



**TOWNSHIP OF NEW MILFORD
SUSQUEHANNA COUNTY
57-222**

**LIQUID FUELS TAX FUND
EXAMINATION REPORT**

**FOR THE PERIOD
JANUARY 1, 2011 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 New Milford, Susquehanna County, for the period January 1, 2011 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 New Milford, Susquehanna County's Forms MS-965 for the period January 1, 2011 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. 3, 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 the Findings and Recommendations section of this report:

- The municipality expended \$59,858.36 during 2011 and \$43,908.28 during 2012 from the Liquid Fuels Tax Fund to purchase fuel in bulk quantities for both equipment and heating the municipal building. Fuel to heat the municipal building is a nonpermissible expenditure. Additionally, records for the dispensation of these fuel purchases were not maintained (Finding No. 1).
- The municipality paid invoice No. 1350543 for \$2,517.00 twice. This amount was reimbursed to the Liquid Fuels Tax Fund on March 19, 2013, which was subsequent to our examination period (Finding No. 2).
- The municipality expended \$34,270.38 from its Liquid Fuels Tax Fund for items that were nonpermissible (Finding No. 4).
- The municipality expended \$22,670.03 in excess of the amount available for the purchase of equipment for the year ending December 31, 2012 (Finding No. 5).

In our opinion, except for the bulleted items discussed above, 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 New Milford, Susquehanna County, for the period January 1, 2011 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.

Independent Auditor's Report (Continued)

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 New Milford, 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 New Milford, Susquehanna County's Forms MS-965 that is more than inconsequential will not be prevented or detected by the Township of New Milford, Susquehanna County's internal control.

We consider the deficiencies described in the findings below to be significant deficiencies in internal control over reporting on the Forms MS-965:

- Fuel Dispensation Records Not Maintained And Nonpermissible Fuel Purchases.
- Duplicate Payment Of Invoice.
- Failure To Properly Prepare Forms MS-965 - Recurring.

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 New Milford, 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. However, of the significant deficiencies described above, we consider the first and second bulleted deficiencies to be material weaknesses.

The results of our tests disclosed the following instances of noncompliance that are required to be reported under *Government Auditing Standards*:

- Nonpermissible Expenditures.
- Overexpended Equipment Purchase Tally.

Independent Auditor's Report (Continued)

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

A handwritten signature in black ink, appearing to read "Eugene A. DePasquale", with a long, sweeping horizontal stroke at the end.

April 30, 2013

EUGENE A. DEPASQUALE
Auditor General

CONTENTS

	<u>Page</u>
Background	1
Financial Section:	
2011 Form MS-965 With Adjustments	2
2012 Form MS-965 With Adjustments	5
Notes To Forms MS-965 With Adjustments	8
Findings And Recommendations:	
Finding No. 1 - Fuel Dispensation Records Not Maintained And Nonpermissible Fuel Purchases	13
Finding No. 2 - Duplicate Payment Of Invoice	15
Finding No. 3 - Failure To Properly Prepare Forms MS-965 - Recurring	16
Finding No. 4 - Nonpermissible Expenditures	20
Finding No. 5 - Overexpended Equipment Purchase Tally	22
Summary Of Exit Conference	24
Report Distribution	25

TOWNSHIP OF NEW MILFORD
SUSQUEHANNA COUNTY
LIQUID FUELS TAX FUND
BACKGROUND
FOR THE PERIOD
JANUARY 1, 2011 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 NEW MILFORD
 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. 3)</u>	<u>Adjusted Amount</u>
Major equipment purchases	\$ -	\$ 19,881.83	\$ 19,881.83
Minor equipment purchases	-	-	-
Computer/Computer related training	-	-	-
Agility projects	-	-	-
Cleaning streets and gutters	-	-	-
Winter maintenance services	-	-	-
Traffic control devices	-	-	-
Street lighting	-	-	-
Storm sewers and drains	-	-	-
Repairs of tools and machinery	54,725.20	(21,295.81)	33,429.39
Maintenance and repair of roads and bridges	220,322.73	(1,100.69)	219,222.04
Highway construction and rebuilding projects	-	-	-
Miscellaneous	-	-	-
 Total (To Section 2, Line 5)	 <u>\$ 275,047.93</u>	 <u>\$ (2,514.67)</u>	 <u>\$ 272,533.26</u>

