

ATTESTATION ENGAGEMENT

Borough of Wattsburg
Erie County, Pennsylvania
25-415
Liquid Fuels Tax Fund
For the Period
January 1, 2016 to December 31, 2017

September 2018



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



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EUGENE A. DePASQUALE
AUDITOR GENERAL

Independent Auditor's Report

The Honorable Leslie Richards
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 Wattsburg, Erie County, for the period January 1, 2016 to December 31, 2017. The municipality's management is responsible for presenting the Forms MS-965 in accordance with the criteria set forth in Note 1. 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*.

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 the Findings and Recommendations and Summary Of Prior Examinations' Recommendations section of this report:

- The municipality did not maintain an invoice to support an expenditure of \$2,000.00 made on March 23, 2016 for snow removal (see Finding No. 1).
- 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 (see Finding No. 2).
- During our 2010-2012 examination period the township improperly expended \$8,360.00 of Liquid Fuels Tax Fund money on a construction project. The municipality reimbursed \$2,786.66 to its Liquid Fuels Tax Fund on both July 1, 2015 and December 11, 2015. During our current examination we noted the municipality reimbursed the remaining \$2,786.68 to its Liquid Fuels Tax Fund on March 21, 2018, which was subsequent to our examination period (Summary Of 2010-2012 Examination Recommendation).

In our opinion, except for the bulleted matters discussed above, the Forms MS-965 With Adjustments present, in all material respects, the information required by the Pennsylvania Department of Transportation for the Liquid Fuels Tax Fund of the Borough of Wattsburg, Erie County, for the period January 1, 2016 to December 31, 2017, in accordance with the criteria set forth in Note 1.

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 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)

Our consideration of internal control 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 was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described below, we identified certain deficiencies in internal control that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

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 a 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. We consider the deficiencies below to be material weaknesses:

- Documentation Supporting Expenditure Was Not Available For Examination.
- Electronic Imaging Of Canceled Checks From The Bank Did Not Include The Back Of The Checks - Recurring.

As part of obtaining reasonable assurance about whether the Forms MS-965 are free from material misstatement, we performed tests of the Borough of Wattsburg, Erie 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 is required to be reported under *Government Auditing Standards*:

- Late Receipt Of Allocations - Recurring.

The examination findings for electronic imaging of canceled checks from the bank not including the back of the checks and late receipt of allocations contained in this report cite conditions that existed in the operation of the municipality during the previous engagement period and were not corrected during the current examination period. The municipality should strive to comply with the recommendations noted in this report.

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.

Independent Auditor's Report (Continued)

We appreciate the courtesy extended by the Borough of Wattsburg, Erie County, to us during the course of our examination. If you have any questions, please feel free to contact Michael B. Kashishian, CPA, CGAP, CFE, Director, Bureau of County Audits, at 717-787-1363.

A handwritten signature in dark ink, appearing to read "Eugene A. DePasquale". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

August 20, 2018

Eugene A. DePasquale
Auditor General

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BOROUGH OF WATTSBURG
ERIE COUNTY
LIQUID FUELS TAX FUND
BACKGROUND
FOR THE PERIOD
JANUARY 1, 2016 TO DECEMBER 31, 2017

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.

BOROUGH OF WATTSBURG
ERIE COUNTY
LIQUID FUELS TAX FUND
BACKGROUND
FOR THE PERIOD
JANUARY 1, 2016 TO DECEMBER 31, 2017

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.

BOROUGH OF WATTSBURG
 ERIE COUNTY
 LIQUID FUELS TAX FUND
 2016 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	-	-	-
Computer/Computer related training	-	-	-
Agility projects	-	-	-
Cleaning streets and gutters	-	-	-
Winter maintenance services	8,980.00	-	8,980.00
Traffic control devices	-	321.54	321.54
Street lighting	3,230.82	(321.54)	2,909.28
Storm sewers and drains	-	-	-
Repairs of tools and machinery	-	-	-
Maintenance and repair of roads and bridges	-	-	-
Highway construction and rebuilding projects	-	-	-
Miscellaneous (Bank Service Charge)	3.00	-	3.00
	<hr/>	<hr/>	<hr/>
Total (To Section 2, Line 5)	<u>\$ 12,213.82</u>	<u>\$ -</u>	<u>\$ 12,213.82</u>

