

ATTESTATION ENGAGEMENT

Township of Rayne
Indiana County, Pennsylvania
32-218
Liquid Fuels Tax Fund
For the Period
January 1, 2017 to December 31, 2018

September 2020



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



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

EUGENE A. DePASQUALE
AUDITOR GENERAL

Independent Auditor's Report

Yassmin Gramian, P.E.
Acting 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 Rayne, Indiana County, for the period January 1, 2017 to December 31, 2018. The municipality's management is responsible for presenting the Forms MS-965 in accordance with the criteria described in the Background section of this report and the Department of Transportation's *Publication 9*. 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*.

Independent Auditor's Report (Continued)

As described in the Auditor Description of Select Transactions section of this report, the adjustments included on the Forms MS-965 With Adjustments are made by the Department of the Auditor General.

As discussed in Finding No. 2, on March 1, 2017, the municipality transferred \$55,032.73 from its Liquid Fuels Tax Fund to its General Fund for the reimbursement of expenditures. Included in that amount was \$32,990.01 for payment on a loan used for General Fund operating expenses, which is a nonpermissible expenditure.

In our opinion, except for the matter 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 Rayne, Indiana County, for the period January 1, 2017 to December 31, 2018, in accordance with the criteria described in the Background section of this report and the Department of Transportation's *Publication 9*.

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 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.

Independent Auditor's Report (Continued)

Our consideration of internal control over reporting on the Forms MS-965 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 would not necessarily identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our engagement we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

As part of obtaining reasonable assurance about whether the Forms MS-965 are free from material misstatement, we performed tests of the Township of Rayne, Indiana County's compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of amounts on the 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 instance of noncompliance that are required to be reported under *Government Auditing Standards*:

- Transfer To The Capital Reserve Account For Anticipated Liquid Fuels Tax Fund Expenditures.

- Nonpermissible Expenditure.

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 Rayne, Indiana County, to us during the course of our examination. If you have any questions, please feel free to contact the Bureau of County Audits at 717-787-1363.



Eugene A. DePasquale
Auditor General

September 4, 2020

CONTENTS

	<u>Page</u>
Background.....	1
Financial Section:	
2017 Form MS-965 With Adjustments	5
2018 Form MS-965 With Adjustments	8
Auditor Description Of Select Transactions.....	11
Findings And Recommendations:	
Finding No. 1 - Transfers To The Capital Reserve Fund For Anticipated Liquid Fuels Tax Fund Expenditures.....	15
Finding No. 2 - Nonpermissible Expenditure.....	17
Summary Of Prior Examination Recommendation	19
Summary Of Exit Conference.....	20
Report Distribution	21

TOWNSHIP OF RAYNE
INDIANA COUNTY
LIQUID FUELS TAX FUND
BACKGROUND
FOR THE PERIOD
JANUARY 1, 2017 TO DECEMBER 31, 2018

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 RAYNE
INDIANA COUNTY
LIQUID FUELS TAX FUND
BACKGROUND
FOR THE PERIOD
JANUARY 1, 2017 TO DECEMBER 31, 2018

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.

Criteria

The criteria for the Form MS-965 With Adjustment are described below.

Section 1 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:

2015/2016	2017	2018	2019
\$10,500.00	\$10,700.00	\$10,900.00	\$11,100.00

- 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:

2015/2016	2017	2018	2019
\$10,500.00	\$10,700.00	\$10,900.00	\$11,100.00

- Agility projects are exchanges of services with the Department of Transportation.

TOWNSHIP OF RAYNE
INDIANA COUNTY
LIQUID FUELS TAX FUND
BACKGROUND
FOR THE PERIOD
JANUARY 1, 2017 TO DECEMBER 31, 2018

Background (Continued)

Section 2 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. 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 from the Department of Transportation. Turnback allocations are based on the mileage of the roads transferred.
- Expenditures include the total transferred from Section 1.

Section 3 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.

TOWNSHIP OF RAYNE
INDIANA COUNTY
LIQUID FUELS TAX FUND
BACKGROUND
FOR THE PERIOD
JANUARY 1, 2017 TO DECEMBER 31, 2018

Background (Continued)

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 Form MS-965 has 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 Form MS-965 With Adjustments is restricted to the Liquid Fuels Tax Fund, which represents a segment of the entity.

Basis Of Accounting

The accompanying Form MS-965 With Adjustments is prepared in accordance with reporting requirements prescribed by the Pennsylvania Department of Transportation. Under this method, revenues are recognized when received and expenditures are recorded when paid.

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.

