

ATTESTATION ENGAGEMENT

Township of Banks
Indiana County, Pennsylvania
32-202

Highway Transfer Program
Agreement No. 3900029663

For the Period
December 5, 2007 to October 2, 2017

July 2019



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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

EUGENE A. DePASQUALE
AUDITOR GENERAL

Independent Auditor's Report

The Honorable Leslie Richards
Secretary
Department of Transportation
Harrisburg, PA 17120

We have examined the accompanying Form PR-999T With Adjustments of the Highway Transfer Program - Turnback Account of the Township of Banks, Indiana County, for the period December 5, 2007 to October 2, 2017. The municipality's management is responsible for presenting the Form PR-999T in accordance with the criteria set forth in Note 1. Our responsibility is to express an opinion on the Form PR-999T 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. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether the Form PR-999T is presented in accordance with the criteria described above, in all material respects. An examination involves performing procedures to obtain evidence about the Form PR-999T. The nature, timing and extent of the procedures selected depend on our judgement, including an assessment of the risks of material misstatement of the Form PR-999T, whether due to fraud or error. We believe that the evidence we obtained is sufficient and appropriate to provide 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*.

As described in Note 4, the adjustments included on the Form PR-999T With Adjustments are made by the Department of the Auditor General.

Independent Auditor's Report (Continued)

As discussed in Finding No. 1, the municipality expended \$41,970.92 for expenditures without maintaining supporting documentation. Additionally, as discussed in Finding No. 2, we were unable to examine the front and back images of ten checks and the images of the back of two cancelled checks from the township's financial institution because the township failed to maintain copies of them from its financial institution.

In our opinion, except for the matters discussed in the preceding paragraph, the Form PR-999T 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 5, 2007 to October 2, 2017, in accordance with the criteria set forth in Note 1.

In accordance with *Government Auditing Standards*, we are required to report all deficiencies that are considered to be significant deficiencies or material weaknesses in internal control; fraud and noncompliance with provisions of laws or regulations that have a material effect on the Form PR-999T; and any other instances that warrant the attention of those charged with governance; noncompliance with provisions of contracts or grant agreements, and abuse that has a material effect on the Form PR-999T. We are also required to obtain and report the views of responsible officials concerning the findings, conclusions, and recommendations, as well as any planned corrective actions. We performed our examination to express an opinion on whether the Form PR-999T 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 PR-999T or on compliance and other matters; accordingly, we express no such opinions.

A *deficiency in internal control* 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 and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Form PR-999T will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of the internal control was for the limited purpose of expressing an opinion on whether the Form PR-999T is presented in accordance with the criteria described above and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the findings listed below, that we consider to be material weaknesses in internal control:

- Documentation Supporting Expenditures Was Not Available For Examination.
- Electronic Imaging Of Canceled Checks From The Bank Were Missing Or Did Not Include The Back Of The Checks.

Independent Auditor's Report (Continued)

As part of obtaining reasonable assurance about whether the Form PR-999T is free from material misstatement, we performed tests of the Township of Banks, Indiana County's compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of amounts on the Form PR-999T. However, providing an opinion on compliance with those provisions was not an objective of our engagement, and accordingly, we do not express such an opinion. 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 PR-999T with the Department of Transportation. Our examination began shortly after we received the approved Final Completion Report Form PR-999T from the Department of Transportation.

The purpose of this report is to determine whether the municipality's Turnback Account money is spent in accordance with the laws and regulations identified in the Background section of this report and the Department of Transportation's *Publication 310*. This report is not suitable for any other purpose.

We appreciate the courtesy extended by the Township of Banks, Indiana County, to us during the course of our examination. If you have any questions, please feel free to contact Michael B. Kashishian, CPA, CGAP, CFE, Director, Bureau of County Audits, at 717-787-1363.



Eugene A. DePasquale
Auditor General

June 11, 2019

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TOWNSHIP OF BANKS
INDIANA COUNTY
HIGHWAY TRANSFER PROGRAM - TURNBACK ACCOUNT
BACKGROUND
FOR THE PERIOD
DECEMBER 5, 2007 TO OCTOBER 2, 2017

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.

TOWNSHIP OF BANKS
INDIANA COUNTY
HIGHWAY TRANSFER PROGRAM - TURNBACK ACCOUNT
FORM PR-999T WITH ADJUSTMENTS
FOR THE PERIOD
DECEMBER 5, 2007 TO OCTOBER 2, 2017

	<u>Reported</u>	<u>Adjustments (Note 4)</u>	<u>Adjusted Amount</u>
<u>Cash Receipts</u>			
Turnback grant	\$ 254,689.80	\$ -	\$ 254,689.80
Interest (Note 2)	45,086.42	3,167.21	48,253.63
Miscellaneous	182.12	(182.12)	-
	<u>\$ 299,958.34</u>	<u>\$ 2,985.09</u>	<u>\$ 302,943.43</u>
<u>Cash Disbursements</u>			
Highway construction and rebuilding	\$ 299,958.34	\$ (3,361.13)	\$ 296,597.21
Unexpended balance transfer (Note 3)	-	5,404.63	5,404.63
Miscellaneous (Note 5)	-	941.59	941.59
	<u>\$ 299,958.34</u>	<u>\$ 2,985.09</u>	<u>\$ 302,943.43</u>

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

TOWNSHIP OF BANKS
INDIANA COUNTY
HIGHWAY TRANSFER PROGRAM - TURNBACK ACCOUNT
NOTES TO FORM PR-999T WITH ADJUSTMENTS
FOR THE PERIOD
DECEMBER 5, 2007 TO OCTOBER 2, 2017

1. Criteria

Form PR-999T 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 PR-999T 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 PR-999T 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 PR-999T WITH ADJUSTMENTS
FOR THE PERIOD
DECEMBER 5, 2007 TO OCTOBER 2, 2017

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 an interest-bearing account and a certificate of deposit which earned \$48,253.63 during the examination period, thus providing additional funds for road maintenance.