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

TOWNSHIP OF NEW MILFORD
 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. 3)</u>	<u>Adjusted Amount</u>
1. Balance, January 1, 2011	\$ 125,183.50	\$ (120,956.38)	\$ 4,227.12
Receipts:			
2. State allocation	147,366.19	-	147,366.19
2a. Turnback allocation	29,120.00	-	29,120.00
2b. Interest on investments (Note 3)	-	49.69	49.69
2c. Miscellaneous (Note 5)	85,520.00	15,366.15	100,886.15
3. Total receipts	<u>262,006.19</u>	<u>15,415.84</u>	<u>277,422.03</u>
4. Total funds available	<u>387,189.69</u>	<u>(105,540.54)</u>	<u>281,649.15</u>
5. Expenditures (Section 1)	<u>275,047.93</u>	<u>(2,514.67)</u>	<u>272,533.26</u>
6. Balance, December 31, 2011	<u><u>\$ 112,141.76</u></u>	<u><u>\$ (103,025.87)</u></u>	<u><u>\$ 9,115.89</u></u>

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

TOWNSHIP OF NEW MILFORD
 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. 3)</u>	<u>Adjusted Amount</u>
1. Prior year equipment balance	\$ 73,517.64	\$ (69,290.52)	\$ 4,227.12
2. Add: Current year equipment allocation (20% of Lines 2 + 2a, Section 2)	35,297.24	-	35,297.24
3. PENNDOT approved adjustments	-	-	-
4. Total funds available for equipment acquisition	108,814.88	(69,290.52)	39,524.36
5. Less: Major equipment expenditures	-	19,881.83	19,881.83
6. Remainder	<u>108,814.88</u>	<u>(89,172.35)</u>	<u>19,642.53</u>
7. Equipment balance available for subsequent year (Lesser of Line 6 or Section 2 balance, but not less than zero)	<u>\$ 108,814.88</u>	<u>\$ (99,698.99)</u>	<u>\$ 9,115.89</u>

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

TOWNSHIP OF NEW MILFORD
 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. 3)</u>	<u>Adjusted Amount</u>
Major equipment purchases	\$ -	\$ 68,394.00	\$ 68,394.00
Minor equipment purchases	-	10,099.04	10,099.04
Computer/Computer related training	-	-	-
Agility projects	-	-	-
Cleaning streets and gutters	-	-	-
Winter maintenance services	-	-	-
Traffic control devices	9,365.00	-	9,365.00
Street lighting	-	-	-
Storm sewers and drains	-	-	-
Repairs of tools and machinery	21,699.50	(4,066.60)	17,632.90
Maintenance and repair of roads and bridges	274,263.65	(111,117.90)	163,145.75
Highway construction and rebuilding projects	-	-	-
Miscellaneous (Note 5)	20.00	34,250.38	34,270.38
 Total (To Section 2, Line 5)	 <u>\$ 305,348.15</u>	 <u>\$ (2,441.08)</u>	 <u>\$ 302,907.07</u>

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

TOWNSHIP OF NEW MILFORD
 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. 3)</u>	<u>Adjusted Amount</u>
1. Balance, January 1, 2012	\$ 112,141.76	\$ (103,025.87)	\$ 9,115.89
Receipts:			
2. State allocation	153,920.42	-	153,920.42
2a. Turnback allocation	29,120.00	-	29,120.00
2b. Interest on investments (Note 3)	-	29.59	29.59
2c. Miscellaneous (Note 5)	318,042.25	(172,280.79)	145,761.46
3. Total receipts	<u>501,082.67</u>	<u>(172,251.20)</u>	<u>328,831.47</u>
4. Total funds available	<u>613,224.43</u>	<u>(275,277.07)</u>	<u>337,947.36</u>
5. Expenditures (Section 1)	<u>305,348.15</u>	<u>(2,441.08)</u>	<u>302,907.07</u>
6. Balance, December 31, 2012	<u>\$ 307,876.28</u>	<u>\$ (272,835.99)</u>	<u>\$ 35,040.29</u>

