



TOWNSHIP OF BANKS
INDIANA COUNTY
32-202

HIGHWAY TRANSFER PROGRAM
AGREEMENT NO. 390029663
TURNBACK ACCOUNT
EXAMINATION REPORT

FOR THE PERIOD
DECEMBER 21, 2006 TO SEPTEMBER 22, 2008

CONTENTS

	<u>Page</u>
Background.....	1
Independent Auditor's Report	3
Financial Section:	
Form MS-999 With Adjustments	7
Notes To Form MS-999 With Adjustments	8
Findings And Recommendations:	
Finding No. 1 - Electronic Imaging Of Canceled Checks From The Bank Did Not Include The Back Of The Checks	11
Finding No. 2 - Authorized Check Signers Are Related	13
Summary Of Exit Conference.....	14
Report Distribution	15

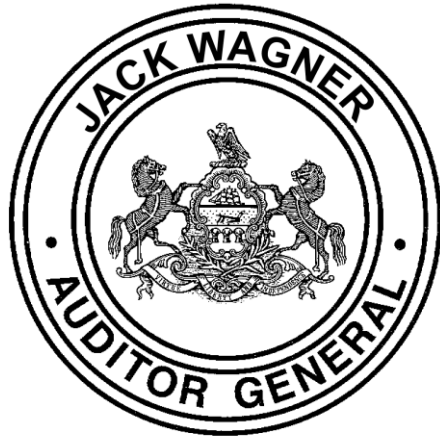
TOWNSHIP OF BANKS
INDIANA COUNTY
HIGHWAY TRANSFER PROGRAM – TURNBACK ACCOUNT
BACKGROUND
FOR THE PERIOD
DECEMBER 21, 2006 TO SEPTEMBER 22, 2008

Background

The Highway Transfer Program (more commonly known as the Highway Turnback Program) is outlined in Title 75 P.S. § 9511. It is designed to reduce the amount of state road mileage by transferring “functionally-local” roads on a cooperative, voluntary basis to local governments. When a municipality takes over a road through this program, the Department of Transportation and the municipality jointly determine the necessity and extent of any restoration or rehabilitative work required to put a state highway in satisfactory condition before it is transferred. The rehabilitative work may be done by the Department of Transportation, municipal forces, or be contracted out by either party.

If the restoration or rehabilitation is to be done by the municipality or a contractor hired by the municipality, the municipality receives funds for the work from the State Highway Transfer Restoration Restricted Receipt Account. These funds must be deposited into a separate interest-bearing Highway Transfer Account. Any funds not used for the restoration or rehabilitation of the road that was transferred to the municipality must be transferred to the township’s Liquid Fuels Tax Fund.

Department of Transportation *Publication 9* contains the policies and procedures that govern the use of Highway Transfer Program money. However, if there is a difference between *Publication 9* and any legislation, the legislation shall govern.



Independent Auditor's Report

The Honorable Allen D. Biehler, P.E.
Secretary
Department of Transportation
Harrisburg, PA 17120

We have examined the accompanying Form MS-999 With Adjustments of the Highway Transfer Program – Turnback Account of the Township of Banks, Indiana County, for the period December 21, 2006 to September 22, 2008. The municipality's management is responsible for the Form MS-999. Our responsibility is to express an opinion on the Form MS-999 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 Banks, Indiana County's Form MS-999 for the period December 21, 2006 to September 22, 2008 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 Highway Transfer Program – Turnback Account 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*.

In our opinion, the Form MS-999 With Adjustments presents, in all material respects, the information required by the Pennsylvania Department of Transportation for the Highway Transfer Program – Turnback Account of the Township of Banks, Indiana County, for the period December 21, 2006 to September 22, 2008, in conformity with the criteria set forth in Note 1.

Independent Auditor's Report (Continued)

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-999 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-999 is 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-999 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 Banks, Indiana 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 Banks, Indiana County's Form MS-999 that is more than inconsequential will not be prevented or detected by the Township of Banks, Indiana County's internal control. We consider the deficiencies described in the findings below to be significant deficiencies in internal control over reporting on the Form MS-999:

- Electronic Imaging Of Canceled Checks From The Bank Did Not Include The Back Of The Checks.
- Authorized Check Signers Are Related.

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-999 will not be prevented or detected by the Township of Banks, Indiana County's internal control. Our consideration of the internal control over reporting on the Form MS-999 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 all the significant deficiencies described above to be material weaknesses.

