



**TOWNSHIP OF HARMONY
SUSQUEHANNA COUNTY
57-214**

**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 Harmony, Susquehanna 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 Harmony, Susquehanna 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 Finding No. 2, the municipality expended \$2,366.00 for modified crushed stone during 2010. Additionally, the municipality expended \$2,100.00 during 2010, \$2,100.00 during 2011, and \$2,100.00 during 2012 for the secretary/treasurer's salary, which are nonpermissible expenditures. Also, as discussed in Comment No. 3 of this report, during our prior examination period the municipality expended \$14,727.83 for purchases made without maintaining documentation for price quotations, \$14,102.50 for related party transactions, and \$6,955.00 for purchases of uncertified stone from its Liquid Fuels Tax Fund. As of the date of this report, the Department of Transportation had not determined if reimbursement of \$35,785.33 would be required.

In our opinion, except for the matters discussed in the preceding paragraph, the Forms MS-965 With Adjustments present, in all material respects, the information required by the Pennsylvania Department of Transportation for the Liquid Fuels Tax Fund of the Township of Harmony, Susquehanna 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 Harmony, Susquehanna 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 Harmony, Susquehanna County's Forms MS-965 that is more than inconsequential will not be prevented or detected by the Township of Harmony, Susquehanna County's internal

Independent Auditor's Report (Continued)

control. We consider the deficiency described in the findings below to be significant deficiency in internal control over reporting on the Form MS-965:

- Failure To Properly Prepare Forms MS-965.

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 Harmony, Susquehanna County's internal control. Our consideration of the internal control over reporting on the Forms MS-965 would not necessarily disclose all matters in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We consider the significant 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*:

- Nonpermissible Expenditures.

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

- Late Receipt Of Allocation - Recurring.

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



EUGENE A. DEPASQUALE
Auditor General

April 3, 2013

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	16
Finding No. 2 - Nonpermissible Expenditures	19
Finding No. 3 - Late Receipt Of Allocations - Recurring	20
Comments	22
Summary Of Exit Conference.....	24
Report Distribution	25

TOWNSHIP OF HARMONY
SUSQUEHANNA 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 HARMONY
 SUSQUEHANNA COUNTY
 LIQUID FUELS TAX FUND
 2010 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	\$ 4,049.79	\$ -	\$ 4,049.79
Minor equipment purchases	-	-	-
Computer/Computer related training	-	-	-
Agility projects	-	-	-
Cleaning streets and gutters	-	-	-
Winter maintenance services	700.00	-	700.00
Traffic control devices	-	-	-
Street lighting	-	-	-
Storm sewers and drains	-	-	-
Repairs of tools and machinery	6,386.22	1,037.92	7,424.14
Maintenance and repair of roads and bridges	65,905.88	(1,037.92)	64,867.96
Highway construction and rebuilding projects	-	-	-
Miscellaneous (Bank service charges)	-	100.00	100.00
	<u> </u>	<u> </u>	<u> </u>
Total (To Section 2, Line 5)	<u>\$ 77,041.89</u>	<u>\$ 100.00</u>	<u>\$ 77,141.89</u>

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

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

<u>Fund Balance</u>	<u>Reported</u>	<u>Adjustments</u>	<u>Adjusted Amount</u>
1. Balance, January 1, 2010	\$ 23,589.85	\$ -	\$ 23,589.85
Receipts:			
2. State allocation	51,070.24	-	51,070.24
2a. Turnback allocation	-	-	-
2b. Interest on investments (Note 3)	335.97	-	335.97
2c. Miscellaneous (Note 4)	6,956.25	-	6,956.25
3. Total receipts	<u>58,362.46</u>	<u>-</u>	<u>58,362.46</u>
4. Total funds available	<u>81,952.31</u>	<u>-</u>	<u>81,952.31</u>
5. Expenditures (Section 1)	<u>77,041.89</u>	<u>100.00</u>	<u>77,141.89</u>
6. Balance, December 31, 2010	<u>\$ 4,910.42</u>	<u>\$ (100.00)</u>	<u>\$ 4,810.42</u>