TOWNSHIP OF RAYNE
INDIANA COUNTY
LIQUID FUELS TAX FUND
2017 FORM MS-965 – SECTION 1
WITH ADJUSTMENTS

<u>Expenditure Summary</u>	<u>Reported</u>	<u>Adjustments</u>	<u>Adjusted Amount</u>
Minor equipment purchases	\$ -	\$ -	\$ -
Computer/Computer related training	-	-	-
Major equipment purchases	-	22,042.72	22,042.72
Agility projects	-	-	-
Cleaning streets and gutters	5,785.80	-	5,785.80
Winter maintenance services	26,949.32	-	26,949.32
Traffic control devices	171.20	-	171.20
Street lighting	-	-	-
Storm sewers and drains	22,728.12	-	22,728.12
Repairs of tools and machinery	22,006.20	-	22,006.20
Maintenance and repair of roads and bridges	131,416.31	-	131,416.31
Highway construction and rebuilding projects	64,000.00	-	64,000.00
Miscellaneous	55,121.04	(22,043.08)	33,077.96
	<u>55,121.04</u>	<u>(22,043.08)</u>	<u>33,077.96</u>
Total (To Section 2, Line 5)	<u>\$ 328,177.99</u>	<u>\$ (.36)</u>	<u>\$ 328,177.63</u>

TOWNSHIP OF RAYNE
INDIANA COUNTY
LIQUID FUELS TAX FUND
2017 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, 2017	\$ 55,589.02	\$ -	\$ 55,589.02
Receipts:			
2. State allocation	286,287.32	-	286,287.32
2a. Turnback allocation	48,960.00	-	48,960.00
2b. Interest on investments	343.89	(.36)	343.53
2c. Miscellaneous	-	-	-
3. Total receipts	<u>335,591.21</u>	<u>(.36)</u>	<u>335,590.85</u>
4. Total funds available	<u>391,180.23</u>	<u>(.36)</u>	<u>391,179.87</u>
5. Expenditures (Section 1)	<u>328,177.99</u>	<u>(.36)</u>	<u>328,177.63</u>
6. Balance, December 31, 2017	<u><u>\$ 63,002.24</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 63,002.24</u></u>

TOWNSHIP OF RAYNE
INDIANA COUNTY
LIQUID FUELS TAX FUND
2017 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	\$ 55,589.02	\$ -	\$ 55,589.02
2. Add: Current year equipment allocation (20% of Lines 2 + 2a, Section 2)	67,049.46	-	67,049.46
3. PENNDOT approved adjustments	<u>-</u>	<u>-</u>	<u>-</u>
4. Total funds available for equipment acquisition	122,638.48	-	122,638.48
5. Less: Major equipment expenditures	<u>-</u>	<u>22,042.72</u>	<u>22,042.72</u>
6. Remainder	<u>122,638.48</u>	<u>(22,042.72)</u>	<u>100,595.76</u>
7. Equipment balance available for subsequent year (Lesser of Line 6 or Section 2 balance, but not less than zero)	<u>\$ 63,002.24</u>	<u>\$ -</u>	<u>\$ 63,002.24</u>

TOWNSHIP OF RAYNE
INDIANA COUNTY
LIQUID FUELS TAX FUND
2018 FORM MS-965 – SECTION 1
WITH ADJUSTMENTS

<u>Expenditure Summary</u>	<u>Reported</u>	<u>Adjustments</u>	<u>Adjusted Amount</u>
Minor equipment purchases	\$ -	\$ -	\$ -
Computer/Computer related training	-	-	-
Major equipment purchases	43,261.51	-	43,261.51
Agility projects	-	-	-
Cleaning streets and gutters	4,345.02	-	4,345.02
Winter maintenance services	34,096.93	-	34,096.93
Traffic control devices	438.00	-	438.00
Street lighting	-	-	-
Storm sewers and drains	19,625.02	-	19,625.02
Repairs of tools and machinery	10,363.98	-	10,363.98
Maintenance and repair of roads and bridges	210,320.20	-	210,320.20
Highway construction and rebuilding projects	25,200.33	-	25,200.33
Miscellaneous	-	-	-
	<hr/>	<hr/>	<hr/>
Total (To Section 2, Line 5)	<u>\$ 347,650.99</u>	<u>\$ -</u>	<u>\$ 347,650.99</u>

