

ATTESTATION ENGAGEMENT

Township of Lumber
Cameron County, Pennsylvania
12-203
Liquid Fuels Tax Fund
For the Period
January 1, 2013 to December 31, 2016

May 2018



Commonwealth of Pennsylvania
Department of the Auditor General
Eugene A. DePasquale • Auditor General



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EUGENE A. DePASQUALE
AUDITOR GENERAL

Independent Auditor's Report

The Honorable Leslie Richards
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 Lumber, Cameron County, for the period January 1, 2013 to December 31, 2016. The municipality's management is responsible for presenting the Forms MS-965 in accordance with the criteria set forth in Note 1. 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. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether the Forms MS-965 are presented in accordance with the criteria described above, in all material respects. An examination involves performing procedures to obtain evidence about the Forms MS-965. The nature, timing and extent of the procedures selected depend on our judgement, including an assessment of the risks of material misstatement of the Forms MS-965, 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 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 Forms MS-965 With Adjustments are made by the Department of the Auditor General.

Independent Auditor's Report (Continued)

As discussed in Finding No. 1, during the examination period the municipality failed to maintain documentation for expenditures totaling \$199,734.31. Additionally, as discussed in Finding No. 3, the municipality expended \$2,136.68 during 2016 from the Liquid Fuels Tax Fund for nonpermissible expenditures.

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 Lumber, Cameron County, for the period January 1, 2013 to December 31, 2016, 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 Forms MS-965, 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 Forms MS-965. 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 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 *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 Forms MS-965 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 Forms MS-965 are 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.
- Untimely Deposit Of Allocations.

Independent Auditor's Report (Continued)

As part of obtaining reasonable assurance about whether the Forms MS-965 are free from material misstatement, we performed tests of the Township of Lumber, Cameron 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 Forms MS-965. 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 the following instances of noncompliance that are required to be reported under *Government Auditing Standards*:

- Nonpermissible Expenditures.
- A Complete Record Of Township Supervisor Meeting Minutes Was Not Available For Examination.

The purpose of this report is to determine whether the municipality's Liquid Fuels Tax Fund 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 9*. This report is not suitable for any other purpose.

We appreciate the courtesy extended by the Township of Lumber, Cameron 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

May 3, 2018

CONTENTS

	<u>Page</u>
Background	1
Financial Section:	
2013 Form MS-965 With Adjustments	3
2014 Form MS-965 With Adjustments	6
2015 Form MS-965 With Adjustments	9
2016 Form MS-965 With Adjustments	12
Notes To Forms MS-965 With Adjustments	15
Findings And Recommendations:	
Finding No. 1 - Documentation Supporting Expenditures Was Not Available For Examination	21
Finding No. 2 - Untimely Deposit Of Allocations	23
Finding No. 3 - Nonpermissible Expenditures	24
Finding No. 4 - A Complete Record Of Township Supervisors Meeting Minutes Was Not Available For Examination	26
Summary Of Prior Examination Recommendation	28
Summary Of Exit Conference	29
Report Distribution	30

TOWNSHIP OF LUMBER
CAMERON COUNTY
LIQUID FUELS TAX FUND
BACKGROUND
FOR THE PERIOD
JANUARY 1, 2013 TO DECEMBER 31, 2016

Background

The Liquid Fuels Tax Municipal Allocation Law, Act 655 of 1956, as amended, (72 P.S. § 2615.5 et seq.), 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 allocation of Liquid Fuels Tax funds and annual maintenance payments that it receives into a special fund called either 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 such a 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. Department of Transportation's *Publication 9* includes the policies and procedures for the administration of Act 655, as amended, and the Liquid Fuels Tax Fund money. However, if there is a difference between *Publication 9* and any legislation, the legislation shall govern.

To qualify for the annual allocation of Liquid Fuels Tax funds, *Publication 9* indicates that each municipality shall:

1. Submit annual reports (MS-965, Actual Use Report, MS-965P, Project and Miscellaneous Receipts, and MS-965S, Record of Checks).
2. Make deposits and payments or expenditures in compliance with Act 655 of 1956, as amended. Failure to do so may result in not receiving allocations from PennDOT until all discrepancies are resolved. *Publication 9*, Section 2.6, includes information about investing Liquid Fuels Tax monies, using loan or bond proceeds, and types of receipts into the Liquid Fuels Tax Fund.

