



BOROUGH OF PATTON
CAMBRIA COUNTY
11-422

HIGHWAY TRANSFER PROGRAM
AGREEMENT NO. 098315
TURNBACK ACCOUNT
AUDIT REPORT

FOR THE PERIOD
MARCH 7, 2003 TO DECEMBER 3, 2003

CONTENTS

	<u>Page</u>
Independent Auditor's Report	1
Financial Statement:	
Form MS-999 With Auditor Adjustments	3
Notes To The Financial Statement	4
Report On Compliance And On Internal Control Over Financial Reporting	5
Finding And Recommendation:	
Finding - One Signature On Turnback Account Checks	7
Summary Of Exit Conference	8
Report Distribution	9

Independent Auditor's Report

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

We have audited the accompanying financial statement of the Highway Transfer Program – Turnback Account for the Borough of Patton, Cambria County, for the period March 7, 2003 to December 3, 2003, which consists of amounts reported on Form MS-999 With Auditor Adjustments. This financial statement is the responsibility of the municipality's management. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance that the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating Form MS-999 as submitted to and accepted by the Pennsylvania Department of Transportation. We believe that our audit provides a reasonable basis for our opinion.

As described more fully in Note 1, the Borough of Patton, Cambria County's financial statement is prepared using accounting practices prescribed by the Pennsylvania Department of Transportation, which practices differ from accounting principles generally accepted in the United States of America. The effect on the financial statement of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determinable, is presumed to be material. The financial statement presents only the Highway Transfer Program – Turnback Account and is not intended to present fairly the financial position and results of operations of the Borough of Patton, Cambria County, in conformity with accounting principles generally accepted in the United States.

Independent Auditor's Report (Continued)

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statement referred to above does not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Highway Transfer Program – Turnback Account of the Borough of Patton, Cambria County, as of December 3, 2003, the changes in its financial position, or where applicable, its cash flows for the period then ended.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the information required by the Pennsylvania Department of Transportation on Form MS-999 of the Highway Transfer Program – Turnback Account of the Borough of Patton, Cambria County, for the period March 7, 2003 to December 3, 2003, on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 19, 2006, on our consideration of the Borough of Patton, Cambria County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws and regulations. The report on compliance with laws and regulations and internal control over financial reporting is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

January 19, 2006

JACK WAGNER
Auditor General

BOROUGH OF PATTON
 CAMBRIA COUNTY
 HIGHWAY TRANSFER PROGRAM – TURNBACK ACCOUNT
 FORM MS-999 WITH AUDITOR ADJUSTMENTS
 FOR THE PERIOD
 MARCH 7, 2003 TO DECEMBER 3, 2003

	Reported	Auditor Adjustments	Adjusted Amount
<u>Cash Receipts</u>			
Turnback grant	\$39,414.40	\$ -	\$39,414.40
Interest (Note 2)	88.23	-	88.23
	39,502.63	-	39,502.63
Total receipts	39,502.63	-	39,502.63
 <u>Cash Disbursements</u>			
Highway construction and rebuilding	39,498.85	-	39,498.85
 <u>Unexpended Balance</u>			
Unexpended balance not transferred to Liquid Fuels Tax Fund (Note 3)	3.78	-	3.78
	\$39,502.63	\$ -	\$39,502.63
Total disbursements and unexpended balance	\$39,502.63	\$ -	\$39,502.63

Notes to the financial statement are an integral part of this report.

BOROUGH OF PATTON
CAMBRIA COUNTY
HIGHWAY TRANSFER PROGRAM – TURNBACK ACCOUNT
NOTES TO THE FINANCIAL STATEMENT
FOR THE PERIOD
MARCH 7, 2003 TO DECEMBER 3, 2003

1. Significant Accounting Policies

Basis Of Accounting

The accompanying Form MS-999 With Auditor Adjustments is prepared in accordance with reporting requirements prescribed by the Pennsylvania Department of Transportation. Under this method, revenues are recognized when received and expenditures are recorded when paid.