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

TOWNSHIP OF NEW MILFORD
 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. 3)</u>	<u>Adjusted Amount</u>
1. Prior year equipment balance	\$ 108,814.88	\$ (99,698.99)	\$ 9,115.89
2. Add: Current year equipment allocation (20% of Lines 2 + 2a, Section 2)	36,608.08	-	36,608.08
3. PENNDOT approved adjustments	-	-	-
4. Total funds available for equipment acquisition	145,422.96	(99,698.99)	45,723.97
5. Less: Major equipment expenditures	-	68,394.00	68,394.00
6. Remainder	<u>145,422.96</u>	<u>(168,092.99)</u>	<u>(22,670.03)</u>
7. Equipment balance available for subsequent year (Lesser of Line 6 or Section 2 balance, but not less than zero)	<u>\$ 145,422.96</u>	<u>\$ (145,422.96)</u>	<u>\$ -</u>

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

TOWNSHIP OF NEW MILFORD
SUSQUEHANNA COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE PERIOD
JANUARY 1, 2011 TO DECEMBER 31, 2012

1. Criteria

Section 1

This section of Form MS-965 With Adjustments provides a summary of Liquid Fuels Tax Fund expenditures by category. Categories requiring explanation include:

- Major equipment purchases are purchases of road machinery and road equipment that cost in excess of \$4,000.00 prior to 2012 and in excess of \$10,000.00 during 2012 and subsequent years.
- Minor equipment purchases are purchases of road machinery and road equipment that cost \$4,000.00 or less prior to 2012 and \$10,000.00 or less during 2012 and subsequent years.
- Agility projects are exchanges of services with the Department of Transportation.

Section 2

This section of Form MS-965 With Adjustments provides information on the fund balance. Categories requiring explanation include:

- The state allocation is generally received from the Department of Transportation during the first week in April of each year. The amount the municipality receives is based half on its population and half on its road mileage.
- The turnback allocation is generally received from the Department of Transportation during the first week in April of each year. A municipality receives a yearly turnback allocation based on road mileage for all roads that were transferred to the municipality from the Commonwealth of Pennsylvania through the Highway Transfer Program.
- Expenditures include the total transferred from Section 1.

TOWNSHIP OF NEW MILFORD
SUSQUEHANNA COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE PERIOD
JANUARY 1, 2011 TO DECEMBER 31, 2012

1. Criteria (Continued)

Section 3

This section of Form MS-965 With Adjustments determines if the municipality expended Liquid Fuels Tax Fund money in excess of the permissible amount for equipment and the balance that the municipality may carry forward for the purchase of equipment to the subsequent year.

Department of Transportation *Publication 9* requires that the amount expended for equipment purchases in a given year not exceed the sum of the equipment balance carried forward from the previous year and 20 percent of the current year's Liquid Fuels Tax Fund allocation and, if applicable, 20 percent of the turnback allocation plus other Department of Transportation approved adjustments.

If the municipality spent in excess of the amount listed on Line 4, the excess must be reimbursed to the Liquid Fuels Tax Fund.

The equipment balance to be carried forward for the subsequent year is the lesser of the amount on Line 6 or the ending fund balance on Line 6 of Section 2, but not less than zero.

Basis Of Presentation

The financial activities of the municipality are accounted for in separate funds. The Liquid Fuels Tax Fund is used to account for state aid revenues from the Pennsylvania Department of Transportation used primarily for building and improving local roads and bridges. The 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 NEW MILFORD
SUSQUEHANNA COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE PERIOD
JANUARY 1, 2011 TO DECEMBER 31, 2012

1. Criteria (Continued)

General Fixed Assets

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

2. Deposits

The Second Class Township Code, Title 53 P.S. § 68204, authorizes the township to deposit its funds in the following:

- Deposits in savings accounts or time deposits, other than certificates of deposit or share accounts of institutions having their principal place of business in the Commonwealth of Pennsylvania and insured by the Federal Deposit Insurance Corporation (FDIC) or other like insurance. For any amount above the insured maximum, the depository shall pledge approved collateral.
- Certificates of deposit purchased from institutions insured by the FDIC or other like insurance to the extent that such accounts are so insured. For any amounts in excess of the insured maximum, such deposits shall be collateralized by a pledge or assignment of assets. Certificates of deposit may not exceed 20 percent of a bank's total capital surplus or 20 percent of a savings and loan's or savings bank's assets minus liabilities.