TOWNSHIP OF LUMBER
CAMERON COUNTY
LIQUID FUELS TAX FUND
BACKGROUND
FOR THE PERIOD
JANUARY 1, 2013 TO DECEMBER 31, 2016

Background (Continued)

3. 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.
4. Ensure resolution of all Contractor Responsibility Program (CRP) holds and blocks imposed by the Department of Revenue and the Department of Labor and Industry.
5. Ensure resolution of all reimbursements required as a result of audits performed by the Department of the Auditor General or monitoring reviews performed by the Department of Transportation's Financial Consultants.

TOWNSHIP OF LUMBER
CAMERON COUNTY
LIQUID FUELS TAX FUND
2013 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	6,712.03	577.47	7,289.50
Traffic control devices	-	-	-
Street lighting	-	-	-
Storm sewers and drains	-	-	-
Repairs of tools and machinery	11,347.72	-	11,347.72
Maintenance and repair of roads and bridges	34,325.46	-	34,325.46
Highway construction and rebuilding projects	-	-	-
Miscellaneous (Bank service charges)	177.40	-	177.40
	<u> </u>	<u> </u>	<u> </u>
Total (To Section 2, Line 5)	<u>\$ 52,562.61</u>	<u>\$ 577.47</u>	<u>\$ 53,140.08</u>

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

TOWNSHIP OF LUMBER
CAMERON COUNTY
LIQUID FUELS TAX FUND
2013 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, 2013	\$ 64,856.18	\$ -	\$ 64,856.18
Receipts:			
2. State allocation	45,908.61	-	45,908.61
2a. Turnback allocation	6,880.00	-	6,880.00
2b. Interest on investments (Note 3)	159.66	-	159.66
2c. Miscellaneous	-	-	-
3. Total receipts	<u>52,948.27</u>	<u>-</u>	<u>52,948.27</u>
4. Total funds available	<u>117,804.45</u>	<u>-</u>	<u>117,804.45</u>
5. Expenditures (Section 1)	<u>52,562.61</u>	<u>577.47</u>	<u>53,140.08</u>
6. Balance, December 31, 2013	<u>\$ 65,241.84</u>	<u>\$ (577.47)</u>	<u>\$ 64,664.37</u>

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

TOWNSHIP OF LUMBER
CAMERON COUNTY
LIQUID FUELS TAX FUND
2013 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	\$ 45,050.96	\$ -	\$ 45,050.96
2. Add: Current year equipment allocation (20% of Lines 2 + 2a, Section 2)	10,557.72	-	10,557.72
3. PENNDOT approved adjustments	<u>-</u>	<u>-</u>	<u>-</u>
4. Total funds available for equipment acquisition	55,608.68	-	55,608.68
5. Less: Major equipment expenditures	<u>-</u>	<u>-</u>	<u>-</u>
6. Remainder	<u>55,608.68</u>	<u>-</u>	<u>55,608.68</u>
7. Equipment balance available for subsequent year (Lesser of Line 6 or Section 2 balance, but not less than zero)	<u>\$ 55,608.68</u>	<u>\$ -</u>	<u>\$ 55,608.68</u>

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

TOWNSHIP OF LUMBER
CAMERON COUNTY
LIQUID FUELS TAX FUND
2014 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	12,637.42	886.85	13,524.27
Traffic control devices	-	-	-
Street lighting	-	-	-
Storm sewers and drains	-	-	-
Repairs of tools and machinery	9,611.75	(335.80)	9,275.95
Maintenance and repair of roads and bridges	31,391.57	(3,134.34)	28,257.23
Highway construction and rebuilding projects	-	-	-
Miscellaneous	-	-	-
	<hr/>	<hr/>	<hr/>
Total (To Section 2, Line 5)	<u>\$ 53,640.74</u>	<u>\$ (2,583.29)</u>	<u>\$ 51,057.45</u>