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

BOROUGH OF WATTSBURG
ERIE COUNTY
LIQUID FUELS TAX FUND
2016 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, 2016	\$ 11,608.58	\$ -	\$ 11,608.58
Receipts:			
2. State allocation	12,969.53	-	12,969.53
2a. Turnback allocation	-	-	-
2b. Interest on investments (Note 3)	2.19	-	2.19
2c. Miscellaneous (Note 5)	5,167.00	-	5,167.00
3. Total receipts	18,138.72	-	18,138.72
4. Total funds available	29,747.30	-	29,747.30
5. Expenditures (Section 1)	12,213.82	-	12,213.82
6. Balance, December 31, 2016	<u>\$ 17,533.48</u>	<u>\$ -</u>	<u>\$ 17,533.48</u>

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

BOROUGH OF WATTSBURG
 ERIE COUNTY
 LIQUID FUELS TAX FUND
 2016 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	\$ 9,768.21	\$ -	\$ 9,768.21
2. Add: Current year equipment allocation (20% of Lines 2 + 2a, Section 2)	2,593.91	-	2,593.91
3. PENNDOT approved adjustments	<u>-</u>	<u>-</u>	<u>-</u>
4. Total funds available for equipment acquisition	12,362.12	-	12,362.12
5. Less: Major equipment expenditures	<u>-</u>	<u>-</u>	<u>-</u>
6. Remainder	<u>12,362.12</u>	<u>-</u>	<u>12,362.12</u>
7. Equipment balance available for subsequent year (Lesser of Line 6 or Section 2 balance, but not less than zero)	<u>\$ 12,362.12</u>	<u>\$ -</u>	<u>\$ 12,362.12</u>

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

BOROUGH OF WATTSBURG
 ERIE 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>
Major equipment purchases	\$ -	\$ -	\$ -
Minor equipment purchases	-	-	-
Computer/Computer related training	-	-	-
Agility projects	-	-	-
Cleaning streets and gutters	-	-	-
Winter maintenance services	9,367.00	-	9,367.00
Traffic control devices	-	-	-
Street lighting	4,291.72	-	4,291.72
Storm sewers and drains	-	-	-
Repairs of tools and machinery	-	-	-
Maintenance and repair of roads and bridges	-	-	-
Highway construction and rebuilding projects	-	-	-
Miscellaneous	-	-	-
	<hr/>	<hr/>	<hr/>
Total (To Section 2, Line 5)	<u>\$ 13,658.72</u>	<u>\$ -</u>	<u>\$ 13,658.72</u>

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

BOROUGH OF WATTSBURG
 ERIE 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	\$ 17,533.48	\$ -	\$ 17,533.48
Receipts:			
2. State allocation	-	-	-
2a. Turnback allocation	-	-	-
2b. Interest on investments (Note 3)	0.38	-	0.38
2c. Miscellaneous (Note 5)	<u>1,070.00</u>	<u>-</u>	<u>1,070.00</u>
3. Total receipts	<u>1,070.38</u>	<u>-</u>	<u>1,070.38</u>
4. Total funds available	<u>18,603.86</u>	<u>-</u>	<u>18,603.86</u>
5. Expenditures (Section 1)	<u>13,658.72</u>	<u>-</u>	<u>13,658.72</u>
6. Balance, December 31, 2017	<u>\$ 4,945.14</u>	<u>\$ -</u>	<u>\$ 4,945.14</u>

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

BOROUGH OF WATTSBURG
ERIE 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	\$ 12,362.12	\$ -	\$ 12,362.12
2. Add: Current year equipment allocation (20% of Lines 2 + 2a, Section 2)	-	-	-
3. PENNDOT approved adjustments	<u>-</u>	<u>-</u>	<u>-</u>
4. Total funds available for equipment acquisition	12,362.12	-	12,362.12
5. Less: Major equipment expenditures	<u>-</u>	<u>-</u>	<u>-</u>
6. Remainder	<u>12,362.12</u>	<u>-</u>	<u>12,362.12</u>
7. Equipment balance available for subsequent year (Lesser of Line 6 or Section 2 balance, but not less than zero)	<u>\$ 4,945.14</u>	<u>\$ -</u>	<u>\$ 4,945.14</u>