Independent Auditor's Report (Continued)

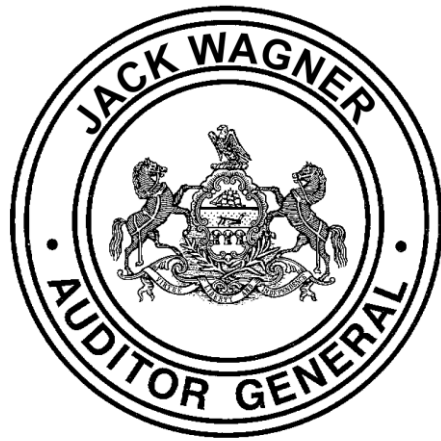
The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Our examination period reflects from the date the turnback funds were received by the Township of Banks, Indiana County, to the date the funds were either exhausted or the remaining funds were transferred to the township's Liquid Fuels Tax Fund. Upon the completion of the program the township filed a Final Completion Report Form MS-999 with the Department of Transportation. Our examination began shortly after we received the approval Final Completion Report Form MS-999 from the Department of Transportation.

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

November 5, 2008

JACK WAGNER
Auditor General



TOWNSHIP OF BANKS
INDIANA COUNTY
HIGHWAY TRANSFER PROGRAM – TURNBACK ACCOUNT
FORM MS-999 WITH ADJUSTMENTS
FOR THE PERIOD
DECEMBER 21, 2006 TO SEPTEMBER 22, 2008

	Reported	Adjustments	Adjusted Amount
<u>Cash Receipts</u>			
Turnback grant	\$ 284,973.40	\$ -	\$ 284,973.40
Interest (Note 2)	18,939.57	-	18,939.57
Miscellaneous	-	-	-
	\$ 303,912.97	\$ -	\$ 303,912.97
	\$ 303,912.97	\$ -	\$ 303,912.97
<u>Cash Disbursements</u>			
Highway construction and rebuilding	\$ 251,254.22	\$ -	\$ 251,254.22
Unexpended balance transfer (Note 3)	52,651.14	-	52,651.14
Miscellaneous (Bank service charges)	7.61	-	7.61
	\$ 303,912.97	\$ -	\$ 303,912.97
	\$ 303,912.97	\$ -	\$ 303,912.97

Notes to Form MS-999 With Adjustments are an integral part of this report.

TOWNSHIP OF BANKS
INDIANA COUNTY
HIGHWAY TRANSFER PROGRAM – TURNBACK ACCOUNT
NOTES TO FORM MS-999 WITH ADJUSTMENTS
FOR THE PERIOD
DECEMBER 21, 2006 TO SEPTEMBER 22, 2008

1. Criteria

Form MS-999 With Adjustments provides a summary of Highway Transfer Program receipts and expenditures by category. Categories requiring explanation include:

- The Turnback Grant is the grant received from the Commonwealth of Pennsylvania to be used for the restoration or rehabilitation of the road or roads transferred from the state to the municipality.
- The Unexpended balance transfer is money that was not used for the restoration or rehabilitation of the road or roads transferred from the state to the municipality that was transferred to the municipality's Liquid Fuels Tax Fund upon completion of the project.

Basis Of Presentation

The financial activities of the municipality are accounted for in separate funds. The Highway Transfer Program, Act 32 of 1983 (also referred to as Road Turnback by the Department of Transportation), provides state funds to municipal governments for the costs of restoring state highways for which ownership is turned back to the municipal government. The turnback revenues are deposited in a separate turnback account. After the highway restoration work is completed, any unexpended funds are to be transferred to the Liquid Fuels Tax Fund.

The Form MS-999 has been prepared in accordance with reporting requirements prescribed by the Pennsylvania Department of Transportation as a result of Act 32 of 1983, which does not constitute a complete presentation of the entity's assets, liabilities, expenses, and fund balance.

Basis Of Accounting

The accompanying Form MS-999 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 BANKS
INDIANA COUNTY
HIGHWAY TRANSFER PROGRAM – TURNBACK ACCOUNT
NOTES TO FORM MS-999 WITH ADJUSTMENTS
FOR THE PERIOD
DECEMBER 21, 2006 TO SEPTEMBER 22, 2008

1. Criteria (Continued)

General Fixed Assets

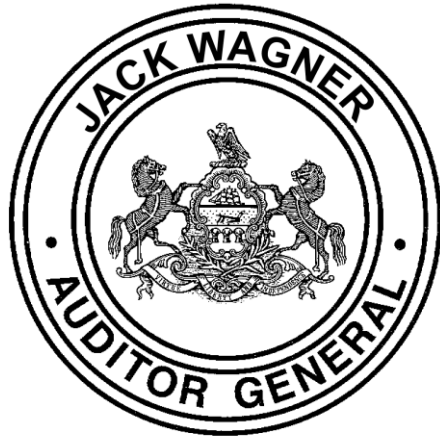
General fixed assets are recognized as expenditures at the time of purchase. No depreciation has been provided on the heavy equipment used to maintain and repair roads and bridges.

