



BOROUGH OF STARRUCCA  
WAYNE COUNTY  
63-405

LIQUID FUELS TAX FUND  
EXAMINATION REPORT

FOR THE FOUR YEARS ENDED  
DECEMBER 31, 2008



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BOROUGH OF STARRUCCA  
WAYNE COUNTY  
LIQUID FUELS TAX FUND  
BACKGROUND  
FOR THE FOUR YEARS ENDED  
DECEMBER 31, 2008

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.



## Independent Auditor's Report

The Honorable Allen D. Biehler, 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 Borough of Starrucca, Wayne County, for the four years ended December 31, 2008. 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.

Except as discussed in the fifth paragraph, 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 Borough of Starrucca, Wayne County's Forms MS-965 for the four years ended December 31, 2008 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 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, we were unable to examine images of the back of the 2005 canceled checks from the borough's financial institution because the borough failed to obtain them from its financial institution. Consequently we were unable to perform procedures to determine whether disbursements were made in accordance with applicable laws and regulations.

As discussed in Finding No. 2, the township expended \$18,000.00 from its Liquid Fuels Tax Fund for project No. 06-63-403-01 without filing a final completion report with the Department of Transportation. Additionally, as discussed in Finding No. 3, the advertisement for project No. 06-63-403-01 requested sealed proposals for lump sum bids, which is nonpermissible without the prior approval of the Department of Transportation. Furthermore, as discussed in Finding No. 4, The township expended \$18,000.00 for the renovation of Buck Road Bridge. This project resulted in a substantial benefit to two members of Borough Council, without regard to other pressing needs of the Borough and the cost to the citizens of the borough.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to examine the documentation discussed in the fifth paragraph and the effects of the matters discussed in the sixth 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 Borough of Starrucca, Wayne County, for the four years ended December 31, 2008, 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 Borough of Starrucca, Wayne 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 Borough of Starrucca, Wayne County's Forms MS-965 that is more than inconsequential will not be prevented or detected by the Borough of Starrucca, Wayne County's internal control. We consider the deficiency described in the finding below to be a significant deficiency in internal control over reporting on the Forms MS-965:

- Electronic Imaging Of Canceled Checks From The Bank Did Not Include The Back Of The Checks.

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 Borough of Starrucca, Wayne County's internal control. Our consideration of the internal control over reporting on the Forms MS-965 would not necessarily disclose all matters in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We consider the the significant deficiency described above to be a material weakness.

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

- Failure To Timely Submit Final Completion Report.
- Lump Sum Bidding Without Approval Of The Department Of Transportation.
- Apparent Conflict Of Interest.

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 Borough of Starrucca, Wayne County, and is not intended to be and should not be used by anyone other than these specified parties.

October 20, 2009

JACK WAGNER  
Auditor General

BOROUGH OF STARRUCCA  
WAYNE COUNTY  
LIQUID FUELS TAX FUND  
2005 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	-	-	-
Agility projects	-	-	-
Cleaning streets and gutters	-	-	-
Winter maintenance services	5,940.00	-	5,940.00
Traffic control devices	-	-	-
Street lighting	-	-	-
Storm sewers and drains	-	-	-
Repairs of tools and machinery	-	-	-
Maintenance and repair of roads and bridges	7,263.42	-	7,263.42
Highway construction and rebuilding projects	-	-	-
Miscellaneous (Note 6)	-	43,556.97	43,556.97
 Total (To Section 2, Line 5)	 <u>\$ 13,203.42</u>	 <u>\$ 43,556.97</u>	 <u>\$ 56,760.39</u>

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

BOROUGH OF STARRUCCA  
WAYNE COUNTY  
LIQUID FUELS TAX FUND  
2005 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, 2005	\$ 3,885.40	\$ -	\$ 3,885.40
Receipts:			
2. State allocation	16,710.97	-	16,710.97
2a. Turnback allocation	-	-	-
2b. Interest on investments (Note 3)	29.71	-	29.71
2c. Miscellaneous (Note 5)	<u>3,595.80</u>	<u>43,556.97</u>	<u>47,152.77</u>
3. Total receipts	<u>20,336.48</u>	<u>43,556.97</u>	<u>63,893.45</u>
4. Total funds available	<u>24,221.88</u>	<u>43,556.97</u>	<u>67,778.85</u>
5. Expenditures (Section 1)	<u>13,203.42</u>	<u>43,556.97</u>	<u>56,760.39</u>
6. Balance, December 31, 2005	<u>\$ 11,018.46</u>	<u>\$ -</u>	<u>\$ 11,018.46</u>