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

TOWNSHIP OF LUMBER
CAMERON COUNTY
LIQUID FUELS TAX FUND
2014 FORM MS-965 – SECTION 2
WITH ADJUSTMENTS

<u>Fund Balance</u>	<u>Reported</u>	<u>Adjustments (Note 4)</u>	<u>Adjusted Amount</u>
1. Balance, January 1, 2014	\$ 65,241.94	\$ (577.57)	\$ 64,664.37
Receipts:			
2. State allocation	49,140.10	-	49,140.10
2a. Turnback allocation	6,880.00	-	6,880.00
2b. Interest on investments (Note 3)	189.92	-	189.92
2c. Miscellaneous	-	-	-
3. Total receipts	<u>56,210.02</u>	<u>-</u>	<u>56,210.02</u>
4. Total funds available	<u>121,451.96</u>	<u>(577.57)</u>	<u>120,874.39</u>
5. Expenditures (Section 1)	<u>53,640.74</u>	<u>(2,583.29)</u>	<u>51,057.45</u>
6. Balance, December 31, 2014	<u>\$ 67,811.22</u>	<u>\$ 2,005.72</u>	<u>\$ 69,816.94</u>

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

TOWNSHIP OF LUMBER
CAMERON COUNTY
LIQUID FUELS TAX FUND
2014 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	\$ 55,608.68	\$ -	\$ 55,608.68
2. Add: Current year equipment allocation (20% of Lines 2 + 2a, Section 2)	11,204.02	-	11,204.02
3. PENNDOT approved adjustments	<u>-</u>	<u>-</u>	<u>-</u>
4. Total funds available for equipment acquisition	66,812.70	-	66,812.70
5. Less: Major equipment expenditures	<u>-</u>	<u>-</u>	<u>-</u>
6. Remainder	<u>66,812.70</u>	<u>-</u>	<u>66,812.70</u>
7. Equipment balance available for subsequent year (Lesser of Line 6 or Section 2 balance, but not less than zero)	<u>\$ 66,812.70</u>	<u>\$ -</u>	<u>\$ 66,812.70</u>

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

TOWNSHIP OF LUMBER
CAMERON COUNTY
LIQUID FUELS TAX FUND
2015 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	\$ 8,561.55	\$ -	\$ 8,561.55
Minor equipment purchases	512.40	-	512.40
Computer/Computer related training	-	-	-
Agility projects	-	-	-
Cleaning streets and gutters	-	-	-
Winter maintenance services	17,858.46	1,861.61	19,720.07
Traffic control devices	403.40	-	403.40
Street lighting	-	-	-
Storm sewers and drains	-	-	-
Repairs of tools and machinery	6,103.74	501.00	6,604.74
Maintenance and repair of roads and bridges	32,733.55	572.44	33,305.99
Highway construction and rebuilding projects	-	-	-
Miscellaneous	-	-	-
	<hr/>	<hr/>	<hr/>
Total (To Section 2, Line 5)	<u>\$ 66,173.10</u>	<u>\$ 2,935.05</u>	<u>\$ 69,108.15</u>

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

TOWNSHIP OF LUMBER
CAMERON COUNTY
LIQUID FUELS TAX FUND
2015 FORM MS-965 – SECTION 2
WITH ADJUSTMENTS

<u>Fund Balance</u>	<u>Reported</u>	<u>Adjustments (Note 4)</u>	<u>Adjusted Amount</u>
1. Balance, January 1, 2015	\$ 67,811.12	\$ 2,005.82	\$ 69,816.94
Receipts:			
2. State allocation	53,801.40	-	53,801.40
2a. Turnback allocation	6,880.00	-	6,880.00
2b. Interest on investments (Note 3)	171.85	-	171.85
2c. Miscellaneous	2,005.82	(2,005.82)	-
3. Total receipts	62,859.07	(2,005.82)	60,853.25
4. Total funds available	130,670.19	-	130,670.19
5. Expenditures (Section 1)	66,173.10	2,935.05	69,108.15
6. Balance, December 31, 2015	<u>\$ 64,497.09</u>	<u>\$ (2,935.05)</u>	<u>\$ 61,562.04</u>

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

TOWNSHIP OF LUMBER
CAMERON COUNTY
LIQUID FUELS TAX FUND
2015 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	\$ 66,812.70	\$ -	\$ 66,812.70
2. Add: Current year equipment allocation (20% of Lines 2 + 2a, Section 2)	12,136.28	-	12,136.28
3. PENNDOT approved adjustments	<u>-</u>	<u>-</u>	<u>-</u>
4. Total funds available for equipment acquisition	78,948.98	-	78,948.98
5. Less: Major equipment expenditures	<u>8,561.55</u>	<u>-</u>	<u>8,561.55</u>
6. Remainder	<u>70,387.43</u>	<u>-</u>	<u>70,387.43</u>
7. Equipment balance available for subsequent year (Lesser of Line 6 or Section 2 balance, but not less than zero)	<u>\$ 64,497.09</u>	<u>\$ (2,935.05)</u>	<u>\$ 61,562.04</u>