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

BOROUGH OF WATTSBURG
ERIE COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE PERIOD
JANUARY 1, 2016 TO DECEMBER 31, 2017

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 with varying yearly costs in excess of the amounts indicated below:

<u>2013</u>	<u>2014</u>	<u>2015/2016</u>	<u>2017</u>
<u>\$10,200.00</u>	<u>\$10,300.00</u>	<u>\$10,500.00</u>	<u>\$10,700.00</u>

- 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:

<u>2013</u>	<u>2014</u>	<u>2015/2016</u>	<u>2017</u>
<u>\$10,200.00</u>	<u>\$10,300.00</u>	<u>\$10,500.00</u>	<u>\$10,700.00</u>

- 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 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.

BOROUGH OF WATTSBURG
ERIE COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE PERIOD
JANUARY 1, 2016 TO DECEMBER 31, 2017

1. Criteria (Continued)

Section 3

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

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

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

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

Basis Of Presentation

The financial activities of the municipality are accounted for in separate funds. The Liquid Fuels Tax Fund is used to account for state aid revenues from the Pennsylvania Department of Transportation used primarily for building and improving local roads and bridges. The Forms MS-965 have been prepared in accordance with reporting requirements prescribed by the Pennsylvania Department of Transportation as a result of the Fuels Tax Act 655, dated 1956 and as amended, which does not constitute a complete presentation of the entity's assets, liabilities, expenses, and fund balance. Accordingly, the presentation of Forms MS-965 With Adjustments is restricted to the Liquid Fuels Tax Fund, which represents a segment of the entity.

Basis Of Accounting

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

BOROUGH OF WATTSBURG
ERIE COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE PERIOD
JANUARY 1, 2016 TO DECEMBER 31, 2017

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 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, 2017. Custodial credit risk, as defined by GASB No. 40, as amended, 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.

Fund Balance

The fund balance as of December 31, 2017, consists of the following:

Cash	<u>\$4,945.14</u>
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BOROUGH OF WATTSBURG
 ERIE COUNTY
 LIQUID FUELS TAX FUND
 NOTES TO FORMS MS-965 WITH ADJUSTMENTS
 FOR THE PERIOD
 JANUARY 1, 2016 TO DECEMBER 31, 2017

3. Interest On Investments

Our examination disclosed that the municipality deposited idle liquid fuels tax money in an interest-bearing account which earned \$2.19 during 2016, and \$.38 during 2017, thus providing additional funds for road maintenance and repairs.

4. Adjustments

2016 - Section 1

Adjustments were made to "Traffic control devices" and "Street lighting" because expenditures of \$321.54 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>2014</u>	<u>2015</u>
Erie County General Fund	County Aid Reimbursement (Summary Of 2013-2015 Examination Recommendations)	\$5,167.00 -	\$ - 990.00
General Fund	Refund of overpayment	-	80.00
Total		<u>\$5,167.00</u>	<u>\$1,070.00</u>

BOROUGH OF WATTSBURG
ERIE COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2016 TO DECEMBER 31, 2017

Finding No. 1 - Documentation Supporting Expenditures Was Not Available For Examination

Our examination disclosed that the municipality did not maintain an invoice to support an expenditure of \$2,000.00 made on March 23, 2016 for snow removal.

Good internal control procedures ensure that there is documentation to support all expenditures.

The Liquid Fuels Tax Municipal Allocation Law, 72 P.S. § 2615.4, provides, in part, that monies herein allocated may be used only for construction, reconstruction, maintenance and repairs of such public roads or streets, including bridges, culverts and drainage structures, for which they are legally responsible. Also permitted are expenditures involving acquisition, maintenance, repairs and operation of street signs, traffic signs, traffic signal control systems, road equipment, and snow fences.

The Department of Transportation has been statutorily authorized to promulgate regulations concerning the administration of Liquid Fuels Tax Fund money and has determined that certain items, including expenditures made without supporting documentation, are outside the scope of permissible expenditures.