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

BOROUGH OF STARRUCCA  
WAYNE COUNTY  
LIQUID FUELS TAX FUND  
2005 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	\$ 3,885.40	\$ -	\$ 3,885.40
2. Add: Current year equipment allocation (20% of Lines 2 + 2a, Section 2)	3,342.19	-	3,342.19
3. PENNDOT approved adjustments	-	-	-
4. Total funds available for equipment acquisition	7,227.59	-	7,227.59
5. Less: Major equipment expenditures	-	-	-
6. Remainder	<u>7,227.59</u>	<u>-</u>	<u>7,227.59</u>
7. Equipment balance available for subsequent year (Lesser of Line 6 or Section 2 balance, but not less than zero)	<u>\$ 7,227.59</u>	<u>\$ -</u>	<u>\$ 7,227.59</u>

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

BOROUGH OF STARRUCCA  
WAYNE COUNTY  
LIQUID FUELS TAX FUND  
2006 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	-	-	-
Agility projects	-	-	-
Cleaning streets and gutters	-	-	-
Winter maintenance services	2,398.00	-	2,398.00
Traffic control devices	-	-	-
Street lighting	-	-	-
Storm sewers and drains	-	-	-
Repairs of tools and machinery	-	-	-
Maintenance and repair of roads and bridges	19,135.00	(5,000.00)	14,135.00
Highway construction and rebuilding projects	-	5,000.00	5,000.00
Miscellaneous (Bank service charges)	45.15	-	45.15
 Total (To Section 2, Line 5)	 <u>\$ 21,578.15</u>	 <u>\$ -</u>	 <u>\$ 21,578.15</u>

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

BOROUGH OF STARRUCCA  
WAYNE COUNTY  
LIQUID FUELS TAX FUND  
2006 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, 2006	\$ 11,018.46	\$ -	\$ 11,018.46
Receipts:			
2. State allocation	17,861.34	-	17,861.34
2a. Turnback allocation	-	-	-
2b. Interest on investments (Note 3)	102.80	-	102.80
2c. Miscellaneous (Note 5)	-	30.00	30.00
3. Total receipts	<u>17,964.14</u>	<u>30.00</u>	<u>17,994.14</u>
4. Total funds available	<u>28,982.60</u>	<u>30.00</u>	<u>29,012.60</u>
5. Expenditures (Section 1)	<u>21,578.15</u>	<u>-</u>	<u>21,578.15</u>
6. Balance, December 31, 2006	<u>\$ 7,404.45</u>	<u>\$ 30.00</u>	<u>\$ 7,434.45</u>

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

BOROUGH OF STARRUCCA  
WAYNE COUNTY  
LIQUID FUELS TAX FUND  
2006 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	\$ 7,227.59	\$ -	\$ 7,227.59
2. Add: Current year equipment allocation (20% of Lines 2 + 2a, Section 2)	3,572.27	-	3,572.27
3. PENNDOT approved adjustments	-	-	-
4. Total funds available for equipment acquisition	10,799.86	-	10,799.86
5. Less: Major equipment expenditures	-	-	-
6. Remainder	<u>10,799.86</u>	<u>-</u>	<u>10,799.86</u>
7. Equipment balance available for subsequent year (Lesser of Line 6 or Section 2 balance, but not less than zero)	<u>\$ 7,404.45</u>	<u>\$ 30.00</u>	<u>\$ 7,434.45</u>

