

ATTESTATION ENGAGEMENT

Township of Wells
Fulton County, Pennsylvania
29-211
Liquid Fuels Tax Fund
For the Period
January 1, 2016 to December 31, 2019

November 2020



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

Yassmin Gramian, P.E.
Acting Secretary
Department of Transportation
Harrisburg, PA 17120

We examined the accompanying Forms MS-965 With Adjustments for the Liquid Fuels Tax Fund of the Township of Wells, Fulton County, for the period January 1, 2016 to December 31, 2019. The municipality's management is responsible for presenting the Forms MS-965 in accordance with the criteria described in the Background section of this report and the Department of Transportation's *Publication 9*. Our responsibility is to express an opinion on the Forms MS-965 With Adjustments based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether the Forms MS-965 are presented in accordance with the criteria described above, in all material respects. An examination involves performing procedures to obtain evidence about the Forms MS-965. The nature, timing and extent of the procedures selected depend on our judgement, including an assessment of the risks of material misstatement of the Forms MS-965, whether due to fraud or error. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

We are mandated by Section 403 of *The Fiscal Code*, 72 P.S. § 403, to audit each municipality's Liquid Fuels Tax Fund to ensure that funds received are expended in accordance with applicable laws and regulations. *Government Auditing Standards* issued by the Comptroller General of the United States include attestation engagements as a separate type of audit. An attestation engagement performed pursuant to *Government Auditing Standards* involves additional standards that exceed the standards provided by the American Institute of Certified Public Accountants. Accordingly, this attestation engagement complies with both *Government Auditing Standards* and Section 403 of *The Fiscal Code*.

Independent Auditor's Report (Continued)

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

As discussed in the Findings And Recommendations section of this report:

- The township expended a total of \$44,488.31 during 2018 and 2019 from its Liquid Fuels Tax Fund for construction project No. 18-28211-001. This amount consisted of \$27,693.63 for 9.5MM Superpave and \$16,794.68 for labor to place the material. The township did not advertise and bid for the labor (see Finding No. 1).
- The municipality transferred \$3,283.00 and \$4,889.00 from its Liquid Fuels Tax Fund to its General Fund on November 5, 2019, for payroll tax expenditures incurred in 2017 and 2018, respectively, which are retroactive expenditures (see Finding No. 2).
- The municipality expended \$7,017.21 from its Liquid Fuels Tax Fund in excess of the amount available for the purchase of equipment for 2018. The municipality reimbursed \$7,017.21 to its Liquid Fuels Tax Fund on June 24, 2020, which was subsequent to our examination period (see Finding No. 3).
- The municipality expended \$921.62 from its Liquid Fuels Tax Fund in excess of the approved amount for road construction project No. 18-28211-001. The municipality reimbursed \$921.62 to its Liquid Fuels Tax Fund on September 23, 2020, which was subsequent to our examination period (see Finding No. 4).

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 Township of Wells, Fulton County, for the period January 1, 2016 to December 31, 2019, in accordance with the criteria described in the Background section of this report and the Department of Transportation's *Publication 9*.

In accordance with *Government Auditing Standards*, we are required to report all deficiencies that are considered to be significant deficiencies or material weaknesses in internal control; fraud and noncompliance with provisions of laws or regulations that have a material effect on the Forms MS-965; and any other instances that warrant the attention of those charged with governance; noncompliance with provisions of contracts or grant agreements, and abuse that has a material effect on the Forms MS-965. We are also required to obtain and report the views of responsible officials concerning the findings, conclusions, and recommendations, as well as any planned corrective actions. We performed our examination to express an opinion on whether the Forms MS-965 are presented in accordance with the criteria described above and not for the purpose of expressing an opinion on internal control over reporting on the Forms MS-965 or on compliance and other matters; accordingly, we express no such opinions.

Independent Auditor's Report (Continued)

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Forms MS-965 will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over reporting on the Forms MS-965 was for the limited purpose of expressing an opinion on whether the Forms MS-965 are presented in accordance with the criteria described above and would not necessarily identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our engagement we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

As part of obtaining reasonable assurance about whether the Forms MS-965 are free from material misstatement, we performed tests of the Township of Wells, Fulton 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 instances of noncompliance that are required to be reported under *Government Auditing Standards*:

- Noncompliance With Advertising And Bidding Requirements
- Retroactive Expenditures
- Over Expended Equipment Purchase Tally
- Liquid Fuels Money Over Expended On Project

We also noted a matter that, while not required to be included in this report by *Government Auditing Standards*, has been included in the finding below:

- Late Receipt Of Allocations

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

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

October 15, 2020

Eugene A. DePasquale
Auditor General

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TOWNSHIP OF WELLS
FULTON COUNTY
LIQUID FUELS TAX FUND
BACKGROUND
FOR THE PERIOD
JANUARY 1, 2016 TO DECEMBER 31, 2019

Background

The Liquid Fuels Tax Municipal Allocation Law, Act 655 of 1956, as amended, (72 P.S. § 2615.5 et seq.), provides municipalities other than counties (townships, boroughs, cities, towns, home rule, and optional plan governments) with an annual allocation of liquid fuels taxes from the state's Motor License Fund to be used for the maintenance and repair of streets, roads, and bridges for which the municipality is responsible. The allocation of these funds to municipalities is based: (1) 50 percent on the municipality's proportion of local road mileage to the total local road mileage in the state, and (2) 50 percent on the proportion of a municipality's population to the total population in the state.

The Vehicle Code, Title 75 P.S. § 9511, provides municipalities with annual maintenance payments to be received from the Motor License Fund for functionally local highways that were transferred to a municipality from the Commonwealth of Pennsylvania.

Each municipality must deposit the allocation of Liquid Fuels Tax funds and annual maintenance payments that it receives into a special fund called either the Municipal Liquid Fuels Tax Fund or State Fund. A municipality may not deposit any other monies into this fund except when the municipality does not have enough money in the special fund to meet the payments called for by its current annual budget for road and bridge purposes. In such a case, the municipality may borrow money or transfer money from its General Fund to its Liquid Fuels Tax Fund.

The Department of Transportation has been given the regulatory authority for the administration of these funds. Department of Transportation's *Publication 9* includes the policies and procedures for the administration of Act 655, as amended, and the Liquid Fuels Tax Fund money. However, if there is a difference between *Publication 9* and any legislation, the legislation shall govern.

To qualify for the annual allocation of Liquid Fuels Tax funds, *Publication 9* indicates that each municipality shall:

1. Submit annual reports (MS-965, Actual Use Report, MS-965P, Project and Miscellaneous Receipts, and MS-965S, Record of Checks).
2. Make deposits and payments or expenditures in compliance with Act 655 of 1956, as amended. Failure to do so may result in not receiving allocations from PennDOT until all discrepancies are resolved. *Publication 9*, Section 2.6, includes information about investing Liquid Fuels Tax monies, using loan or bond proceeds, and types of receipts into the Liquid Fuels Tax Fund.

TOWNSHIP OF WELLS
 FULTON COUNTY
 LIQUID FUELS TAX FUND
 BACKGROUND
 FOR THE PERIOD
 JANUARY 1, 2016 TO DECEMBER 31, 2019

Background (Continued)

3. Submit the Pennsylvania Department of Community and Economic Development’s (DCED) Report of Elected and Appointed Officials by January 31st and the Survey of Financial Condition By March 15th.
4. Ensure resolution of all Contractor Responsibility Program (CRP) holds and blocks imposed by the Department of Revenue and the Department of Labor and Industry.
5. Ensure resolution of all reimbursements required as a result of audits performed by the Department of the Auditor General or monitoring reviews performed by the Department of Transportation’s Financial Consultants.

Criteria

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

Section 1 of Form MS-965 With Adjustments provides a summary of Liquid Fuels Tax Fund expenditures by category. Categories requiring explanation include:

- Major equipment purchases are purchases of road machinery and road equipment with varying yearly costs in excess of the amounts indicated below:

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

- Minor equipment purchases are purchases of road machinery and road equipment with varying yearly costs that are less than or equal to the amounts indicated below:

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

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

TOWNSHIP OF WELLS
FULTON COUNTY
LIQUID FUELS TAX FUND
BACKGROUND
FOR THE PERIOD
JANUARY 1, 2016 TO DECEMBER 31, 2019

Background (Continued)

Section 2 of Form MS-965 With Adjustments provides information on the fund balance. Categories requiring explanation include:

- The state allocation is available from the Department of Transportation in March of each year. The amount the municipality receives is based half on its population and half on its road mileage.
- Municipalities that transferred roads from the Commonwealth of Pennsylvania to the municipality through the Highway Transfer Program receive annual turnback allocations in March of each year from the Department of Transportation. Turnback allocations are based on the mileage of the roads transferred.
- Expenditures include the total transferred from Section 1.

Section 3 of Form MS-965 With Adjustments determines if the municipality expended Liquid Fuels Tax Fund money in excess of the permissible amount for equipment and the balance that the municipality may carry forward for the purchase of equipment to the subsequent year.