TOWNSHIP OF RAYNE
INDIANA COUNTY
LIQUID FUELS TAX FUND
2018 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, 2018	\$ 63,002.24	\$ -	\$ 63,002.24
Receipts:			
2. State allocation	300,043.38	-	300,043.38
2a. Turnback allocation	48,960.00	-	48,960.00
2b. Interest on investments	1,953.60	-	1,953.60
2c. Miscellaneous	-	-	-
3. Total receipts	<u>350,956.98</u>	<u>-</u>	<u>350,956.98</u>
4. Total funds available	<u>413,959.22</u>	<u>-</u>	<u>413,959.22</u>
5. Expenditures (Section 1)	<u>347,650.99</u>	<u>-</u>	<u>347,650.99</u>
6. Balance, December 31, 2018	<u><u>\$ 66,308.23</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 66,308.23</u></u>

TOWNSHIP OF RAYNE
INDIANA COUNTY
LIQUID FUELS TAX FUND
2018 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	\$ 63,002.24	\$ -	\$ 63,002.24
2. Add: Current year equipment allocation (20% of Lines 2 + 2a, Section 2)	69,800.68	-	69,800.68
3. PENNDOT approved adjustments	<u>-</u>	<u>-</u>	<u>-</u>
4. Total funds available for equipment acquisition	132,802.92	-	132,802.92
5. Less: Major equipment expenditures	<u>43,261.51</u>	<u>-</u>	<u>43,261.51</u>
6. Remainder	<u>89,541.41</u>	<u>-</u>	<u>89,541.41</u>
7. Equipment balance available for subsequent year (Lesser of Line 6 or Section 2 balance, but not less than zero)	<u>\$ 66,308.23</u>	<u>\$ -</u>	<u>\$ 66,308.23</u>

TOWNSHIP OF RAYNE
INDIANA COUNTY
LIQUID FUELS TAX FUND
AUDITOR DESCRIPTION OF SELECT TRANSACTIONS
FOR THE PERIOD
JANUARY 1, 2017 TO DECEMBER 31, 2018

The following information relates to certain types of transactions for which the Pennsylvania Department of Transportation requested that we provide additional detail.

Adjustments

2017 - Section 1

An adjustment of \$22,042.72 was made to “Major equipment purchases” because these expenditures were misclassified as miscellaneous.

An adjustment of \$(22,043.08) was made to “Miscellaneous” because \$22,042.72 of major equipment purchases were misclassified as miscellaneous and a certificate of deposit early withdrawal penalty was overstated by \$.36.

2017 - Section 2

An adjustment of \$(.36) was made to “Interest on investments” because interest earnings were overstated.

2017 - Section 3

An adjustment of \$22,042.72 was made to “Major equipment expenditures” to reflect the adjustment made to major equipment purchases in 2017- Section 1.

Miscellaneous Expenditures

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

Source	Description	2017
General Fund	Penalty for early CD withdrawal	\$ 87.95
General Fund	Nonpermissible expenditure (Finding No. 2)	32,990.01
	Totals	<u>\$33,077.96</u>

TOWNSHIP OF RAYNE
INDIANA COUNTY
LIQUID FUELS TAX FUND
AUDITOR DESCRIPTION OF SELECT TRANSACTIONS
FOR THE PERIOD
JANUARY 1, 2017 TO DECEMBER 31, 2018

Bank Loan

On August 26, 2013, the municipality borrowed \$75,672.00 from First National Bank of Pennsylvania to purchase 2014 Ford F- 550 Truck with a plow, spreader, and flatbed. The term of the loan was for sixty months at an interest rate of 2.50 percent. Principal and interest payments of \$1,344.55 are due monthly. Prior years' principal and interest payments from the General Fund were \$46,816.35 and \$4,304.05, respectively.

During the current examination period, the municipality paid principal of \$13,305.88, interest of \$244.58, and late fees of \$107.56 from the Liquid Fuels Tax Fund. These amounts are reflected in major equipment purchases on the 2017 and 2018 Forms MS-965 - Section 1. Additionally, the municipality paid principal of \$15,709.65, interest of \$424.95, and a payoff charge of \$159.88 from the General Fund. The loan was paid-in-full on April 2, 2018.

Bank Loan

On June 24, 2014, the municipality borrowed \$115,323.00 from First National Bank of Pennsylvania to purchase 2015 7500 International Truck from Allegheny Trucks, Inc. The term of the loan was for sixty months at an interest rate of 2.70 percent. Principal and interest payments of \$2,060.07 are due monthly. Prior years' principal and interest payments from the General Fund were \$51,824.87 and \$5,857.09, respectively.