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



BOROUGH OF STARRUCCA  
WAYNE COUNTY  
LIQUID FUELS TAX FUND  
2007 FORM MS-965 – SECTION 1  
WITH ADJUSTMENTS

<u>Expenditure Summary</u>	<u>Reported</u>	<u>Adjustments</u>	<u>Adjusted Amount</u>
Major equipment purchases	\$ -	\$ -	\$ -
Minor equipment purchases	-	-	-
Computer/Computer related training	-	-	-
Agility projects	-	-	-
Cleaning streets and gutters	-	-	-
Winter maintenance services	2,470.00	-	2,470.00
Traffic control devices	-	-	-
Street lighting	-	-	-
Storm sewers and drains	-	-	-
Repairs of tools and machinery	-	-	-
Maintenance and repair of roads and bridges	19,770.66	-	19,770.66
Highway construction and rebuilding projects	-	-	-
Miscellaneous	-	-	-
	<hr/>	<hr/>	<hr/>
Total (To Section 2, Line 5)	<u>\$ 22,240.66</u>	<u>\$ -</u>	<u>\$ 22,240.66</u>

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

BOROUGH OF STARRUCCA  
WAYNE COUNTY  
LIQUID FUELS TAX FUND  
2007 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, 2007	\$ 7,434.45	\$ -	\$ 7,434.45
Receipts:			
2. State allocation	18,454.75	-	18,454.75
2a. Turnback allocation	-	-	-
2b. Interest on investments (Note 3)	802.00	-	802.00
2c. Miscellaneous (Note 5)	5,069.30	-	5,069.30
3. Total receipts	<u>24,326.05</u>	<u>-</u>	<u>24,326.05</u>
4. Total funds available	<u>31,760.50</u>	<u>-</u>	<u>31,760.50</u>
5. Expenditures (Section 1)	<u>22,240.66</u>	<u>-</u>	<u>22,240.66</u>
6. Balance, December 31, 2007	<u>\$ 9,519.84</u>	<u>\$ -</u>	<u>\$ 9,519.84</u>

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

BOROUGH OF STARRUCCA  
WAYNE COUNTY  
LIQUID FUELS TAX FUND  
2007 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	\$ 7,434.45	\$ -	\$ 7,434.45
2. Add: Current year equipment allocation (20% of Lines 2 + 2a, Section 2)	3,690.95	-	3,690.95
3. PENNDOT approved adjustments	-	-	-
4. Total funds available for equipment acquisition	11,125.40	-	11,125.40
5. Less: Major equipment expenditures	-	-	-
6. Remainder	<u>11,125.40</u>	<u>-</u>	<u>11,125.40</u>
7. Equipment balance available for subsequent year (Lesser of Line 6 or Section 2 balance, but not less than zero)	<u>\$ 9,519.84</u>	<u>\$ -</u>	<u>\$ 9,519.84</u>

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

BOROUGH OF STARRUCCA  
WAYNE COUNTY  
LIQUID FUELS TAX FUND  
2008 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	-	-	-
Agility projects	-	-	-
Cleaning streets and gutters	-	-	-
Winter maintenance services	5,630.00	-	5,630.00
Traffic control devices	-	-	-
Street lighting	-	-	-
Storm sewers and drains	-	-	-
Repairs of tools and machinery	-	-	-
Maintenance and repair of roads and bridges	23,594.89	(18,000.00)	5,594.89
Highway construction and rebuilding projects	-	18,000.00	18,000.00
Miscellaneous (Bank service charges)	.15	-	.15
 Total (To Section 2, Line 5)	 <u>\$ 29,225.04</u>	 <u>\$ -</u>	 <u>\$ 29,225.04</u>

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

BOROUGH OF STARRUCCA  
WAYNE COUNTY  
LIQUID FUELS TAX FUND  
2008 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, 2008	\$ 9,519.84	\$ -	\$ 9,519.84
Receipts:			
2. State allocation	20,300.54	-	20,300.54
2a. Turnback allocation	-	-	-
2b. Interest on investments (Note 3)	282.32	-	282.32
2c. Miscellaneous	-	-	-
3. Total receipts	<u>20,582.86</u>	<u>-</u>	<u>20,582.86</u>
4. Total funds available	<u>30,102.70</u>	<u>-</u>	<u>30,102.70</u>
5. Expenditures (Section 1)	<u>29,225.04</u>	<u>-</u>	<u>29,225.04</u>
6. Balance, December 31, 2008	<u><u>\$ 877.66</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 877.66</u></u>