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

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

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

TOWNSHIP OF WELLS
FULTON COUNTY
LIQUID FUELS TAX FUND
BACKGROUND
FOR THE PERIOD
JANUARY 1, 2016 TO DECEMBER 31, 2019

Background (Continued)

Basis of Presentation

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

Basis Of Accounting

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

General Fixed Assets

General fixed assets are recognized as expenditures at the time of purchase. No depreciation has been provided on the heavy equipment used to maintain and repair roads and bridges.

TOWNSHIP OF WELLS
 FULTON COUNTY
 LIQUID FUELS TAX FUND
 2016 FORM MS-965 – SECTION 1
 WITH ADJUSTMENTS

<u>Expenditure Summary</u>	<u>Reported</u>	<u>Adjustments</u>	<u>Adjusted Amount</u>
Minor equipment purchases	\$ -	\$ -	\$ -
Computer/Computer related training	-	-	-
Major equipment purchases	-	6,000.00	6,000.00
Agility projects	-	-	-
Cleaning streets and gutters	-	-	-
Winter maintenance services	4,788.07	-	4,788.07
Traffic control devices	-	-	-
Street lighting	-	-	-
Storm sewers and drains	-	-	-
Repairs of tools and machinery	-	-	-
Maintenance and repair of roads and bridges	5,872.06	-	5,872.06
Highway construction and rebuilding projects	-	-	-
Miscellaneous	6,000.00	(6,000.00)	-
	<u>6,000.00</u>	<u>(6,000.00)</u>	<u>-</u>
 Total (To Section 2, Line 5)	 <u>\$ 16,660.13</u>	 <u>\$ -</u>	 <u>\$ 16,660.13</u>

TOWNSHIP OF WELLS
 FULTON 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	\$ 143,220.80	\$ -	\$ 143,220.80
Receipts:			
2. State allocation	35,105.31	-	35,105.31
2a. Turnback allocation	-	-	-
2b. Interest on investments	549.58	-	549.58
2c. Miscellaneous	-	-	-
3. Total receipts	<u>35,654.89</u>	<u>-</u>	<u>35,654.89</u>
4. Total funds available	<u>178,875.69</u>	<u>-</u>	<u>178,875.69</u>
5. Expenditures (Section 1)	<u>16,660.13</u>	<u>-</u>	<u>16,660.13</u>
6. Balance, December 31, 2016	<u><u>\$ 162,215.56</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 162,215.56</u></u>

TOWNSHIP OF WELLS
 FULTON 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	\$ 6,761.97	\$ -	\$ 6,761.97
2. Add: Current year equipment allocation (20% of Lines 2 + 2a, Section 2)	7,021.06	-	7,021.06
3. PENNDOT approved adjustments	<u>-</u>	<u>-</u>	<u>-</u>
4. Total funds available for equipment acquisition	13,783.03	-	13,783.03
5. Less: Major equipment expenditures	<u>-</u>	<u>6,000.00</u>	<u>6,000.00</u>
6. Remainder	<u>13,783.03</u>	<u>(6,000.00)</u>	<u>7,783.03</u>
7. Equipment balance available for subsequent year (Lesser of Line 6 or Section 2 balance, but not less than zero)	<u>\$ 13,783.03</u>	<u>\$ (6,000.00)</u>	<u>\$ 7,783.03</u>

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

<u>Expenditure Summary</u>	<u>Reported</u>	<u>Adjustments</u>	<u>Adjusted Amount</u>
Minor equipment purchases	\$ -	\$ -	\$ -
Computer/Computer related training	-	-	-
Major equipment purchases	11,071.74	-	11,071.74
Agility projects	-	-	-
Cleaning streets and gutters	-	-	-
Winter maintenance services	6,639.06	-	6,639.06
Traffic control devices	-	-	-
Street lighting	-	-	-
Storm sewers and drains	-	-	-
Repairs of tools and machinery	-	-	-
Maintenance and repair of roads and bridges	18,084.72	-	18,084.72
Highway construction and rebuilding projects	-	-	-
Miscellaneous	40.00	-	40.00
	<hr/>	<hr/>	<hr/>
Total (To Section 2, Line 5)	<u>\$ 35,835.52</u>	<u>\$ -</u>	<u>\$ 35,835.52</u>