During the current examination period, the municipality paid principal of \$40,666.09, interest of \$625.47, and late fees of \$164.80 from the Liquid Fuels Tax Fund. These amounts are reflected in major equipment purchases on the 2017 and 2018 Forms MS-965 - Section 1. Additionally, the municipality paid principal of \$22,834.04, interest of \$1,242.26 and late fees of \$164.80 from the General Fund. The loan was paid-in-full on April 2, 2018.

TOWNSHIP OF RAYNE
INDIANA COUNTY
LIQUID FUELS TAX FUND
AUDITOR DESCRIPTION OF SELECT TRANSACTIONS
FOR THE PERIOD
JANUARY 1, 2017 TO DECEMBER 31, 2018

Bank Loan

On October 2, 2015, the municipality borrowed \$115,364.00 from Marion Center Bank to purchase 2016 International Low Pro from Walsh Equipment. The term of the loan was for sixty months at an interest rate of 2.28 percent. Principal and interest payments of \$2,037.97 are due monthly. Prior years' principal and interest payments from the General Fund were \$23,866.81 and \$2,626.80, respectively.

During the current examination period, the municipality paid principal of \$9,394.83 and interest of \$795.02 from the Liquid Fuels Tax Fund. These amounts are reflected in major equipment purchases on the 2017 and 2018 Forms MS-965 - Section 1. Additionally, the municipality paid principal of \$38,241.38 and interest of \$2,518.02 from the General Fund. The outstanding balance of the loan as of December 31, 2018 was \$43,860.98, plus interest.

Bank Loan

On March 1, 2016, the municipality borrowed \$125,369.00 from Marion Center Bank to help the General Fund pay for general operating expenses until anticipated funding was received. The term of the loan was for one year at an interest rate of 2.55 percent. Interest payments are due monthly and principal is due to be repaid by March 1, 2017. Prior years' principal and interest payments from the General Fund were \$50,000.00 and \$2,740.37, respectively.

During the current examination period, the municipality paid principal of \$32,990.01 from the Liquid Fuels Tax Fund (Finding No. 2). This amount is reflected in miscellaneous 2017 Form MS-965 - Section 1. Additionally, the municipality paid principal of \$42,378.99 and interest of \$314.96 from the General Fund. The loan was paid-in-full on February 28, 2017.

TOWNSHIP OF RAYNE
INDIANA COUNTY
LIQUID FUELS TAX FUND
AUDITOR DESCRIPTION OF SELECT TRANSACTIONS
FOR THE PERIOD
JANUARY 1, 2017 TO DECEMBER 31, 2018

Promissory Note

On May 8, 2017, the municipality obtained an on demand loan from Marion Center Bank in the amount of \$429,000.00 to finance township road project No. 17-32218-002. The municipality took an advance of \$49,896.00 on September 27, 2017 and \$376,763.97 on September 5, 2017, for a total of \$426,659.97. The term of the loan was for fifty-nine months at an interest rate of 2.40 percent. Principal and interest payments of \$7,601.32 are due monthly.

During the current examination period, the municipality paid principal of \$25,000.00 and interest of \$200.33 from the Liquid Fuels Tax Fund. These amounts are reflected in highway construction and rebuilding projects on the 2017 and 2018 Forms MS-965 - Section 1. Additionally, the municipality paid principal of \$341,930.36 and interest of \$4,984.36 from the General Fund. The outstanding balance of the loan as of December 31, 2018 was \$59,729.61, plus interest.

TOWNSHIP OF RAYNE
INDIANA COUNTY
LIQUID FUELS TAX FUND
FINDING AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2017 TO DECEMBER 31, 2018

Finding No. 1 - Transfers To The Capital Reserve Fund For Anticipated Liquid Fuels Tax Fund Expenditures

Our examination disclosed that on June 12, 2017, the municipality transferred \$64,000.00 from the Liquid Fuels Tax Fund to the Capital Reserve Fund to set funds aside for the Tanoma Road Reconstruction Project No. 17-32218-002. As of this date, the Capital Reserve Fund had not incurred any Liquid Fuels Tax Fund related expenditures. Therefore, the amount transferred from the Liquid Fuels Tax Fund to the Capital Reserve Fund exceeded the expenditures incurred by \$64,000.00. The municipality issued General Fund check No. 17231 on September 1, 2017, for \$376,763.96 for Project No. 17-32218-002, which included \$64,000.00 of allowable liquid fuels expenditures. The municipality should consider transferring the \$64,000.00 from the Capital Reserve Fund to the General Fund because check No. 17231 was written from the General Fund.