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

TOWNSHIP OF LUMBER
CAMERON COUNTY
LIQUID FUELS TAX FUND
2016 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	\$ 8,561.55	\$ -	\$ 8,561.55
Minor equipment purchases	-	-	-
Computer/Computer related training	-	95.38	95.38
Agility projects	-	-	-
Cleaning streets and gutters	-	-	-
Winter maintenance services	15,240.42	-	15,240.42
Traffic control devices	-	-	-
Street lighting	-	-	-
Storm sewers and drains	-	-	-
Repairs of tools and machinery	18,348.80	(595.90)	17,752.90
Maintenance and repair of roads and bridges	20,855.51	-	20,855.51
Highway construction and rebuilding projects	-	-	-
Miscellaneous (Note 6)	837.95	439.62	1,277.57
	<u>837.95</u>	<u>439.62</u>	<u>1,277.57</u>
Total (To Section 2, Line 5)	<u>\$ 63,844.23</u>	<u>\$ (60.90)</u>	<u>\$ 63,783.33</u>

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

TOWNSHIP OF LUMBER
CAMERON COUNTY
LIQUID FUELS TAX FUND
2016 FORM MS-965 – SECTION 2
WITH ADJUSTMENTS

<u>Fund Balance</u>	<u>Reported</u>	<u>Adjustments (Note 4)</u>	<u>Adjusted Amount</u>
1. Balance, January 1, 2016	\$ 64,497.09	\$ (2,935.05)	\$ 61,562.04
Receipts:			
2. State allocation	63,059.11	-	63,059.11
2a. Turnback allocation	6,880.00	-	6,880.00
2b. Interest on investments (Note 3)	168.42	20.03	188.45
2c. Miscellaneous (Note 5)	1,560.00	-	1,560.00
3. Total receipts	<u>71,667.53</u>	<u>20.03</u>	<u>71,687.56</u>
4. Total funds available	<u>136,164.62</u>	<u>(2,915.02)</u>	<u>133,249.60</u>
5. Expenditures (Section 1)	<u>63,844.23</u>	<u>(60.90)</u>	<u>63,783.33</u>
6. Balance, December 31, 2016	<u>\$ 72,320.39</u>	<u>\$ (2,854.12)</u>	<u>\$ 69,466.27</u>

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

TOWNSHIP OF LUMBER
CAMERON COUNTY
LIQUID FUELS TAX FUND
2016 FORM MS-965 – SECTION 3
WITH ADJUSTMENTS

<u>Equipment Balance</u>	<u>Reported</u>	<u>Adjustments (Note 4)</u>	<u>Adjusted Amount</u>
1. Prior year equipment balance	\$ 64,497.09	\$ (2,935.05)	\$ 61,562.04
2. Add: Current year equipment allocation (20% of Lines 2 + 2a, Section 2)	13,987.82	-	13,987.82
3. PENNDOT approved adjustments	<u>-</u>	<u>-</u>	<u>-</u>
4. Total funds available for equipment acquisition	78,484.91	(2,935.05)	75,549.86
5. Less: Major equipment expenditures	<u>8,561.55</u>	<u>-</u>	<u>8,561.55</u>
6. Remainder	<u>69,923.36</u>	<u>(2,935.05)</u>	<u>66,988.31</u>
7. Equipment balance available for subsequent year (Lesser of Line 6 or Section 2 balance, but not less than zero)	<u>\$ 69,923.36</u>	<u>\$ (2,935.05)</u>	<u>\$ 66,988.31</u>

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

TOWNSHIP OF LUMBER
CAMERON COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE PERIOD
JANUARY 1, 2013 TO DECEMBER 31, 2016

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 with varying yearly costs in excess of the amounts indicated below:

<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015/2016</u>
<u>\$10,000.00</u>	<u>\$10,200.00</u>	<u>\$10,300.00</u>	<u>\$10,500.00</u>

- Minor equipment purchases are purchases of road machinery and road equipment with varying yearly costs that are less than or equal to the amounts indicated below:

<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015/2016</u>
<u>\$10,000.00</u>	<u>\$10,200.00</u>	<u>\$10,300.00</u>	<u>\$10,500.00</u>

- 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 available from the Department of Transportation in March of each year since 2014. For 2013 and earlier years, the state allocation was available in April of each year. The amount the municipality receives is based half on its population and half on its road mileage.
- Municipalities that transferred roads from the Commonwealth of Pennsylvania to the municipality through the Highway Transfer Program receive annual turnback allocations in March of each year since 2014 from the Department of Transportation. For 2013 and earlier years, turnback allocations were available in April of each year. Turnback allocations are based on the mileage of the roads transferred.