TOWNSHIP OF WELLS
 FULTON 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	\$ 162,215.56	\$ -	\$ 162,215.56
Receipts:			
2. State allocation	36,716.18	-	36,716.18
2a. Turnback allocation	-	-	-
2b. Interest on investments	1,179.75	(8.85)	1,170.90
2c. Miscellaneous	-	-	-
3. Total receipts	<u>37,895.93</u>	<u>(8.85)</u>	<u>37,887.08</u>
4. Total funds available	<u>200,111.49</u>	<u>(8.85)</u>	<u>200,102.64</u>
5. Expenditures (Section 1)	<u>35,835.52</u>	<u>-</u>	<u>35,835.52</u>
6. Balance, December 31, 2017	<u><u>\$ 164,275.97</u></u>	<u><u>\$ (8.85)</u></u>	<u><u>\$ 164,267.12</u></u>

TOWNSHIP OF WELLS
 FULTON 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	\$ 13,783.03	\$ (6,000.00)	\$ 7,783.03
2. Add: Current year equipment allocation (20% of Lines 2 + 2a, Section 2)	7,343.24	-	7,343.24
3. PENNDOT approved adjustments	-	-	-
4. Total funds available for equipment acquisition	21,126.27	(6,000.00)	15,126.27
5. Less: Major equipment expenditures	11,071.74	-	11,071.74
6. Remainder	<u>10,054.53</u>	<u>(6,000.00)</u>	<u>4,054.53</u>
7. Equipment balance available for subsequent year (Lesser of Line 6 or Section 2 balance, but not less than zero)	<u>\$ 10,054.53</u>	<u>\$ (6,000.00)</u>	<u>\$ 4,054.53</u>

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

<u>Expenditure Summary</u>	<u>Reported</u>	<u>Adjustments</u>	<u>Adjusted Amount</u>
Minor equipment purchases	\$ -	\$ -	\$ -
Computer/Computer related training	-	-	-
Major equipment purchases	-	11,071.74	11,071.74
Agility projects	-	-	-
Cleaning streets and gutters	-	-	-
Winter maintenance services	5,200.50	-	5,200.50
Traffic control devices	-	-	-
Street lighting	-	-	-
Storm sewers and drains	-	-	-
Repairs of tools and machinery	-	-	-
Maintenance and repair of roads and bridges	57,076.93	(43,899.09)	13,177.84
Highway construction and rebuilding projects	-	43,590.97	43,590.97
Miscellaneous	11,119.74	(11,071.74)	48.00
	<u>11,119.74</u>	<u>(11,071.74)</u>	<u>48.00</u>
 Total (To Section 2, Line 5)	 <u>\$ 73,397.17</u>	 <u>\$ (308.12)</u>	 <u>\$ 73,089.05</u>

TOWNSHIP OF WELLS
 FULTON COUNTY
 LIQUID FUELS TAX FUND
 2018 FORM MS-965 – SECTION 2
 WITH ADJUSTMENTS

<u>Fund Balance</u>	<u>Reported</u>	<u>Adjustments</u>	<u>Adjusted Amount</u>
1. Balance, January 1, 2018	\$ 164,275.97	\$ (8.85)	\$ 164,267.12
Receipts:			
2. State allocation	-	-	-
2a. Turnback allocation	-	-	-
2b. Interest on investments	1,149.41	-	1,149.41
2c. Miscellaneous	1,843.24	-	1,843.24
3. Total receipts	<u>2,992.65</u>	<u>-</u>	<u>2,992.65</u>
4. Total funds available	<u>167,268.62</u>	<u>(8.85)</u>	<u>167,259.77</u>
5. Expenditures (Section 1)	<u>73,397.17</u>	<u>(308.12)</u>	<u>73,089.05</u>
6. Balance, December 31, 2018	<u><u>\$ 93,871.45</u></u>	<u><u>\$ 299.27</u></u>	<u><u>\$ 94,170.72</u></u>

TOWNSHIP OF WELLS
 FULTON COUNTY
 LIQUID FUELS TAX FUND
 2018 FORM MS-965 – SECTION 3
 WITH ADJUSTMENTS

<u>Equipment Balance</u>	<u>Reported</u>	<u>Adjustments</u>	<u>Adjusted Amount</u>
1. Prior year equipment balance	\$ 10,054.53	\$ (6,000.00)	\$ 4,054.53
2. Add: Current year equipment allocation (20% of Lines 2 + 2a, Section 2)	-	-	-
3. PENNDOT approved adjustments	-	-	-
4. Total funds available for equipment acquisition	10,054.53	(6,000.00)	4,054.53
5. Less: Major equipment expenditures	-	11,071.74	11,071.74
6. Remainder	<u>10,054.53</u>	<u>(17,071.74)</u>	<u>(7,017.21)</u>
7. Equipment balance available for subsequent year (Lesser of Line 6 or Section 2 balance, but not less than zero)	<u>\$ 10,054.53</u>	<u>\$ (10,054.53)</u>	<u>\$ -</u>