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

TOWNSHIP OF HARMONY
 SUSQUEHANNA COUNTY
 LIQUID FUELS TAX FUND
 2010 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	\$ 16,712.13	\$ -	\$ 16,712.13
2. Add: Current year equipment allocation (20% of Lines 2 + 2a, Section 2)	10,214.05	-	10,214.05
3. PENNDOT approved adjustments	<u>26,926.18</u>	<u>(26,926.18)</u>	<u>-</u>
4. Total funds available for equipment acquisition	53,852.36	(26,926.18)	26,926.18
5. Less: Major equipment expenditures	<u>4,049.79</u>	<u>-</u>	<u>4,049.79</u>
6. Remainder	<u><u>49,802.57</u></u>	<u><u>(26,926.18)</u></u>	<u><u>22,876.39</u></u>
7. Equipment balance available for subsequent year (Lesser of Line 6 or Section 2 balance, but not less than zero)	<u><u>\$ 4,910.42</u></u>	<u><u>\$ (100.00)</u></u>	<u><u>\$ 4,810.42</u></u>

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

TOWNSHIP OF HARMONY
 SUSQUEHANNA 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	\$ 5,399.72	\$ -	\$ 5,399.72
Minor equipment purchases	-	-	-
Computer/Computer related training	-	-	-
Agility projects	-	-	-
Cleaning streets and gutters	-	-	-
Winter maintenance services	625.00	-	625.00
Traffic control devices	-	-	-
Street lighting	-	-	-
Storm sewers and drains	-	-	-
Repairs of tools and machinery	6,951.65	(89.47)	6,862.18
Maintenance and repair of roads and bridges	20,673.23	31,441.50	52,114.73
Highway construction and rebuilding projects	-	-	-
Miscellaneous	31,441.50	(31,441.50)	-
	<u>31,441.50</u>	<u>(31,441.50)</u>	<u>-</u>
Total (To Section 2, Line 5)	<u>\$ 65,091.10</u>	<u>\$ (89.47)</u>	<u>\$ 65,001.63</u>

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

TOWNSHIP OF HARMONY
 SUSQUEHANNA 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	\$ 4,909.92	\$ (99.50)	\$ 4,810.42
Receipts:			
2. State allocation	52,249.11	-	52,249.11
2a. Turnback allocation	-	-	-
2b. Interest on investments (Note 3)	18.52	-	18.52
2c. Miscellaneous (Note 4)	12,984.75	25.00	13,009.75
3. Total receipts	<u>65,252.38</u>	<u>25.00</u>	<u>65,277.38</u>
4. Total funds available	<u>70,162.30</u>	<u>(74.50)</u>	<u>70,087.80</u>
5. Expenditures (Section 1)	<u>65,091.10</u>	<u>(89.47)</u>	<u>65,001.63</u>
6. Balance, December 31, 2011	<u>\$ 5,071.20</u>	<u>\$ 14.97</u>	<u>\$ 5,086.17</u>

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

TOWNSHIP OF HARMONY
 SUSQUEHANNA 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	\$ 4,909.92	\$ (99.50)	\$ 4,810.42
2. Add: Current year equipment allocation (20% of Lines 2 + 2a, Section 2)	10,449.82	-	10,449.82
3. PENNDOT approved adjustments	-	-	-
4. Total funds available for equipment acquisition	15,359.74	(99.50)	15,260.24
5. Less: Major equipment expenditures	5,399.72	-	5,399.72
6. Remainder	<u>9,960.02</u>	<u>(99.50)</u>	<u>9,860.52</u>
7. Equipment balance available for subsequent year (Lesser of Line 6 or Section 2 balance, but not less than zero)	<u>\$ 5,071.20</u>	<u>\$ 14.97</u>	<u>\$ 5,086.17</u>

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

TOWNSHIP OF HARMONY
 SUSQUEHANNA 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	\$ 3,000.00	\$ (300.14)	\$ 2,699.86
Minor equipment purchases	-	3,000.00	3,000.00
Computer/Computer related training	-	-	-
Agility projects	-	-	-
Cleaning streets and gutters	-	-	-
Winter maintenance services	-	-	-
Traffic control devices	-	-	-
Street lighting	-	-	-
Storm sewers and drains	-	-	-
Repairs of tools and machinery	18,208.72	(3.00)	18,205.72
Maintenance and repair of roads and bridges	15,399.51	30,311.98	45,711.49
Highway construction and rebuilding projects	-	-	-
Miscellaneous	33,018.86	(33,018.86)	-
	<u>33,018.86</u>	<u>(33,018.86)</u>	<u>-</u>
Total (To Section 2, Line 5)	<u>\$ 69,627.09</u>	<u>\$ (10.02)</u>	<u>\$ 69,617.07</u>