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

BOROUGH OF STARRUCCA  
WAYNE COUNTY  
LIQUID FUELS TAX FUND  
2008 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	\$ 9,519.84	\$ -	\$ 9,519.84
2. Add: Current year equipment allocation (20% of Lines 2 + 2a, Section 2)	4,060.11	-	4,060.11
3. PENNDOT approved adjustments	-	-	-
4. Total funds available for equipment acquisition	13,579.95	-	13,579.95
5. Less: Major equipment expenditures	-	-	-
6. Remainder	<u>13,579.95</u>	<u>-</u>	<u>13,579.95</u>
7. Equipment balance available for subsequent year (Lesser of Line 6 or Section 2 balance, but not less than zero)	<u>\$ 877.66</u>	<u>\$ -</u>	<u>\$ 877.66</u>

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

BOROUGH OF STARRUCCA  
WAYNE COUNTY  
LIQUID FUELS TAX FUND  
NOTES TO FORMS MS-965 WITH ADJUSTMENTS  
FOR THE FOUR YEARS ENDED  
DECEMBER 31, 2008

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.
- Minor equipment purchases are purchases of road machinery and road equipment that cost \$4,000.00 or less.
- Agility projects are exchanges of services with the Department of Transportation.

Section 2

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

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

Section 3

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

BOROUGH OF STARRUCCA  
WAYNE COUNTY  
LIQUID FUELS TAX FUND  
NOTES TO FORMS MS-965 WITH ADJUSTMENTS  
FOR THE FOUR YEARS ENDED  
DECEMBER 31, 2008

1. Criteria (Continued)

Section 3 (Continued)

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.



BOROUGH OF STARRUCCA  
WAYNE COUNTY  
LIQUID FUELS TAX FUND  
NOTES TO FORMS MS-965 WITH ADJUSTMENTS  
FOR THE FOUR YEARS ENDED  
DECEMBER 31, 2008

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 Borough Code*, Title 53 P.S § 46316, authorizes the borough 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, 2008. 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.

BOROUGH OF STARRUCCA  
WAYNE COUNTY  
LIQUID FUELS TAX FUND  
NOTES TO FORMS MS-965 WITH ADJUSTMENTS  
FOR THE FOUR YEARS ENDED  
DECEMBER 31, 2008

2. Deposits (Continued)

Fund Balance

The fund balance as of December 31, 2008 consists of the following:

Cash	<u>\$877.66</u>
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3. Interest On Investments

Our examination disclosed that the municipality deposited idle liquid fuels tax money in an interest-bearing account which earned \$29.71 during 2005, \$102.80 during 2006, \$802.00 during 2007, and \$282.32 during 2008, thus providing additional funds for road maintenance and repairs.

4. Adjustments

2005 - Section 1

An adjustment of \$43,556.97 was made to "Miscellaneous" because reimbursements for deposits in error were not reported (Note 6).

2005 - Section 2

An adjustment of \$43,556.97 was made to "Miscellaneous" because deposits in error were not reported (Note 6).

2006 - Section 1

Adjustments were made to "Maintenance and repair of roads and bridges" and "Highway construction and rebuilding projects" because expenditures of \$5,000.00 were misclassified.

BOROUGH OF STARRUCCA  
WAYNE COUNTY  
LIQUID FUELS TAX FUND  
NOTES TO FORMS MS-965 WITH ADJUSTMENTS  
FOR THE FOUR YEARS ENDED  
DECEMBER 31, 2008

4. Adjustments (Continued)

2006 - Section 2

An adjustment of \$30.00 was made to "Miscellaneous" because a refund for bank service charges were not reported (Note 5).

2008 - Section 1

Adjustments were made to "Maintenance and repair of roads and bridges" and "Highway construction and rebuilding projects" because expenditures of \$18,000.00 were misclassified.

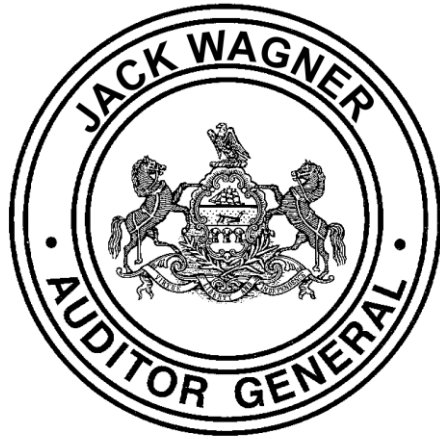
5. Miscellaneous Receipts

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

<u>Source</u>	<u>Description</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
F.E.M.A.	Deposits in error (Note 6)	\$43,556.97	\$ -	\$ -
F.E.M.A.	Severe weather assistance	3,595.80	-	-
General Fund	Reimbursement (Comment)	-	-	5,054.15
Financial institution	Refund for bank service charges	-	30.00	15.15
Totals		<u>\$47,152.77</u>	<u>\$30.00</u>	<u>\$5,069.30</u>