TOWNSHIP OF LUMBER
CAMERON COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE PERIOD
JANUARY 1, 2013 TO DECEMBER 31, 2016

1. Criteria (Continued)

Section 2 (Continued)

- 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 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.

TOWNSHIP OF LUMBER
CAMERON COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE PERIOD
JANUARY 1, 2013 TO DECEMBER 31, 2016

1. Criteria (Continued)

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.

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 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.

TOWNSHIP OF LUMBER
CAMERON COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE PERIOD
JANUARY 1, 2013 TO DECEMBER 31, 2016

2. Deposits (Continued)

There were no deposits exposed to custodial credit risk as of December 31, 2016. Custodial credit risk, as defined by GASB No. 40, as amended, 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.

Fund Balance

The fund balance as of December 31, 2016, consists of the following:

Cash	<u><u>\$69,466.27</u></u>
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3. Interest On Investments

Our examination disclosed that the municipality deposited idle liquid fuels tax money in interest-bearing accounts which earned \$159.66 during 2013, \$189.92 during 2014, \$171.85 during 2015, and \$188.45 during 2016, thus providing additional funds for road maintenance and repairs.

4. Adjustments

2013 - Section 1

An adjustment of \$577.47 was made to "Winter maintenance services" because check No. 1351 was not reported.

2014 - Section 1

An adjustment of \$886.85 was made to "Winter maintenance services" because expenditures relating to check Nos. 1365 for \$482.60 and 1378 for \$404.25 were not reported.

An adjustment of \$(335.80) was made to "Repairs of tools and machinery" because check No. 1482 was voided but was included as an expenditure.

An adjustment of \$(3,134.34) was made to "Maintenance and repair of roads and bridges" because check Nos. 1394 for \$1,610.52 and 1395 for \$1,523.82 were voided but were included as expenditures.

TOWNSHIP OF LUMBER
CAMERON COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE PERIOD
JANUARY 1, 2013 TO DECEMBER 31, 2016

4. Adjustments (Continued)

2014 - Section 2

An adjustment of \$(577.57) was made to "Balance, January 1, 2014" because an incorrect fund balance was carried forward.

2015 - Section 1

An adjustment of \$1,861.61 was made to "Winter maintenance services" because check Nos. 1594 for \$1,248.97 and 1600 for \$612.64 were not reported.

An adjustment of \$501.00 was made to "Repairs of tools and machinery" because check No. 1592 was not reported.

An adjustment of \$572.44 was made to "Maintenance and repairs of roads and bridges" because check No. 1595 was not reported.

2015 - Section 2

An adjustment of \$2,005.82 was made to "Balance, January 1, 2015" because an incorrect fund balance was carried forward.

An adjustment of \$(2,005.82) was made to "Miscellaneous" because there were no miscellaneous receipts.

2016 - Section 1

An adjustment of \$95.38 was made to "Computer/Computer related training" because expenditures were misclassified as miscellaneous.

An adjustment of \$(595.90) was made to "Repairs of tools and machinery" because check Nos. 1648 for \$5.95 and 1659 for \$589.95 were voided but were included as expenditures.

An adjustment of \$439.62 was made to "Miscellaneous" because expenditures of \$95.38 for computer/computer related training were misclassified and these expenditures were understated by \$535.00.

TOWNSHIP OF LUMBER
CAMERON COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE PERIOD
JANUARY 1, 2013 TO DECEMBER 31, 2016

4. Adjustments (Continued)

2016 - Section 2

An adjustment of \$(2,935.05) was made to "Balance, January 1, 2016" to reflect the adjustment made to the fund balance in 2015 - Section 2.

An adjustment of \$20.03 was made to "Interest on investments" because interest earnings were understated.

2016 - Section 3

An adjustment of \$(2,935.05) was made to "Prior year equipment balance" to reflect the adjustment made to the equipment balance in 2015 - Section 3.