Deposits consist of receipts and deposits in a financial institution. Pennsylvania statutes require all deposits to be insured and, for any amount above the insured maximum, to be secured with approved collateral as defined.

There were no deposits exposed to custodial credit risk as of December 31, 2012. Custodial credit risk, as defined by GASB No. 40, includes deposits that are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the municipality's name.

TOWNSHIP OF NEW MILFORD
 SUSQUEHANNA COUNTY
 LIQUID FUELS TAX FUND
 NOTES TO FORMS MS-965 WITH ADJUSTMENTS
 FOR THE PERIOD
 JANUARY 1, 2011 TO DECEMBER 31, 2012

2. Deposits (Continued)

Fund Balance

The fund balance as of December 31, 2012 consists of the following:

Cash	<u>\$35,040.29</u>
------	--------------------

3. Interest On Investments

Our examination disclosed that the municipality deposited idle liquid fuels tax money in interest-bearing accounts which earned \$49.69 during 2011, and \$29.59 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:

Source	Description	2011	2012
General Fund	Reimbursement for expenditures	\$99,850.00	\$135,881.83
Local business	Reimbursement for liquid calcium	1,020.00	-
Financial institution	Reimbursement for bank service charges	16.15	-
Grant Fund	Reimbursement for garage expenses	-	9,879.63
		<u>\$100,886.15</u>	<u>\$145,761.46</u>
Totals		<u>\$100,886.15</u>	<u>\$145,761.46</u>

TOWNSHIP OF NEW MILFORD
 SUSQUEHANNA COUNTY
 LIQUID FUELS TAX FUND
 NOTES TO FORMS MS-965 WITH ADJUSTMENTS
 FOR THE PERIOD
 JANUARY 1, 2011 TO DECEMBER 31, 2012

5. 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>2012</u>
Various	Maintenance garage (Finding No. 4)	\$33,741.60
Local business	Electric bill for township building (Finding No. 4)	<u>528.78</u>
Total		<u>\$34,270.38</u>

6. Lease-Purchase Agreement

On October 28, 2011, the municipality entered into a lease-purchase agreement with F.N.B. Commercial Leasing to purchase a 2011 Case loader for \$118,137.80. The municipality received \$48,137.80 for a trade-in on a Caterpillar loader. The total amount financed was \$70,499.00, which included a document fee of \$499.00. The agreement was for a term of five years at an interest rate of 4.75 percent. Principal payments of \$19,881.83 are due annually.

During the current examination period the municipality paid principal of \$19,881.83 from the Liquid Fuels Tax Fund. This amount is reflected in major equipment purchases on the 2011 Form MS-965 - Section 1. Additionally, the municipality paid principal of \$50,617.17 and interest of \$5,188.06 from the General Fund. The lease-purchase agreement was paid-in-full on November 23, 2012.

TOWNSHIP OF NEW MILFORD
SUSQUEHANNA COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2011 TO DECEMBER 31, 2012

Finding No. 1 - Fuel Dispensation Records Not Maintained And Nonpermissible Fuel Purchases

Our examination disclosed that the municipality expended \$59,858.36 during 2011 and \$43,908.28 during 2012 from the Liquid Fuels Tax Fund to purchase fuel in bulk quantities for both equipment and heating the municipal building. We were not able to break down the total amounts separately for fuel for equipment and fuel for the municipal building. Fuel to heat the municipal building is a nonpermissible expenditure. Additionally, records for the dispensation of these fuel purchases were not maintained.

To ensure good internal control of fuel purchases and usage, the municipality should maintain records listing the following information:

- Date.
- Number of gallons pumped.
- License number or identity of the vehicle.
- Intended use.
- Signature of the operator.

Without fuel dispensation records, there is no record that fuel was used for purposes permitted by the Liquid Fuels Tax Municipal Allocation Law. As a result, we could not determine if the expenditures made from the Liquid Fuels Tax Fund to purchase the fuel were permissible.

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 draining 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 had been statutorily authorized to promulgate regulations concerning the administration of Liquid Fuels Tax Fund money and has determined that certain items, including fuel to heat the municipal building, are outside the scope of permissible expenditures.

The failure to maintain records of fuel dispensation as noted above and the failure to comply with the Department of Transportation Regulations could result in the municipality having to reimburse \$103,766.64 to its Liquid Fuels Tax Fund.