Without adequate documentation, we could not determine if the expenditures were permissible according to the Liquid Fuels Tax Municipal Allocation Law and the Department of Transportation's Regulations.

The failure to maintain documentation to support expenditures could result in the municipality having to reimburse \$2,000.00 to its Liquid Fuels Tax Fund.

Recommendations

We recommend that the municipality reimburse \$2,000.00 to its Liquid Fuels Tax Fund upon official notification by the Department of Transportation.

We further recommend that the municipality ensure good internal control over expenditures by maintaining adequate documentation to support all expenditures.

BOROUGH OF WATTSBURG
ERIE COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2016 TO DECEMBER 31, 2017

**Finding No. 1 - Documentation Supporting Expenditures Was Not Available For
Examination (Continued)**

Management's Response

The municipal officials stated:

We misplaced the invoices and will contact vendor for copies of the invoice.

Auditor's Conclusion

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

BOROUGH OF WATTSBURG
ERIE COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2016 TO DECEMBER 31, 2017

**Finding No. 2 - Electronic Imaging Of Canceled Checks From The Bank Did Not
Include The Back Of The Checks - Recurring.**

We cited the municipality for failing to obtain electronic imaging of the backs of canceled checks from the bank in our prior report for the period January 1, 2013 to December 31, 2015. Our current 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. Also, our examination disclosed that the municipality made transfers from the Liquid Fuels Tax Fund to the General Fund for the reimbursement of expenditures that could have been paid from the Liquid Fuels Tax Fund. Therefore, our disbursement test included checks from the General Fund account. During our testing we discovered that the imaging of canceled checks from the General Fund bank account was not acceptable because the bank provides only 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 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.

This finding occurred because the municipality did not comply with our 2013-2015 examination recommendation to obtain images of the front and back of canceled checks in accordance with Directive 210.11.

BOROUGH OF WATTSBURG
ERIE COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2016 TO DECEMBER 31, 2017

**Finding No. 2 - Electronic Imaging Of Canceled Checks From The Bank Did Not
Include The Back Of The Checks - Recurring (Continued).**

Recommendations

We again 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 stated:

We will notify the bank once again to have front and back of checks.

Auditor's Conclusion

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

BOROUGH OF WATTSBURG
ERIE COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2016 TO DECEMBER 31, 2017

Finding No. 3 - Late Receipt Of Allocations - Recurring.

We cited the municipality for late receipt of allocation in our prior report for the period January 1, 2013 to December 31, 2015. Our current examination disclosed that the 2016 and 2017 Liquid Fuels Tax Fund allocations of \$12,969.53 and \$13,287.09, respectively, which should have been distributed from the Department of Transportation to the municipality during the first week of March of each year, were not received until May 2, 2016 and May 3, 2018, respectively, because the municipality failed to comply with the Department of Transportation's *Publication 9*, Chapter Two, Section 2.4, which states:

To qualify for the annual liquid fuels tax allocation, a municipality shall:

- Submit annual reports (MS-965, Actual Use Report, MS-965P, Project and Miscellaneous Receipts, and MS-965S, Record of Checks).
- Make deposits and payments or expenditures in compliance with the Act 655. Failure to do so may result in not receiving allocations from PENNDOT until all discrepancies are resolved.
- 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.
- Ensure resolution of all Contractor Responsibility Program (CRP) holds and blocks imposed by the Department of Revenue and the Department of Labor and Industry.

Because the municipality failed to file documents and information timely as noted above, the municipality did not have use of the 2016 allocation for two months and the 2017 allocation for more than one year. Furthermore, had the allocations been received timely, money may have been available for investment purposes, potentially earning interest income which could have been used for road maintenance and repairs.

BOROUGH OF WATTSBURG
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LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
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Finding No. 3 - Late Receipt Of Allocations - Recurring (Continued).

Recommendation

We again recommend that, in the future, the municipality complies with the Department of Transportation's *Publication 9* to ensure that the allocations are received during the first week in March as outlined above.

Management's Response

The municipal officials stated:

Documentation wasn't filed on time.