5. Miscellaneous Receipts

On November 9, 2016, the municipality deposited \$1,560.00 into its Liquid Fuels Tax Fund that was received from Portage Township for road repairs.

6. Miscellaneous Expenditures

The following miscellaneous expenditures were paid from the Liquid Fuels Tax Fund during the examination period:

<u>Payee</u>	<u>Description</u>	<u>2016</u>
Secretary/Treasurer	Administrative expenses (Finding No. 3)	\$ 600.00
Solid Waste Fund	Reimbursement for wages	500.00
Secretary/Treasurer	Treasurers bond (Finding No. 3)	135.00
Financial institution	Bank service charges	35.00
Secretary/Treasurer	Postage (Finding No. 3)	7.57
Total		<u>\$1,277.57</u>

TOWNSHIP OF LUMBER
CAMERON COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2013 TO DECEMBER 31, 2016

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

Our examination disclosed that the municipality did not maintain invoices to support expenditures of \$22,300.32 during 2013, \$22,530.18 during 2014, \$17,325.98 during 2015 and \$11,330.37 during 2016.

Also, our examination disclosed that the municipality expended \$27,641.45 during 2013, \$28,009.51 during 2014, \$35,589.12 during 2015 and \$35,007.38 during 2016 from the Liquid Fuels Tax Fund for payroll. However, the municipality did not maintain daily payroll time sheets identifying the nature of work performed and the location of work assignments.

Good internal control procedures ensure that there is documentation, such as invoices and payroll records, 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 invoices and payroll documentation that includes daily time sheets that identify the nature of work performed and the location of work assignments, we could not determine if the expenditures were permissible according to the Liquid Fuels Tax Municipal Allocation Law. Good internal control procedures ensure that there is documentation to support all expenditures.

TOWNSHIP OF LUMBER
CAMERON COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2013 TO DECEMBER 31, 2016

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

The failure to maintain documentation to support expenditures could result in the municipality having to reimburse \$199,734.31 to its Liquid Fuels Tax Fund.

Recommendations

We recommend that the municipality reimburse \$199,734.31 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.

Management's Response

The secretary/treasurer stated:

Due to the illness of the former secretary, the records for the examination period were hit or miss when I was appointed in late October 2016.

Auditor's Conclusion

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

TOWNSHIP OF LUMBER
CAMERON COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2013 TO DECEMBER 31, 2016

Finding No. 2 - Untimely Deposit Of Allocations

Our examination disclosed that the 2014 Liquid Fuels Tax Fund allocation of \$49,140.10, which was received on March 12, 2014, was not deposited into the Liquid Fuels Tax Fund until March 25, 2014. We further noted that the 2016 allocation of \$63,059.11, which was received on March 29, 2016, was not deposited into the Liquid Fuels Tax Fund until April 14, 2016.

Good internal control procedures require that all funds received be deposited immediately upon receipt. The failure to do so increases the risk that errors and misappropriations may occur and remain undetected.

Because the municipality failed to deposit the allocations timely as noted above, the municipality did not have use of the 2014 and 2016 allocations for about two weeks. 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.

Recommendations

We recommend that, in the future, the municipality deposit all allocations immediately upon receipt.

In addition, the municipal officials should consider using the electronic transfer of funds offered by the Department of Transportation.

Management's Response

The secretary/treasurer stated:

Due to the illness of the former secretary, the records for the examination period were hit or miss when I was appointed in late October 2016.

Auditor's Conclusion

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

TOWNSHIP OF LUMBER
CAMERON COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2013 TO DECEMBER 31, 2016

Finding No. 3 - Nonpermissible Expenditures

Our examination disclosed that the municipality expended \$2,136.68 during 2016 from the Liquid Fuels Tax Fund for the following nonpermissible items:

<u>Description</u>	<u>Amount</u>
Vehicle insurance	\$1,394.11
Administrative costs	600.00
Treasurers bond	135.00
Postage	7.57
Total	<u>\$2,136.68</u>

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 vehicle insurance, administrative costs, treasurers bond and postage, are outside the scope of permissible expenditures.

The failure to follow the Liquid Fuels Tax Municipal Allocation Law and the Department of Transportation's Regulations as noted above could result in the municipality having to reimburse \$2,136.68 to its Liquid Fuels Tax Fund.