TOWNSHIP OF NEW MILFORD
SUSQUEHANNA COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2011 TO DECEMBER 31, 2012

Finding No. 1 - Fuel Dispensation Records Not Maintained And Nonpermissible Fuel Purchases
(Continued)

Recommendations

We recommend that the municipality reimburse \$103,766.64 to its Liquid Fuels Tax Fund upon official notification by the Department of Transportation.

We further recommend that the municipality prepare detailed fuel usage reports to ensure good internal controls over fuel purchases and usage.

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

Management's Response

The chairman of the board of supervisors stated:

Logs have been placed in each vehicle. Drivers will record all transactions after hours and sign for the fuel with full signature. The General Fund account reimbursed the State Fund account \$85,536.15 in 2011 and \$145,761.46 in 2012.

Auditor's Conclusion

The municipality transferred \$99,850.00 during 2011 and \$135,881.83 during 2012 from its General Fund to its Liquid Fuels Tax Fund to cover expenditures. However, the municipality did not indicate which expenditures were being reimbursed. The Department of Transportation will determine if the municipality is required to reimburse \$103,766.64 to its Liquid Fuels Tax Fund. During our next examination we will determine if the municipality complied with our recommendations.

TOWNSHIP OF NEW MILFORD
 SUSQUEHANNA COUNTY
 LIQUID FUELS TAX FUND
 FINDINGS AND RECOMMENDATIONS
 FOR THE PERIOD
 JANUARY 1, 2011 TO DECEMBER 31, 2012

Finding No. 2 - Duplicate Payment Of Invoice

Our examination disclosed that the municipality paid the following invoice twice:

<u>Invoice Number</u>	<u>First Check No.</u>	<u>First Date Paid</u>	<u>Second Check No.</u>	<u>Second Date Paid</u>	<u>Invoice Amount</u>
1350543	4924	08/01/12	4939	08/29/12	<u>\$2,517.00</u>

Although this money was reimbursed to the Liquid Fuels Tax Fund on March 19, 2013, the primary concern is the inadequate internal controls which enabled the duplicate payments of \$2,517.00 to remain undetected for seven months.

Good internal controls ensure that all invoices are reviewed timely to avoid duplicate payments. The failure to follow this procedure increases the possibility that duplicate payments can be made on vendor invoices and go undetected for long periods of time.

Recommendation

We recommend that the municipality establish and implement internal controls to ensure vendor invoices are reviewed timely to avoid duplicate payments.

Management's Response

The chairman of the board of supervisors stated:

The duplicate payment was reimbursed in 2013.

Auditor's Conclusion

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

TOWNSHIP OF NEW MILFORD
SUSQUEHANNA COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2011 TO DECEMBER 31, 2012

Finding No. 3 - Failure To Properly Prepare Forms MS-965 - Recurring

We cited the municipality for failure to properly prepare Forms MS-965 in the prior examination report for the period ending December 31, 2010. Once again, our current examination disclosed that there were numerous errors made in the preparation of the municipality's 2011 and 2012 Forms MS-965. These adjustments are as follows:

2011 - Section 1

- An adjustment of \$19,881.83 was made to "Major equipment purchases" because these expenditures were misclassified as repairs of tools and machinery.
- An adjustment of \$(21,295.81) was made to "Repairs of tools and machinery" because check No. 4756 for \$1,413.98 was voided but was included as an expenditure and major equipment purchases of \$19,881.83 were misclassified.
- An adjustment of \$(1,100.69) was made to "Maintenance and repair of roads and bridges" because check Nos. 4715 for \$231.37; 4774 for \$599.82; and 4799 for \$269.50 were voided but were included as expenditures.

2011 - Section 2

- An adjustment of \$(120,956.38) was made to "Balance, January 1, 2011" because of prior report adjustments that were not carried forward in the fund balance.
- An adjustment of \$49.69 was made to "Interest on investments" because interest earnings were not reported.
- An adjustment of \$15,366.15 was made to "Miscellaneous" because these receipts were understated.

2011 - Section 3

- An adjustment of \$(69,290.52) was made to "Prior year equipment balance" because of prior report adjustments that were not carried forward in the equipment balance.