Basis Of Presentation

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

Scope Of Audit Report

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

2. Interest On Investments

Our audit disclosed that the municipality deposited idle turnback money in an interest-bearing account and a certificate of deposit which earned \$88.23 during the audit period.

3. Unexpended Balance

As of January 19, 2006, the municipality had not transferred the unexpended balance of the turnback account of \$3.78 to its Liquid Fuels Tax Fund account.

Report On Compliance And On
Internal Control Over Financial Reporting

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

We have audited the accompanying financial statement of the Highway Transfer Program – Turnback Account of the Borough of Patton, Cambria County, for the period March 7, 2003 to December 3, 2003, which consists of amounts reported on Form MS-999 With Auditor Adjustments, and have issued our report thereon dated January 19, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the financial statement is free of material misstatement, we performed tests of the municipality's compliance with certain provisions of laws, regulations, contracts, grants, and allocations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts of the Highway Transfer Program – Turnback Account. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Report On Compliance And On
Internal Control Over Financial Reporting (Continued)

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Borough of Patton, Cambria County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design and operation of the internal control over financial reporting that, in our judgment, could adversely affect the Borough of Patton, Cambria County's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statement. The reportable condition described in the finding is as follows:

- One Signature On Turnback Account Checks.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions, and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We consider the reportable condition described above to be a material weakness

This report is intended for the information and use of the Pennsylvania Department of Transportation and the municipality and is not intended to be and should not be used by anyone other than these specified parties.

January 19, 2006

JACK WAGNER
Auditor General

BOROUGH OF PATTON
CAMBRIA COUNTY
HIGHWAY TRANSFER PROGRAM – TURNBACK ACCOUNT
FINDING AND RECOMMENDATION
FOR THE PERIOD
MARCH 7, 2003 TO DECEMBER 3, 2003

Finding - One Signature On Turnback Account Checks

Our audit disclosed that only one signature was required to authorize checks drawn on the Turnback Account.

Good internal controls ensure that at least two authorized signatures are used to authorize checks drawn on the Turnback Account. Without this control, the risk of unauthorized disbursements, errors or irregularities occurring and remaining undetected increases significantly.

Recommendation

We recommend that the borough improve internal control over disbursements by requiring at least two authorized signatures on all checks from the Turnback Account.

Auditee Response

The secretary/treasurer stated:

Council only required one signature on accounts because of limited activity and difficulty getting second signer during regular business hours. Turnback account will be closed out in 2006. Told by PENNDOT we needed separate account for each year's funding.

Auditor's Conclusion

Although it is more convenient requiring only one signature on the check, this policy creates a significant weakness over disbursements. As indicated above, this weakness increases the risk of unauthorized disbursements, errors or irregularities occurring and remaining undetected. To reduce this risk, we are recommending that the borough require at least two authorized signatures on all checks from the Turnback Account.

BOROUGH OF PATTON
CAMBRIA COUNTY
HIGHWAY TRANSFER PROGRAM – TURNBACK ACCOUNT
SUMMARY OF EXIT CONFERENCE
FOR THE PERIOD
MARCH 7, 2003 TO DECEMBER 3, 2003

An exit conference was held January 19, 2006. Those participating were:

BOROUGH OF PATTON

Ms. Donna M. Dunegan, Secretary/Treasurer

DEPARTMENT OF THE AUDITOR GENERAL

Mr. John Cornely, Auditor

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

BOROUGH OF PATTON
CAMBRIA COUNTY
HIGHWAY TRANSFER PROGRAM – TURNBACK ACCOUNT
REPORT DISTRIBUTION
FOR THE PERIOD
MARCH 7, 2003 TO DECEMBER 3, 2003

This report was initially distributed to:

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

Borough of Patton
Cambria County
P.O. Box 175
Patton, PA 16668

The Honorable John Crowell

President of Council

Ms. Donna M. Dunegan

Secretary/Treasurer

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