3. Unexpended Balance

During our examination, we noted that the municipality transferred the \$5,404.63 unexpended balance of the turnback account to its Liquid Fuels Tax Fund account on October 2, 2017 in accordance with Act 32 of 1983.

4. Adjustments

An adjustment of \$3,167.21 was made to "Interest on investments" because interest earned was understated.

An adjustment of \$(182.12) was made to "Miscellaneous" because there were no miscellaneous receipts.

An adjustment of \$(3,361.13) was made to "Highway construction and rebuilding" because these expenditures were overstated.

An adjustment of \$5,404.63 was made to "Unexpended balance transfer" because this transfer was not reported.

An adjustment of \$941.59 was made to "Miscellaneous" because an early certificate of deposit withdrawal penalty of \$935.59 and bank service charges of \$6.00 were not reported.

TOWNSHIP OF BANKS
INDIANA COUNTY
HIGHWAY TRANSFER PROGRAM - TURNBACK ACCOUNT
NOTES TO FORM PR-999T WITH ADJUSTMENTS
FOR THE PERIOD
DECEMBER 5, 2007 TO OCTOBER 2, 2017

5. Miscellaneous Expenditures

The following miscellaneous expenditures were paid from the turnback account during the examination period:

<u>Payee</u>	<u>Description</u>	<u>Amount</u>
Financial institution	Bank service charges	\$ 6.00
Financial institution	Penalty for early withdrawal of CD	935.69
Total		<u>\$941.69</u>

TOWNSHIP OF BANKS
INDIANA COUNTY
HIGHWAY TRANSFER PROGRAM - TURNBACK ACCOUNT
FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
DECEMBER 5, 2007 TO OCTOBER 2, 2017

Finding No. 1 - Documentation Supporting Expenditures Was Not Available For Examination

Our examination disclosed that the municipality did not maintain invoices to support expenditures of \$1,553.75 during 2008, \$15,587.67 during 2009, \$929.50 during 2010, \$8,900.00 during 2014 and \$15,000.00 during 2015 for work on the Urey Road Turnback Project.

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

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

The failure to maintain documentation to support expenditures could result in the municipality having to reimburse \$41,970.92 to its Liquid Fuels Tax Fund.

Recommendations

We recommend that the municipality reimburse \$41,970.92 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 expenditures by maintaining adequate documentation to support all expenditures.

TOWNSHIP OF BANKS
INDIANA COUNTY
HIGHWAY TRANSFER PROGRAM - TURNBACK ACCOUNT
FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
DECEMBER 5, 2007 TO OCTOBER 2, 2017

Finding No. 1 - Documentation Supporting Expenditures Was Not Available For Examination (Continued)

Management's Response

The Secretary/Treasurer stated:

I did not start working at Banks Township until 2016. Therefore I could not find the missing records.

Auditor's Conclusion

The municipal officials should ensure that it maintains invoices for expenditures associated with future turnback projects.

TOWNSHIP OF BANKS
INDIANA COUNTY
HIGHWAY TRANSFER PROGRAM - TURNBACK ACCOUNT
FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
DECEMBER 5, 2007 TO OCTOBER 2, 2017

Finding No. 2 - Electronic Imaging Of Canceled Checks From The Bank Were Missing Or Did Not Include The Back Of The Checks

Our examination disclosed that the municipality issued 12 checks from its Turnback Account during the examination period. The imaging of two canceled checks from the bank for the Liquid Fuels Tax Fund account was not acceptable because the bank provided only an image of the front side of those canceled checks. Additionally, there were ten checks that the municipality could not provide any imaged document or original cancelled check. For us to properly complete our examination testing, we have to examine the front and back of the canceled checks. Because the test of disbursements was limited, we had to qualify our opinion as stated in the Independent Auditor's Report.

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.

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 misappropriations.

TOWNSHIP OF BANKS
INDIANA COUNTY
HIGHWAY TRANSFER PROGRAM - TURNBACK ACCOUNT
FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
DECEMBER 5, 2007 TO OCTOBER 2, 2017

**Finding No. 2 - Electronic Imaging Of Canceled Checks From The Bank Were Missing Or
Did Not Include The Back Of The Checks (Continued)**

Management's Response

The Secretary/Treasurer stated:

I did not start working at Banks Township until 2016. Therefore I could not find the missing records.

Auditor's Conclusion

The municipality should ensure that it obtains and maintains copies of both the fronts and backs of cancelled checks from its financial institution.

TOWNSHIP OF BANKS
INDIANA COUNTY
HIGHWAY TRANSFER PROGRAM - TURNBACK ACCOUNT
SUMMARY OF EXIT CONFERENCE
FOR THE PERIOD
DECEMBER 5, 2007 TO OCTOBER 2, 2017

An exit conference was held May 9, 2019. Those participating were:

TOWNSHIP OF BANKS

Ms. Tracy E. Pearce, Secretary/Treasurer

DEPARTMENT OF THE AUDITOR GENERAL

Mrs. Oldriska Hoch, 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 5, 2007 TO OCTOBER 2, 2017

This report was initially distributed to:

The Honorable Leslie Richards
Secretary
Department of Transportation

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

The Honorable W. Carl Ruth
Chairman of the Board of Supervisors

Ms. Tracy E. Pearce
Secretary/Treasurer

This report is a matter of public record and is available online at www.PaAuditor.gov. Media questions about the report can be directed to the Pennsylvania Department of the Auditor General, Office of Communications, 229 Finance Building, Harrisburg, PA 17120; via email to: news@PaAuditor.gov.