



**BOROUGH OF SOUTH WAVERLY  
BRADFORD COUNTY  
08-410**

**HIGHWAY TRANSFER PROGRAM  
AGREEMENT NO. 3900034894  
TURNBACK ACCOUNT  
EXAMINATION REPORT**

**FOR THE PERIOD  
OCTOBER 20, 2008 TO SEPTEMBER 28, 2009**

Released *March 2013*

**COMMONWEALTH OF PENNSYLVANIA**

**EUGENE A. DEPASQUALE - AUDITOR GENERAL**

**DEPARTMENT OF THE AUDITOR GENERAL**







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BOROUGH OF SOUTH WAVERLY  
BRADFORD COUNTY  
HIGHWAY TRANSFER PROGRAM – TURNBACK ACCOUNT  
BACKGROUND  
FOR THE PERIOD  
OCTOBER 20, 2008 TO SEPTEMBER 28, 2009

Background

The Highway Transfer Program (more commonly known as the Highway Turnback Program) is outlined in Title 75 P.S. § 9511. It is designed to reduce the amount of state road mileage by transferring “functionally-local” roads on a cooperative, voluntary basis to local governments. When a municipality takes over a road through this program, the Department of Transportation and the municipality jointly determine the necessity and extent of any restoration or rehabilitative work required to put a state highway in satisfactory condition before it is transferred. The rehabilitative work may be done by the Department of Transportation, municipal forces, or be contracted out by either party.

If the restoration or rehabilitation is to be done by the municipality or a contractor hired by the municipality, the municipality receives funds for the work from the State Highway Transfer Restoration Restricted Receipt Account. These funds must be deposited into a separate interest-bearing Highway Transfer Account. Any funds not used for the restoration or rehabilitation of the road that was transferred to the municipality must be transferred to the township’s Liquid Fuels Tax Fund.

Department of Transportation *Publication 9* contains the policies and procedures that govern the use of Highway Transfer Program money. However, if there is a difference between *Publication 9* and any legislation, the legislation shall govern.







Commonwealth of Pennsylvania  
Department of the Auditor General  
Harrisburg, PA 17120-0018  
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**EUGENE A. DePASQUALE**  
**AUDITOR GENERAL**

### Independent Auditor's Report

The Honorable Barry J. Schoch, P.E.  
Secretary  
Department of Transportation  
Harrisburg, PA 17120

We have examined the accompanying Form MS-999 With Adjustments of the Highway Transfer Program - Turnback Account of the Borough of South Waverly, Bradford County, for the period October 20, 2008 to September 28, 2009. The municipality's management is responsible for the Form MS-999. Our responsibility is to express an opinion on the Form MS-999 With Adjustments based on our examination.

Except as discussed in the fourth 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 South Waverly, Bradford County's Form MS-999 for the period October 20, 2008 to September 28, 2009 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 Highway Transfer Program - Turnback Account 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*.

We were unable to examine the images of the back of the canceled checks from the municipality's financial institution because the municipality 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.

### Independent Auditor's Report (Continued)

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 an image of the back of the canceled checks, the Form MS-999 With Adjustments presents, in all material respects, the information required by the Pennsylvania Department of Transportation for the Highway Transfer Program - Turnback Account of the Borough of South Waverly, Bradford County, for the period October 20, 2008 to September 28, 2009, 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 Form 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 Form MS-965 is 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 Form MS-965 or on compliance and other matters; accordingly, we express no such opinions.

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 South Waverly, Bradford 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 South Waverly, Bradford County's Form MS-965 that is more than inconsequential will not be prevented or detected by the Borough of South Waverly, Bradford 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 Form MS-991:

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

Independent Auditor's Report (Continued)

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 Form MS-965 will not be prevented or detected by the Borough of South Waverly, Bradford County's internal control. Our consideration of the internal control over reporting on the Form 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 significant deficiency described above to be a material weakness.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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



April 4, 2012

**EUGENE A. DEPASQUALE**  
Auditor General



BOROUGH OF SOUTH WAVERLY  
BRADFORD COUNTY  
HIGHWAY TRANSFER PROGRAM – TURNBACK ACCOUNT  
FORM MS-999 WITH ADJUSTMENTS  
FOR THE PERIOD  
OCTOBER 20, 2008 TO SEPTEMBER 28, 2009

