Transportation review our examination finding to determine if the municipality should reimburse \$7,377.85 to its Liquid Fuels Tax Fund for failure to maintain documentation for price quotations.

During our current examination, we noted that the municipality reimbursed this amount to its Liquid Fuels Tax Fund on March 12, 2012.

Comment No. 2 - Summary Of 2011 Examination Recommendations

In our 2011 report we recommended that the Department of Transportation review our examination finding to determine if the municipality should reimburse \$5,040.60 to its Liquid Fuels Tax Fund for failure to maintain documentation for price quotations.

We noted that the municipality reimbursed this amount to its Liquid Fuels Tax Fund on September 17, 2012.

In our 2011 report we also recommended that the municipality comply with *The Second Class Township Code* and the Department of Transportation's *Publication 9* by obtaining price quotations for all purchases between \$4,000.00 and \$10,000.00. The thresholds for obtaining price quotations increased to purchases between \$10,000.00 and \$18,500.00 for 2012, \$10,200.00 and \$18,900.00 for 2013, and \$10,300.00 and \$19,100.00 for 2014.

During our current examination we noted that the municipality complied with our recommendation.

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

An exit conference was held October 9, 2013. Those participating were:

TOWNSHIP OF EXETER

Ms. Mary Frances Martin, Secretary/Treasurer

DEPARTMENT OF THE AUDITOR GENERAL

Mr. Robert A. Bauder, Auditor

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

TOWNSHIP OF EXETER  
LUZERNE COUNTY  
LIQUID FUELS TAX FUND  
REPORT DISTRIBUTION  
FOR THE PERIOD  
JANUARY 1, 2012 TO DECEMBER 31, 2012

This report was initially distributed to:

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

Township of Exeter  
Luzerne County  
2305 State Route 92  
Harding, PA 18643

The Honorable John Ruane

Chairman of the Board of Supervisors

Ms. Mary Frances Martin

Secretary/Treasurer

This report is a matter of public record and is available online at <http://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](mailto:news@auditorgen.state.pa.us).