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

TOWNSHIP OF HARMONY
 SUSQUEHANNA 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	\$ 5,071.20	\$ 14.97	\$ 5,086.17
Receipts:			
2. State allocation	53,302.13	-	53,302.13
2a. Turnback allocation	-	-	-
2b. Interest on investments (Note 3)	3.15	-	3.15
2c. Miscellaneous (Note 4)	<u>15,759.00</u>	<u>-</u>	<u>15,759.00</u>
3. Total receipts	<u>69,064.28</u>	<u>-</u>	<u>69,064.28</u>
4. Total funds available	<u>74,135.48</u>	<u>14.97</u>	<u>74,150.45</u>
5. Expenditures (Section 1)	<u>69,627.09</u>	<u>(10.02)</u>	<u>69,617.07</u>
6. Balance, December 31, 2012	<u><u>\$ 4,508.39</u></u>	<u><u>\$ 24.99</u></u>	<u><u>\$ 4,533.38</u></u>

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

TOWNSHIP OF HARMONY
 SUSQUEHANNA 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	\$ 5,071.20	\$ 14.97	\$ 5,086.17
2. Add: Current year equipment allocation (20% of Lines 2 + 2a, Section 2)	10,660.43	-	10,660.43
3. PENNDOT approved adjustments	<u>15,285.24</u>	<u>(15,285.24)</u>	<u>-</u>
4. Total funds available for equipment acquisition	31,016.87	(15,270.27)	15,746.60
5. Less: Major equipment expenditures	<u>3,000.00</u>	<u>(300.14)</u>	<u>2,699.86</u>
6. Remainder	<u><u>28,016.87</u></u>	<u><u>(14,970.13)</u></u>	<u><u>13,046.74</u></u>
7. Equipment balance available for subsequent year (Lesser of Line 6 or Section 2 balance, but not less than zero)	<u><u>\$ 4,508.39</u></u>	<u><u>\$ 24.99</u></u>	<u><u>\$ 4,533.38</u></u>

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

TOWNSHIP OF HARMONY
SUSQUEHANNA 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.

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

TOWNSHIP OF HARMONY
SUSQUEHANNA 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 (Continued)

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 HARMONY
SUSQUEHANNA 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 HARMONY
 SUSQUEHANNA 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	<u>\$4,533.38</u>
------	-------------------

3. Interest On Investments

Our examination disclosed that the municipality deposited idle liquid fuels tax money in an interest-bearing account which earned \$335.97 during 2010, \$18.52 during 2011, and \$3.15 during 2012, thus providing additional funds for road maintenance and repairs.

4. Miscellaneous Receipts

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

<u>Source</u>	<u>Description</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Starrucca Borough	Winter maintenance agreement	\$4,931.25	\$ -	\$ -
Lanesboro Borough	Winter maintenance agreement	2,025.00	2,250.00	10,759.00
Financial Instution	Refund for bank service charges	-	25.00	-
General Fund	Reimbursement (Comment No. 2)	-	10,734.75	-
General Fund	Grant	-	-	<u>5,000.00</u>
Total		<u>\$6,956.25</u>	<u>\$13,009.75</u>	<u>\$15,759.00</u>

5. Bank Loan

During 2010 the municipality purchased a 2010 JCB backhoe for \$70,798.77. The municipality received a trade-in allowance of \$9,000.00 for a 1990 backhoe and made a down payment of \$798.77 from the General Fund. The municipality borrowed

TOWNSHIP OF HARMONY
SUSQUEHANNA 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 (Continued)

the balance of \$61,000.00 from Pennstar Bank. The term of the loan was for five years at an interest rate of 2.99 percent. Principal and interest payments of \$1,349.93 are due monthly.

During the current examination period the municipality paid principal of \$11,124.52 and interest of \$1,024.85 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 \$24,871.78 and interest of \$2,126.82 from the General Fund. The outstanding balance of the loan as of December 31, 2012 was \$25,003.70, plus interest.