	<u>Reported</u>	<u>Adjustments</u>	<u>Adjusted Amount</u>
<u>Cash Receipts</u>			
Turnback grant	\$ 20,800.00	\$ -	\$ 20,800.00
Interest (Note 2)	430.72	-	430.72
Miscellaneous (Note 4)	283,506.88	-	283,506.88
	<u>304,737.60</u>	<u>-</u>	<u>304,737.60</u>
Total receipts	<u>\$ 304,737.60</u>	<u>\$ -</u>	<u>\$ 304,737.60</u>
 <u>Cash Disbursements</u>			
Highway construction and rebuilding	\$ 304,666.89	\$ -	\$ 304,666.89
Unexpended balance transfer (Note 3)	30.71	-	30.71
Miscellaneous (Bank service charges)	40.00	-	40.00
	<u>304,737.60</u>	<u>-</u>	<u>304,737.60</u>
Total disbursements	<u>\$ 304,737.60</u>	<u>\$ -</u>	<u>\$ 304,737.60</u>

Notes to Form MS-999 With Adjustments are an integral part of this report.

BOROUGH OF SOUTH WAVERLY  
BRADFORD COUNTY  
HIGHWAY TRANSFER PROGRAM – TURNBACK ACCOUNT  
NOTES TO FORM MS-999 WITH ADJUSTMENTS  
FOR THE PERIOD  
OCTOBER 20, 2008 TO SEPTEMBER 28, 2009

1. Criteria

Form MS-999 With Adjustments provides a summary of Highway Transfer Program receipts and expenditures by category. Categories requiring explanation include:

- The Turnback Grant is the grant received from the Commonwealth of Pennsylvania to be used for the restoration or rehabilitation of the road or roads transferred from the state to the municipality.
- The Unexpended balance transfer is money that was not used for the restoration or rehabilitation of the road or roads transferred from the state to the municipality that was transferred to the municipality's Liquid Fuels Tax Fund upon completion of the project.

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.

The Form MS-999 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.

Basis Of Accounting

The accompanying Form MS-999 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.

BOROUGH OF SOUTH WAVERLY  
 BRADFORD COUNTY  
 HIGHWAY TRANSFER PROGRAM – TURNBACK ACCOUNT  
 NOTES TO FORM MS-999 WITH ADJUSTMENTS  
 FOR THE PERIOD  
 OCTOBER 20, 2008 TO SEPTEMBER 28, 2009

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. Interest On Investments

Our examination disclosed that the municipality deposited idle turnback money in an interest-bearing account which earned \$430.72 during the examination period, thus providing additional funds for road maintenance.

3. Unexpended Balance

During our examination, we noted that the municipality transferred the unexpended balance of \$30.71 in the turnback account to its Liquid Fuels Tax Fund account on September 28, 2009 in accordance with Act 32 of 1983.

4. 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>Amount</u>
Central Bradford Progress Authority	Yanuzzi Drive Access Road	\$ 89,599.04
Commonwealth of Pennsylvania	Yanuzzi Drive Access Road	<u>193,907.84</u>
Totals		<u><u>\$283,506.88</u></u>





BOROUGH OF SOUTH WAVERLY  
BRADFORD COUNTY  
HIGHWAY TRANSFER PROGRAM – TURNBACK ACCOUNT  
FINDING AND RECOMMENDATION  
FOR THE PERIOD  
OCTOBER 20, 2008 TO SEPTEMBER 28, 2009

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

Our examination disclosed that the imaging of 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 the back of the canceled checks.

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 misappropriations can be detected on a timely basis.

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

Recommendation

We recommend that the municipal officials obtain 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 misappropriations.

Management's Response

The municipal officials offered no formal response at this time.

BOROUGH OF SOUTH WAVERLY  
BRADFORD COUNTY  
HIGHWAY TRANSFER PROGRAM – TURNBACK ACCOUNT  
SUMMARY OF EXIT CONFERENCE  
FOR THE PERIOD  
OCTOBER 20, 2008 TO SEPTEMBER 28, 2009

An exit conference was held April 4, 2012. Those participating were:

BOROUGH OF SOUTH WAVERLY

Ms. Valerie L. Huckabee, Secretary

DEPARTMENT OF THE AUDITOR GENERAL

Mr. Raymond J. Insalaco, Auditor

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

BOROUGH OF SOUTH WAVERLY  
BRADFORD COUNTY  
HIGHWAY TRANSFER PROGRAM – TURNBACK ACCOUNT  
REPORT DISTRIBUTION  
FOR THE PERIOD  
OCTOBER 20, 2008 TO SEPTEMBER 28, 2009

This report was initially distributed to:

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

Borough of South Waverly  
Bradford County  
2523 Pennsylvania Avenue  
Sayre, PA 18840

The Honorable Richard L. Bentley

President of Council

Ms. Valerie L. Huckabee

Secretary

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](http://www.auditorgen.state.pa.us).