Recommendations

We recommend that the municipality reimburse \$2,136.68 to its Liquid Fuels Tax Fund upon official notification by the Department of Transportation.

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

TOWNSHIP OF LUMBER
CAMERON COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2013 TO DECEMBER 31, 2016

Finding No. 3 - Nonpermissible Expenditures (Continued)

Management's Response

The secretary/treasurer stated:

Due to the illness of the former secretary, the records for the examination period were hit or miss when I was appointed in late October 2016.

Auditor's Conclusion

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

TOWNSHIP OF LUMBER
CAMERON COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2013 TO DECEMBER 31, 2016

Finding No. 4 - A Complete Record Of Township Supervisors Meeting Minutes Was Not Available For Examination

Our examination disclosed that complete record of minutes reflecting advertised meetings of the board of supervisors were not available at the audit site during the audit period of January 1, 2013 to December 31, 2016.

The Borough Code, Section 605, states:

Minutes and Records.--(a) The board of supervisors shall provide for the recording of minutes of its proceedings and other books it may find necessary in the performance of its duties. The records shall be made available to the board of auditors during the annual audit. Unless the custodian of the records agrees otherwise, the records shall be audited or inspected at the place where they are normally maintained. Supervisors who leave office shall deliver all township records in their possession to their successors or to the township secretary.

(b) All township records required to be recorded or transcribed are valid if typewritten, printed, photostated or microfilmed, and, where recording in a specified book of record is required, including minutes of the proceedings of the board of supervisors, the records may be recorded or transcribed in a mechanical post binder book capable of being permanently sealed, with consecutively numbered pages with a security code printed thereon and a permanent locking device with the township seal being impressed upon each page, or bound book with pages being consecutively numbered by transcribing directly upon the pages of the book of record, or may be attached to the book of record by stapling or by glue or any other adhesive substance or material, and all records previously recorded or transcribed in any manner authorized by this section are validated. When any record is recorded or transcribed by attaching the record or a copy of it to the book of record, the township seal shall be impressed upon each page to which the record is attached, each impression covering both a portion of the attached record and a portion of the page of the book of record to which the record is attached.

The primary purpose of the minutes is to provide an official record of supervisors meetings. Without a complete record of readable minutes, we were unable to determine if there were any references to information which would have had an impact on the propriety of liquid fuels expenditures. Additionally, we were unable to determine if litigation or related party transactions were noted.

TOWNSHIP OF LUMBER
CAMERON COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2013 TO DECEMBER 31, 2016

Finding No. 4 - A Complete Record Of Township Supervisors Meeting Minutes Was Not Available For Examination

Recommendation

We recommend that, in the future, transcribed minutes for council meetings be available for public review within a reasonable period of time after each meeting.

Management's Response

The secretary/treasurer stated:

Due to the illness of the former secretary, the records for the examination period were hit or miss when I was appointed in late October 2016.

Auditor's Conclusion

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

TOWNSHIP OF LUMBER
CAMERON COUNTY
LIQUID FUELS TAX FUND
SUMMARY OF PRIOR EXAMINATION RECOMMENDATION
FOR THE PERIOD
JANUARY 1, 2013 TO DECEMBER 31, 2016

Summary Of Prior Examination Recommendation

In our prior report we recommended 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 account.

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

TOWNSHIP OF LUMBER
CAMERON COUNTY
LIQUID FUELS TAX FUND
SUMMARY OF EXIT CONFERENCE
FOR THE PERIOD
JANUARY 1, 2013 TO DECEMBER 31, 2016

An exit conference was held April 16, 2018. Those participating were:

TOWNSHIP OF LUMBER

Mrs. Marsha D. Patros, Secretary/Treasurer

DEPARTMENT OF THE AUDITOR GENERAL

Mr. Christopher Heglen, Audit Supervisor

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

TOWNSHIP OF LUMBER
CAMERON COUNTY
LIQUID FUELS TAX FUND
REPORT DISTRIBUTION
FOR THE PERIOD
JANUARY 1, 2013 TO DECEMBER 31, 2016

This report was initially distributed to:

The Honorable Leslie Richards
Secretary
Department of Transportation

Township of Lumber
Cameron County
Sterling Run Road
P. O. Box 122
Emporium, PA 15834

The Honorable H.B. Von Hause
Chairman of the Board of Supervisors

Mrs. Marsha D. Patros
Secretary/Treasurer

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