TOWNSHIP OF HARMONY
SUSQUEHANNA 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

Our 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 1

- Adjustments were made to "Repairs of tools and machinery" and "Maintenance and repair of roads and bridges" because expenditures of \$1,037.92 were misclassified.
- An adjustment of \$100.00 was made to "Miscellaneous" because bank service charges were not reported.

2010 - Section 3

- An adjustment of \$(26,926.18) was made to "PENNDOT approved adjustments" because there were no approved adjustments.

2011 - Section 1

- An adjustment of \$(89.47) was made to "Repairs of tools and machinery" because check No. 950 was voided but was included as an expenditure.
- Adjustments were made to "Maintenance and repair of roads and bridges" and "Miscellaneous" because expenditures of \$31,441.50 were misclassified.

2011 - Section 2

- An adjustment of \$(99.50) was made to "Balance, January 1, 2011" because an incorrect fund balance was reported.
- An adjustment of \$25.00 was made to "Miscellaneous" because a refund for bank service charges was not reported.

2011 - Section 3

- An adjustment of \$(99.50) was made to "Prior year equipment balance" because an incorrect equipment balance was reported.

TOWNSHIP OF HARMONY
SUSQUEHANNA 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 (Continued)

2012 - Section 1

- An adjustment of \$(300.14) was made to “Major equipment purchases” because expenditures of \$2,699.86 were misclassified as miscellaneous and \$3,000.00 of minor equipment purchases were misclassified.
- An adjustment of \$3,000.00 was made to “Minor equipment purchases” because these expenditures were misclassified as major equipment purchases.
- An adjustment of \$(3.00) was made to “Repairs of tools and machinery” because check No. 1039 was reported as \$606.32 but was issued for \$603.32.
- An adjustment of \$30,311.98 was made to “Maintenance and repair of roads and bridges” because check No. 995 for \$7.02 was voided but was included as an expenditure and expenditures of \$30,319.00 were misclassified as miscellaneous.
- An adjustment of \$(33,018.86) was made to “Miscellaneous” because expenditures of \$2,699.86 for major equipment purchases and \$30,319.00 for maintenance and repair of roads and bridges were misclassified.

2012 - Section 2

- An adjustment of \$14.97 was made to “Balance, January 1, 2012” to reflect the adjustment made to the equipment balance in 2011 - Section 2.

2012 - Section 3

- An adjustment of \$14.97 was made to “Prior year equipment balance” because an incorrect equipment balance was carried forward.
- An adjustment of \$(15,285.24) was made to “PENNDOT approved adjustments” because there were no approved adjustments.

TOWNSHIP OF HARMONY
SUSQUEHANNA 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 (Continued)

2012 - Section 3 (Continued)

- An adjustment of \$(300.14) was made to “Major equipment purchases” 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.

Recommendation

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

Management’s Response

The municipal officials offered no formal response at this time.

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

Finding No. 2 - Nonpermissible Expenditures

Our examination disclosed that the municipality expended \$2,366.00 for modified crushed stone during 2010. Additionally, the municipality expended and \$2,100.00 during 2010, \$2,100.00 during 2011, and \$2,100.00 during 2012 for the secretary/treasurer's salary from the Liquid Fuels Tax Fund. These 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 the secretary's salary, are outside the scope of permissible expenditures.

Additionally, stone approved by the Department of Transportation are listed in the Department of Transportation Specifications *Publication 408*, Section 703.2. Modified crushed stone does not appear in *Publication 408*.

The failure to follow the Liquid Fuels Tax Municipal Allocation Law, the Department of Transportation's *Publication 408*, and other Department of Transportation's Regulations as noted above could result in the municipality having to reimburse \$8,666.00 to its Liquid Fuels Tax Fund.

Recommendations

We recommend that the municipality reimburse \$8,666.00 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, the Department of Transportation's *Publication 408*, and other Department of Transportation's Regulations regarding permissible expenditures.

Management's Response

The municipal officials offered no formal response at this time.