6. Deposits In Error

During 2005, the municipality deposited a total of \$43,556.97 into the Liquid Fuels Tax Fund that should have deposited into the F.E.M.A. Fund. During 2005 the municipality transferred a total of \$43,556.97 from the Liquid Fuels Tax Fund to the F.E.M.A. Fund to correct the deposits in error.



BOROUGH OF STARRUCCA  
WAYNE COUNTY  
LIQUID FUELS TAX FUND  
FINDINGS AND RECOMMENDATIONS  
FOR THE FOUR YEARS ENDED  
DECEMBER 31, 2008

Finding No. 1 - Electronic Imaging Of Canceled Checks From The Bank Did Not Include The Back Of The Checks

Our examination disclosed that the imaging of the 2005 canceled checks from the bank for the Liquid Fuels Tax Fund account was not acceptable because the bank provides only an image of the front side of the canceled checks. For us to properly complete our examination testing, we have to examine the front and back of the canceled checks. Because the test of disbursements was limited, we had to qualify our opinion as stated in the Independent Auditor's Report.

Good internal controls and the Commonwealth of Pennsylvania Management Directive 210.11, dated June 16, 1997, require that imaging systems comply with the provisions of the Internal Revenue Service (IRS) procedures for record keeping with electronic imaging. To be acceptable, the documents provided by the system must meet IRS procedures governing size, content, format, and pattern. Those procedures require that all images produced by the imaging system exhibit a high degree of legibility and readability when displayed on paper. Legibility includes the ability to identify all letters and numerals positively and quickly. Readability includes the ability to recognize a group of letters or numerals as words or completed numbers. Imaged documents must include the front and back of a document in which both the front and back are used.

Further, good internal controls ensure that by having a municipal official review the front and back of the canceled checks, any errors or irregularities can be detected on a timely basis.

Without this control, the potential exists for errors or irregularities to go undetected for long periods of time.

The municipality provided imaging of both the front and backs of canceled checks from 2006 to 2008.

Recommendations

We recommend that the municipal officials continue obtaining images of the front and back of canceled checks in accordance with Directive 210.11. Additionally, municipal officials should review the front and back of each canceled check for any errors or irregularities.

We further recommend that, if the municipality's financial institution's check imaging process does not comply with Directive 210.11, original documentation must be obtained.

BOROUGH OF STARRUCCA  
WAYNE COUNTY  
LIQUID FUELS TAX FUND  
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Finding No. 1 - Electronic Imaging Of Canceled Checks From The Bank Did Not Include The  
Back Of The Checks (Continued)

Management's Response

The municipal officials stated:

I was not the secretary/treasurer in 2005. When I was appointed in 2006 I contacted the bank right away and the borough received the back images from that date forward.

BOROUGH OF STARRUCCA  
WAYNE COUNTY  
LIQUID FUELS TAX FUND  
FINDINGS AND RECOMMENDATIONS  
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DECEMBER 31, 2008

Finding No. 2 - Failure To Timely Submit Final Completion Report

Our examination disclosed that the municipality spent \$18,000.00 for project No. 06-63-403-01. Final payment was made on this project on June 4, 2008 although a Final Completion Report Form MS-999 was not filed with the Department of Transportation as of the date of this report.

The Department of Transportation's *Publication 9* outlines the policies and procedures for the administration of the Liquid Fuels Tax Fund. *Publication 9*, Chapter Two, Section 2.8, states, in relevant part:

9. Upon completion of the project, local officials shall complete Form MS-999, Project Completion Report, and submit this form to the Municipal Services Representatives...The MS-999 must reflect actual quantities used and the total cost of the project. It shall also indicate the distribution of costs to the approved funding sources for the project.