TOWNSHIP OF NEW MILFORD
SUSQUEHANNA COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2011 TO DECEMBER 31, 2012

Finding No. 3 - Failure To Properly Prepare Forms MS-965 - Recurring (Continued)

2011 - Section 3 (Continued)

- An adjustment of \$19,881.83 was made to “Major equipment expenditures” to reflect the adjustment made to major equipment purchases in 2011 - Section 1.

2012 - Section 1

- An adjustment of \$68,394.00 was made to “Major equipment purchases” because these expenditures were misclassified as maintenance and repair of roads and bridges.
- An adjustment of \$10,099.04 was made to “Minor equipment purchases” because these expenditures were misclassified as maintenance and repair of road and bridges.
- An adjustment of \$(4,066.60) was made to “Repairs of tools and machinery” because check No. 4955 for \$2,471.60 was voided but was included as an expenditure and miscellaneous expenditures of \$1,595.00 were misclassified.
- An adjustment of \$(111,117.90) was made to “Maintenance and repair of roads and bridges” because check Nos. 4858 for \$252.50 and 4960 for \$220.90 were voided but were included as expenditures. Additionally expenditures of \$68,394.00 for major equipment purchases, \$10,099.04 for minor equipment purchases, and miscellaneous expenditures of \$32,151.46 were misclassified.
- An adjustment of \$34,250.38 was made to “Miscellaneous” because these expenditures were understated by \$503.92. Additionally, expenditures of \$1,595.00 were misclassified as repairs of tools and machinery and \$32,151.46 were misclassified as maintenance and repair of roads and bridges.

TOWNSHIP OF NEW MILFORD
SUSQUEHANNA COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2011 TO DECEMBER 31, 2012

Finding No. 3 - Failure To Properly Prepare Forms MS-965 - Recurring (Continued)

2012 - Section 2

- An adjustment of \$(103,025.87) was made to “Balance, January 1, 2012” to reflect the adjustment made to the fund balance in 2011 - Section 2.
- An adjustment of \$29.59 was made to “Interest on investments” because interest earnings were not reported.
- An adjustment of \$(172,280.79) was made to “Miscellaneous” because these receipts were overstated.

2012 - Section 3

- An adjustment of \$(99,698.99) was made to “Prior year equipment balance” to reflect the adjustment made to the equipment balance in 2011 - Section 3.
- An adjustment of \$68,394.00 was made to “Major equipment expenditures” 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 misappropriations may occur and remain undetected.

This condition occurred because the municipality failed to comply with our prior examination recommendation to ensure that its Form MS-965 was complete and accurate.

Recommendation

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

TOWNSHIP OF NEW MILFORD
SUSQUEHANNA COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2011 TO DECEMBER 31, 2012

Finding No. 3 - Failure To Properly Prepare Forms MS-965 - Recurring (Continued)

Management's Response

The chairman of the board of supervisors stated:

We are aware of proper procedure now. The forms will be filled out correctly in the future.

Auditor's Conclusion

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

TOWNSHIP OF NEW MILFORD
 SUSQUEHANNA COUNTY
 LIQUID FUELS TAX FUND
 FINDINGS AND RECOMMENDATIONS
 FOR THE PERIOD
 JANUARY 1, 2011 TO DECEMBER 31, 2012

Finding No. 4 - Nonpermissible Expenditures

Our examination disclosed that the municipality expended \$34,270.38 during 2012 from the Liquid Fuels Tax Fund for the following nonpermissible items:

<u>Description</u>	<u>Amount</u>
Electricity for maintenance garage	\$ 7,846.10
Steel mesh for maintenance garage	1,557.25
Drainage for maintenance garage	1,595.00
Insulation for maintenance garage	7,463.69
Heating unit for maintenance garage	2,333.33
White panels for maintenance garage	2,822.23
Concrete for maintenance garage	9,094.00
Installation of walls for maintenance garage	1,030.00
Electricity for municipal building	528.78
	<hr/>
Total	<u><u>\$34,270.38</u></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 expenditures related to the municipal building and maintenance garage, 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 \$34,270.38 to its Liquid Fuels Tax Fund.

TOWNSHIP OF NEW MILFORD
SUSQUEHANNA COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2011 TO DECEMBER 31, 2012

Finding No. 4 - Nonpermissible Expenditures (Continued)

Recommendations

We recommend that the municipality reimburse \$34,270.38 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 and the Department of Transportation's Regulations regarding permissible expenditures.