The practice of depositing liquid fuels money into any account other than the Liquid Fuels Tax Fund account in anticipation of future expenditures is contrary to the Act of June 1, 1956, P.L. (1955) 1944, 72 P.S. § 2615.5, known as the Liquid Fuels Tax Municipal Allocation Law, which states:

. . . each city, borough, town and township, shall . . . Establish and maintain a special fund into which the moneys [liquid fuels tax funds] . . . shall be deposited and into which no other moneys may be deposited or commingled . . .

Good internal accounting controls ensure that disbursements are made from the Liquid Fuels Tax Fund for only expenditures incurred. When Liquid Fuels Tax Fund money is commingled with the General Fund, or other funds, the potential for Liquid Fuels Tax Fund money to be used for unauthorized purposes increases significantly.

The failure to follow the Liquid Fuels Tax Municipal Allocation Law as noted above could result in the municipality having to reimburse \$64,000.00 to its Liquid Fuels Tax Fund.

Recommendation

We recommend that the municipality only disburse funds from the Liquid Fuels Tax Fund for expenditures incurred.

TOWNSHIP OF RAYNE
INDIANA COUNTY
LIQUID FUELS TAX FUND
FINDING AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2017 TO DECEMBER 31, 2018

Finding No. 1 - Transfers To The Capital Reserve Fund For Anticipated Liquid Fuels Tax Fund Expenditures (Continued)

Management's Response

The municipal officials stated:

We transferred \$64,000.00 on June 9, 2017 to an interest bearing checking account anticipating it to be used for a Department of Community and Economic Development project that was scheduled to be completed that same year.

Our 2016 audit produced a similar finding but unfortunately it was not brought to our attention until our 2016 Exit Conference held on December 20, 2017, six months after the transfer.

On April 2, 2018, we opened an interest bearing State Savings account so this should not be a problem in the future.

Auditor's Conclusion

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

TOWNSHIP OF RAYNE
INDIANA COUNTY
LIQUID FUELS TAX FUND
FINDING AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2017 TO DECEMBER 31, 2018

Finding No. 2 - Nonpermissible Expenditure

Our examination disclosed that on March 1, 2017, the municipality transferred \$55,032.73 from its Liquid Fuels Tax Fund to its General Fund for the reimbursement of expenditures. Included in that amount was \$32,990.01 for payment on a loan used for General Fund operating expenses, which is a nonpermissible expenditure.

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 payment on a loan used for General Fund operating expenditures, 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 \$32,990.01 to its Liquid Fuels Tax Fund.

Recommendations

We recommend that the municipality reimburse \$32,990.01 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.

Management's Response

The secretary/treasurer stated:

On February 28, 2017, we cashed in a CD in the amount of \$55,032.73 to pay on loans. We did not realize that one of the loans would be considered non-qualified to use liquid fuels money. Therefore, only \$22,042.72 of the \$55,032.73 was considered to be qualified.

TOWNSHIP OF RAYNE
INDIANA COUNTY
LIQUID FUELS TAX FUND
FINDING AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2017 TO DECEMBER 31, 2018

Finding No. 2 - Nonpermissible Expenditure (Continued)

Auditor's Conclusion

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

TOWNSHIP OF RAYNE
INDIANA COUNTY
LIQUID FUELS TAX FUND
SUMMARY OF PRIOR EXAMINATION RECOMMENDATION
FOR THE PERIOD
JANUARY 1, 2017 TO DECEMBER 31, 2018

Summary Of Prior Examination Recommendation

In our prior report, we recommended that the municipality maintain all liquid fuels tax money in the Liquid Fuels Tax Fund.

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

TOWNSHIP OF RAYNE
INDIANA COUNTY
LIQUID FUELS TAX FUND
SUMMARY OF EXIT CONFERENCE
FOR THE PERIOD
JANUARY 1, 2017 TO DECEMBER 31, 2018

An exit conference was held August 31, 2020. Those participating were:

TOWNSHIP OF RAYNE

Mrs. Wendi K. Strittmatter, Secretary/Treasurer

DEPARTMENT OF THE AUDITOR GENERAL

Mrs. Oldriska Hoch, Auditor

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

TOWNSHIP OF RAYNE
INDIANA COUNTY
LIQUID FUELS TAX FUND
REPORT DISTRIBUTION
FOR THE PERIOD
JANUARY 1, 2017 TO DECEMBER 31, 2018

This report was initially distributed to:

Yassmin Gramian, P.E.
Acting Secretary
Department of Transportation

Township of Rayne
Indiana County
140 Tanoma Road
Home, PA 15747

The Honorable Craig A. Andrie
Chairman of the Board of Supervisors

Mrs. Wendi K. Strittmatter
Secretary/Treasurer

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