Because the municipality failed to file a Final Completion Report, we were unable to determine if the project was completed to the satisfaction of the Department of Transportation. Additionally, we were unable to determine if the municipality expended the approved amount of Liquid Fuels Tax Fund money on the project.

The failure to comply with the Department of Transportation's *Publication 9* could result in the municipality having to reimburse \$18,000.00 to its Liquid Fuels Tax Fund.

This expenditure is also included in Finding No. 3 and Finding No. 4.

Recommendations

If the Department of Transportation does not require reimbursement for Finding No. 3 or Finding No. 4, we recommend that the municipality reimburse \$18,000.00 to its Liquid Fuels Tax Fund upon official notification by the Department of Transportation.

We also recommend that the municipality submit a completed Form MS-999 to the Department of Transportation for the project.

We further recommend that, in the future, the municipality comply with the Department of Transportation's *Publication 9* by submitting a Final Completion Report Form MS-999 for completed projects in a timely manner.

BOROUGH OF STARRUCCA  
WAYNE COUNTY  
LIQUID FUELS TAX FUND  
FINDINGS AND RECOMMENDATIONS  
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DECEMBER 31, 2008

Finding No. 2 - Failure To Timely Submit Final Completion Report (Continued)

Management's Response

The municipal officials stated:

At the time of the bridge project I contacted and relied on many PENNDOT officials to be sure the borough was following the proper procedures. I was assured the borough was okay to proceed with the project.

Auditor's Conclusion

The municipal officials should comply with our recommendations as stated above.



BOROUGH OF STARRUCCA  
WAYNE COUNTY  
LIQUID FUELS TAX FUND  
FINDINGS AND RECOMMENDATIONS  
FOR THE FOUR YEARS ENDED  
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Finding No. 3 - Lump Sum Bidding Without Approval Of The Department Of Transportation

Our examination disclosed that on June 4, 2008, the municipality expended \$18,000.00 from the Liquid Fuels Tax Fund for project No. 06-63-403-01. The advertisement for this purchase requested sealed proposals for lump sum bids, which are not permitted unless it is approved by the Department of Transportation. The municipality did not obtain the approval of the Department of Transportation to use lump sum bids for this expenditure.

Because lump sum bidding was not approved by the Department of Transportation this expenditure did not comply with the Department of Transportation's *Publication 9*, Appendix D, § 449.9(c), which states:

(c)Proposal.

The proposal shall contain the approximate number of tons or square yards of materials or the metric equivalents required, as reasonably estimated by the municipality. The bidder shall insert:

- (1) The unit price for each item.
- (2) The total price for each item (quantity X price).
- (3) The total price for any group of items, as to which the proposal requires a total or subtotal.

Lump sum bids.

In special cases, the Director of the Bureau of Municipal Services of the Department may approve lump sum bids in lieu of the procedure set forth in subsection (c).

The failure to follow the Department of Transportation's *Publication 9* as noted above could result in the municipality having to reimburse \$18,000.00 to its Liquid Fuels Tax Fund.

These expenditures were also included in Finding No. 2 and Finding No. 4.

Recommendations

If the Department of Transportation does not require reimbursement for Finding No. 2 or Finding No. 4, we recommend that the municipality reimburse \$18,000.00 to its Liquid Fuels Tax Fund upon official notification by the Department of Transportation.

We further recommend that, in the future, the municipality follow the Department of Transportation's *Publication 9* as cited above.

BOROUGH OF STARRUCCA  
WAYNE COUNTY  
LIQUID FUELS TAX FUND  
FINDINGS AND RECOMMENDATIONS  
FOR THE FOUR YEARS ENDED  
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Finding No. 3 - Lump Sum Bidding Without Approval Of The Department Of Transportation  
(Continued)

Management's Response

The municipal officials stated:

I was not aware that PENNDOT was to pre-approve lump sum bidding for a bridge project. *The Borough Code* requires that a project is not separated or piece mealed. The engineer was hired by the borough and set up the bid packets and all the supporting documents. Copies of the packets were provided to a PENNDOT engineer who sent back his comments, which were sent to the borough engineer and the packets were changed to include PENNDOT requirements. The borough council and myself relied on the PENNDOT officials to aid and guide us through this project, and we respect your decision regarding the same.

Auditor's Conclusion

The municipal officials should ensure they follow Department of Transportation's *Publication 9* as noted above.