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

Finding No. 3 - Late Receipt Of Allocations - Recurring

We cited the municipality for receiving its Liquid Fuels Tax Fund allocations late in our prior examination report for the period ending December 31, 2009. Our current examination also disclosed that the 2011 and 2012 Liquid Fuels Tax Fund allocations of \$52,249.11 and \$53,302.13, respectively, which should have been distributed from the Department of Transportation to the municipality during the first week of April of each year, were not received until July 20, 2011, and October 26, 2012, respectively, because the municipality failed to comply with the Department of Transportation's *Publication 9*, Chapter Two, Section 2.4, which states:

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

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

This condition occurred because the municipality failed to comply with our prior examination recommendation to comply with the Department of Transportation's *Publication 9*.

Because the municipality failed to file documents and information timely as noted above, the municipality did not have use of the 2011 allocation for more than three months and the 2012 allocation for almost seven months. Furthermore, had the allocations been received timely, money may have been available for investment purposes, potentially earning interest income which could have been used for road maintenance and repairs.

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

Finding No. 3 - Late Receipt Of Allocations - Recurring (Continued)

Recommendation

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

Management's Response

The municipal officials offered no formal response at this time.

Auditor's Conclusion

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

TOWNSHIP OF HARMONY
SUSQUEHANNA COUNTY
LIQUID FUELS TAX FUND
COMMENTS
FOR THE PERIOD
JANUARY 1, 2010 TO DECEMBER 31, 2012

Comment No. 1 - Summary Of 2004-2005 Examination Recommendations

In our 2004-2005 report we recommended that the Department of Transportation review our examination finding to determine if the municipality should reimburse \$25,088.00 to its Liquid Fuels Tax Fund for related party transactions.

During our current examination we reviewed a letter dated February 15, 2011, from the Department of Transportation, informing the municipality that the reimbursement of \$25,088.00 would not be required.

Comment No. 2 - Summary Of 2006-2007 Examination Recommendations

In our 2006-2007 report we recommended that the Department of Transportation review our examination findings to determine if the municipality should reimburse \$41,837.25 to its Liquid Fuels Tax Fund. This amount consists of \$24,383.75 for a failure to maintain payroll time sheets identifying the nature of work performed and \$17,453.50 for related party transactions.

During our current examination we reviewed a letter dated February 15, 2011, from the Department of Transportation informing the municipality to reimburse \$10,734.75 to its Liquid Fuels Tax Fund and that reimbursement of the remaining \$31,102.50 would not be required. The municipality reimbursed \$5,000.00 on January 18, 2011, \$5,500.00 on March 9, 2011, and \$234.75 on April 6, 2011 to its Liquid Fuels Tax Fund.

Comment No. 3 - Summary Of 2008-2009 Examination Recommendations

In our 2008-2009 report we recommended that the Department of Transportation review our examination findings to determine if the municipality should reimburse \$35,785.33 to its Liquid Fuels Tax Fund. This amount consists of \$14,727.83 for purchases made without maintaining documentation for price quotations, \$14,102.50 for related party transactions, and \$6,955.00 for purchases of uncertified stone.

As of the date of this report the Department of Transportation had not determined if the reimbursement of \$35,785.33 would be required.

TOWNSHIP OF HARMONY
SUSQUEHANNA COUNTY
LIQUID FUELS TAX FUND
COMMENTS
FOR THE YEARS ENDED
DECEMBER 31, 2012

Comment No. 3 - Summary Of Prior Examination Recommendations (Continued)

In our 2008-2009 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 threshold for obtaining price quotations was increased to purchases between \$10,000.00 and \$18,500.00 beginning in 2012.
- The municipality comply with *The Second Class Township Code* and the Ethics Act concerning related party transactions.
- The municipality comply with the Department of Transportation's *Publication 408* by having the source of material approved before delivery to a project.

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

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

An exit conference was held April 3, 2013. Those participating were:

TOWNSHIP OF HARMONY

Ms. Lynn Jenkins, Secretary/Treasurer

DEPARTMENT OF THE AUDITOR GENERAL

Mr. Raymond J. Insalaco, Auditor

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

TOWNSHIP OF HARMONY
SUSQUEHANNA 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 Harmony
Susquehanna County
4197 Starrucca Creek Road
Susquehanna, PA 18847

The Honorable David Jenkins

Chairman of the Board of Supervisors

The Honorable Chad Towner

Vice-Chairman of the Board of Supervisors

Ms. Lynn Jenkins

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.