2. Interest On Investments

Our examination disclosed that the municipality deposited idle turnback money in interest-bearing accounts and certificates of deposit which earned \$18,939.57 during the examination period, thus providing additional funds for road maintenance.

3. Unexpended Balance

During our examination, we noted that the municipality transferred the \$52,651.14 unexpended balance of the turnback account to its Liquid Fuels Tax Fund account on September 22, 2008 in accordance with Act 32 of 1983.



TOWNSHIP OF BANKS
INDIANA COUNTY
HIGHWAY TRANSFER PROGRAM – TURNBACK ACCOUNT
FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
DECEMBER 21, 2006 TO SEPTEMBER 22, 2008

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 Turnback Fund to the General Fund to reimburse the General Fund for payroll expenses that could have been paid from the Turnback 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 irregularities can be detected on a timely basis.

Without this control, the potential exists for errors or irregularities 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.

Recommendations

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 irregularities.

TOWNSHIP OF BANKS
INDIANA COUNTY
HIGHWAY TRANSFER PROGRAM – TURNBACK ACCOUNT
FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
DECEMBER 21, 2006 TO SEPTEMBER 22, 2008

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

Recommendations (Continued)

We further recommend that, if the municipality's financial institution's check imaging process does not comply with Directive 210.11, original documentation must be obtained.

Management's Response

The secretary/treasurer stated:

I will contact the bank to get front and back of checks.

Auditor's Conclusion

The municipal officials should obtain copies of both the front and back of canceled checks monthly for all future Turnback projects and have a municipal official review the checks to reduce the risk of errors or irregularities occurring and remaining undetected.

TOWNSHIP OF BANKS
INDIANA COUNTY
HIGHWAY TRANSFER PROGRAM – TURNBACK ACCOUNT
FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
DECEMBER 21, 2006 TO SEPTEMBER 22, 2008

Finding No. 2 – Authorized Check Signers Are Related

Our examination disclosed that the signatures required to authenticate Liquid Fuels Tax Fund checks are that of the chairman of the board of supervisors and secretary/treasurer who are husband and wife, respectively.

Good internal control procedures ensure that at least two unrelated persons are authorized to sign checks drawn on the Liquid Fuels Tax Fund.

Without this control, the risk of unauthorized disbursements, errors, or irregularities occurring and remaining undetected increases significantly.

Recommendation

We recommend that the municipality improve internal control procedures over disbursements by requiring at least two signatures of unrelated municipal officials on all disbursements from the Liquid Fuels Tax Fund.

Management's Response

The secretary/treasurer stated:

I will make sure that either myself and another supervisor (not my husband) will sign checks or I will have 2 other supervisors sign all checks.

TOWNSHIP OF BANKS
INDIANA COUNTY
HIGHWAY TRANSFER PROGRAM – TURNBACK ACCOUNT
SUMMARY OF EXIT CONFERENCE
FOR THE PERIOD
DECEMBER 21, 2006 TO SEPTEMBER 22, 2008

An exit conference was held November 5, 2008. Those participating were:

TOWNSHIP OF BANKS

Mrs. June C. Fetterman, Secretary/Treasurer

DEPARTMENT OF THE AUDITOR GENERAL

Mr. John Cornely, Auditor

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

TOWNSHIP OF BANKS
INDIANA COUNTY
HIGHWAY TRANSFER PROGRAM – TURNBACK ACCOUNT
REPORT DISTRIBUTION
FOR THE PERIOD
DECEMBER 21, 2006 TO SEPTEMBER 22, 2008

This report was initially distributed to:

The Honorable Allen D. Biehler, P.E.
Secretary
Department of Transportation

Township of Banks
Indiana County
1870 Hemlock Lake Road
Rossiter, PA 15772

The Honorable Roy Fetterman

Chairman of the Board of Supervisors

Mrs. June C. Fetterman

Secretary/Treasurer

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