BOROUGH OF STARRUCCA  
WAYNE COUNTY  
LIQUID FUELS TAX FUND  
FINDINGS AND RECOMMENDATIONS  
FOR THE FOUR YEARS ENDED  
DECEMBER 31, 2008

Finding No. 4 - Apparent Conflict Of Interest

Our examination disclosed that the township expended \$18,000.00 from the Liquid Fuels Tax Fund on June 4, 2008 for the renovation of Buck Road Bridge. This project was the subject of an investigation conducted by our Office of Special Investigations. The investigation concluded that this project resulted in a substantial benefit to two members of Borough Council, without regard to other pressing needs of the Borough and the cost to the citizens of the Borough. This Special Investigation Report is available on our website at [www.auditorgen.state.pa.us](http://www.auditorgen.state.pa.us). Due to the council members' financial interest in the project this expenditure appears to violate The Public Official and Employee Ethics Act ("Ethics Act"), 65 P.S. § 1103(a), which states:

No public official or public employee shall engage in conduct that constitutes a conflict of interest.

A conflict of interest is defined in the Ethics Act, 65 P.S. § 1102, as follows:

Use by a public official . . . of the authority of his office . . . for the private pecuniary benefit of himself, a member of his immediate family or a business with which he or a member of his immediate family is associated.

Because this expenditure appears to violate the Ethics Act the township could be required by the Pennsylvania Department of Transportation to reimburse \$18,000.00 to its Liquid Fuels Tax Fund.

Copies of this finding will be forwarded to the Pennsylvania Department of Transportation and the State Ethics Commission for their review and whatever action they may deem appropriate.

These expenditures were also included in Finding No. 2 and Finding No. 3.

Recommendations

If the Department of Transportation does not require reimbursement for Finding No. 2 or Finding No. 3, we recommend that the municipality reimburse \$18,000.00 to its Liquid Fuels Tax Fund upon official notification by the Department of Transportation.

We further recommend that, in the future, the township comply with the Ethics Act.

BOROUGH OF STARRUCCA  
WAYNE COUNTY  
LIQUID FUELS TAX FUND  
FINDINGS AND RECOMMENDATIONS  
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Finding No. 4 - Apparent Conflict Of Interest (Continued)

Management's Response

The municipal officials offered no formal response at this time.

BOROUGH OF STARRUCCA  
WAYNE COUNTY  
LIQUID FUELS TAX FUND  
COMMENT  
FOR THE FOUR YEARS ENDED  
DECEMBER 31, 2008

Comment - Summary Of 2003 Audit Recommendation

In our 2003 report we recommended that the Department of Transportation review our audit finding to determine if the municipality should reimburse \$10,108.31 to its Liquid Fuels Tax Fund for a failure to maintain documentation for price quotations.

During our current examination we reviewed a letter dated February 16, 2006, from the Department of Transportation informing the municipality that \$5,054.15 of the \$10,108.31 would be required to be reimbursed to the Liquid Fuels Tax Fund. We noted that the municipality reimbursed this amount to its Liquid Fuels Tax Fund on January 3, 2007.

BOROUGH OF STARRUCCA  
WAYNE COUNTY  
LIQUID FUELS TAX FUND  
SUMMARY OF EXIT CONFERENCE  
FOR THE FOUR YEARS ENDED  
DECEMBER 31, 2008

An exit conference was held October 20, 2009. Those participating were:

BOROUGH OF STARRUCCA

Mrs. Laura Travis, Secretary/Treasurer

DEPARTMENT OF THE AUDITOR GENERAL

Mr. Martin Lawler, Auditor

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

BOROUGH OF STARRUCCA  
WAYNE COUNTY  
LIQUID FUELS TAX FUND  
REPORT DISTRIBUTION  
FOR THE FOUR YEARS ENDED  
DECEMBER 31, 2008

This report was initially distributed to:

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

Mr. John J. Contino  
Executive Director  
State Ethics Commission

Borough of Starrucca  
Wayne County  
P.O. Box 83  
Starrucca, PA 18462

The Honorable Kirk Rhone

President of Council

Mrs. Laura Travis

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 online or to contact the Department of the Auditor General, please access our web site at [www.auditorgen.state.pa.us](http://www.auditorgen.state.pa.us).