Management's Response

The chairman of the board of supervisors stated:

The General Account reimbursed the State Account \$85,536.15 in 2011 and \$145,761.46 in 2012.

Auditor's Conclusion

The municipality transferred \$99,850.00 during 2011 and \$135,881.83 during 2012 from its General Fund to its Liquid Fuels Tax Fund to cover expenditures. However, the municipality did not indicate which expenditures were being reimbursed. The Department of Transportation will determine if the municipality is required to reimburse \$34,270.38 to its Liquid Fuels Tax Fund. During our next examination we will determine if the municipality complied with our recommendations.

TOWNSHIP OF NEW MILFORD
 SUSQUEHANNA COUNTY
 LIQUID FUELS TAX FUND
 FINDINGS AND RECOMMENDATIONS
 FOR THE PERIOD
 JANUARY 1, 2011 TO DECEMBER 31, 2012

Finding No. 5 - Overexpended Equipment Purchase Tally

Our examination disclosed that the municipality expended \$22,670.03 in excess of the amount available for the purchase of equipment for the year ending December 31, 2012, as follows:

<u>2012</u>		<u>Actual</u>
1. Prior year equipment balance		\$ 9,115.89
2. Current year equipment allocation (20% of Lines 2 + 2A, Section 2)		36,608.08
3. PENNDOT approved adjustments		<u>-</u>
4. Total funds available for equipment acquisition		45,723.97
5. Less: Major equipment purchases		<u>68,394.00</u>
6. Amount overexpended for equipment - 2012		<u><u>\$(22,670.03)</u></u>

The Department of Transportation's, *Publication 9*, Appendix D, Section 449.11, 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, 20 percent of the current year's Liquid Fuels Tax Fund allocations, and any approved adjustments.

The failure to follow *Publication 9* could result in the municipality having to reimburse \$22,670.03 to its Liquid Fuels Tax Fund.

Recommendations

We recommend that the municipality reimburse \$22,670.03 to its Liquid Fuels Tax Fund upon official notification by the Department of Transportation.

We further recommend that the municipality only expend up to the approved amount on equipment expenditures in accordance with the Department of Transportation's *Publication 9*.

TOWNSHIP OF NEW MILFORD
SUSQUEHANNA COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2011 TO DECEMBER 31, 2012

Finding No. 5 - Overexpended Equipment Purchase Tally (Continued)

Management's Response

The chairman of the board of supervisors stated:

We were unaware there was 20% maximum for equipment. We received the current copy of *Publication 9* from the Department of Transportation and understand regulations a bit better. The General Account reimbursed the State Account \$85,536.15 in 2011 and \$145,761.46 in 2012.

Auditor's Conclusion

The municipality transferred \$99,850.00 during 2011 and \$135,881.83 during 2012 from its General Fund to its Liquid Fuels Tax Fund to cover expenditures. However, the municipality did not indicate which expenditures were being reimbursed. The Department of Transportation will determine if the municipality is required to reimburse \$22,670.03 to its Liquid Fuels Tax Fund. During our next examination we will determine if the municipality complied with our recommendations.

TOWNSHIP OF NEW MILFORD
SUSQUEHANNA COUNTY
LIQUID FUELS TAX FUND
SUMMARY OF EXIT CONFERENCE
FOR THE PERIOD
JANUARY 1, 2011 TO DECEMBER 31, 2012

An exit conference was held April 30, 2013. Those participating were:

TOWNSHIP OF NEW MILFORD

The Honorable Jim Hunter, Chairman of the Board of Supervisors
Ms. Julene Graham, Secretary/Treasurer

DEPARTMENT OF THE AUDITOR GENERAL

Mr. Jerome Werner, Auditor

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

TOWNSHIP OF NEW MILFORD
SUSQUEHANNA COUNTY
LIQUID FUELS TAX FUND
REPORT DISTRIBUTION
FOR THE PERIOD
JANUARY 1, 2011 TO DECEMBER 31, 2012

This report was initially distributed to:

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

Township of New Milford
Susquehanna County
19730 State Route 11
New Milford, PA 18834

The Honorable Jim Hunter

Chairman of the Board of Supervisors

Ms. Julene Graham

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.