Auditor's Conclusion

This is a recurring finding. We strongly recommend that the borough comply with our recommendation. During our next examination we will determine if the borough complied with our recommendation.

BOROUGH OF WATTSBURG
ERIE COUNTY
LIQUID FUELS TAX FUND
SUMMARY OF PRIOR EXAMINATIONS' RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2016 TO DECEMBER 31, 2017

Summary Of 2010-2012 Examination Recommendation

In our 2010-2012 report we recommended that the Department of Transportation review our examination finding to determine if the municipality should reimburse \$8,360.00 to its Liquid Fuels Tax Fund for Liquid Fuels money improperly expended on project No.10-25415-01CA.

During our 2013-2015 examination we reviewed a letter dated April 6, 2014, from the Department of Transportation informing the municipality to reimburse \$8,360.00 to its Liquid Fuels Tax Fund in three installments of \$2,786.66. The municipality reimbursed \$2,786.66 to its Liquid Fuels Tax Fund on both July 1, 2015 and December 11, 2015. During our current examination we noted the municipality reimbursed the remaining \$2,786.68 to the township's Liquid Fuels Tax Fund on March 21, 2018, which was subsequent to our examination period.

Summary Of 2013-2015 Examination Recommendations

In our 2013-2015 report we recommended that the Department of Transportation review our examination finding to determine if the municipality should reimburse \$990.00 to its Liquid Fuels Tax Fund. This amount consists of \$270.00 for a vendor overcharge, \$420.00 for an overpayment of an invoice, and \$300.00 for a nonpermissible expenditure.

During our current examination we reviewed a letter dated November 9, 2016, from the Department of Transportation informing the municipality to reimburse \$990.00 to its Liquid Fuels Tax Fund. We noted that the municipality reimbursed \$990.00 to its Liquid Fuels Tax Fund on February 21, 2017.

In our 2013-2015 report we also recommended 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.
- The municipality compare invoice prices to contract prices and invoice totals prior to making payments on vendor invoices.
- The municipality establish and implement internal controls to ensure vendor invoices are reviewed timely to avoid overpayments.

BOROUGH OF WATTSBURG
ERIE COUNTY
LIQUID FUELS TAX FUND
SUMMARY OF PRIOR EXAMINATIONS RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2016 TO DECEMBER 31, 2017

Summary Of 2013-2015 Examination Recommendations (Continued)

- The municipality complies with the Liquid Fuels Tax Municipal Allocation Law and the Department of Transportation's Regulations regarding permissible expenditures.
- The municipality complies with the Department of Transportation's *Publication 9* to ensure that allocations are received during the first week in March.

During our current examination we noted that the municipality complied with the fourth bulleted recommendation. However, the municipality did not comply with the first and fifth bulleted recommendations (See Finding No. 2 and Finding No 3). Additionally, the second and third bulleted recommendations related to a vendor overcharge and an overpayment to a vendor. Although we did not test internal controls, we did not discover any vendor overcharges or overpayments to vendors during our current examination.

BOROUGH OF WATTSBURG
ERIE COUNTY
LIQUID FUELS TAX FUND
SUMMARY OF EXIT CONFERENCE
FOR THE PERIOD
JANUARY 1, 2016 TO DECEMBER 31, 2017

An exit conference was held May 1, 2018. Those participating were:

BOROUGH OF WATTSBURG

Mrs. Rosella E. Fenno, Secretary/Treasurer
The Honorable Jennie Murphy, Vice-President of Council

DEPARTMENT OF THE AUDITOR GENERAL

Ms. Ortenzia M. Keller, Audit Supervisor

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

BOROUGH OF WATTSBURG
ERIE COUNTY
LIQUID FUELS TAX FUND
REPORT DISTRIBUTION
FOR THE PERIOD
JANUARY 1, 2016 TO DECEMBER 31, 2017

This report was initially distributed to:

The Honorable Leslie Richards
Secretary
Department of Transportation

Borough of Wattsburg
Erie County
P.O. Box 136
14431 Main Street
Wattsburg, PA 16442

The Honorable Jeffrey Bayle
President of Council

Mrs. Rosella E. Fenno
Secretary/Treasurer

The Honorable Jennie Murphy
Vice-President of Council

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.