TOWNSHIP OF WELLS
 FULTON COUNTY
 LIQUID FUELS TAX FUND
 2019 FORM MS-965 – SECTION 1
 WITH ADJUSTMENTS

<u>Expenditure Summary</u>	<u>Reported</u>	<u>Adjustments</u>	<u>Adjusted Amount</u>
Minor equipment purchases	\$ -	\$ -	\$ -
Computer/Computer related training	-	-	-
Major equipment purchases	7,800.00	-	7,800.00
Agility projects	-	-	-
Cleaning streets and gutters	-	-	-
Winter maintenance services	9,903.15	-	9,903.15
Traffic control devices	-	-	-
Street lighting	-	-	-
Storm sewers and drains	-	-	-
Repairs of tools and machinery	-	-	-
Maintenance and repair of roads and bridges	19,320.45	(4,691.83)	14,628.62
Highway construction and rebuilding projects	-	8,397.34	8,397.34
Miscellaneous	11,925.51	(3,705.51)	8,220.00
	<u>11,925.51</u>	<u>(3,705.51)</u>	<u>8,220.00</u>
 Total (To Section 2, Line 5)	 <u>\$ 48,949.11</u>	 <u>\$ -</u>	 <u>\$ 48,949.11</u>

TOWNSHIP OF WELLS
 FULTON COUNTY
 LIQUID FUELS TAX FUND
 2019 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, 2019	\$ 93,871.45	\$ 299.27	\$ 94,170.72
Receipts:			
2. State allocation	77,863.49	-	77,863.49
2a. Turnback allocation	-	-	-
2b. Interest on investments	1,202.10	-	1,202.10
2c. Miscellaneous	-	-	-
3. Total receipts	<u>79,065.59</u>	<u>-</u>	<u>79,065.59</u>
4. Total funds available	<u>172,937.04</u>	<u>299.27</u>	<u>173,236.31</u>
5. Expenditures (Section 1)	<u>48,949.11</u>	<u>-</u>	<u>48,949.11</u>
6. Balance, December 31, 2019	<u><u>\$ 123,987.93</u></u>	<u><u>\$ 299.27</u></u>	<u><u>\$ 124,287.20</u></u>

TOWNSHIP OF WELLS
 FULTON COUNTY
 LIQUID FUELS TAX FUND
 2019 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	\$ 10,054.53	\$ (10,054.53)	\$ -
2. Add: Current year equipment allocation (20% of Lines 2 + 2a, Section 2)	15,572.70	-	15,572.70
3. PENNDOT approved adjustments	-	-	-
4. Total funds available for equipment acquisition	25,627.23	(10,054.53)	15,572.70
5. Less: Major equipment expenditures	7,800.00	-	7,800.00
6. Remainder	<u>17,827.23</u>	<u>(10,054.53)</u>	<u>7,772.70</u>
7. Equipment balance available for subsequent year (Lesser of Line 6 or Section 2 balance, but not less than zero)	<u>\$ 17,827.23</u>	<u>\$ (10,054.53)</u>	<u>\$ 7,772.70</u>

TOWNSHIP OF WELLS
FULTON COUNTY
LIQUID FUELS TAX FUND
AUDITOR DESCRIPTION OF SELECT TRANSACTIONS
FOR THE PERIOD
JANUARY 1, 2016 TO DECEMBER 31, 2019

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

Adjustments

2016 - Section 1

Adjustments were made to “Major equipment purchases” and “Miscellaneous” because expenditures of \$6,000.00 were misclassified.

2016 - Section 3

An adjustment of \$6,000.00 was made to “Major equipment expenditures” to reflect the adjustment made to major equipment purchases in 2016 - Section 1.

2017 - Section 2

An adjustment of \$(8.85) was made to “Interest on investments” because interest earnings were overstated.

2017 - Section 3

An adjustment of \$(6,000.00) was made to “Prior year equipment balance” to reflect the adjustment made to the equipment balance in 2016 - Section 3.

2018 - Section 1

Adjustments were made to “Major equipment purchases” and “Miscellaneous” because expenditures of \$11,071.74 were misclassified.

An adjustment of \$(43,899.09) was made to “Maintenance and repair of roads and bridges” because expenditures of \$43,590.97 for highway construction and rebuilding projects were misclassified, and check No. 260 for \$308.12 was voided, but was included as an expenditure.

An adjustment of \$43,590.97 was made to “Highway construction and rebuilding projects” because these expenditures were misclassified as maintenance and repair of roads and bridges.

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Adjustments (Continued)

2018 - Section 2

An adjustment of \$(8.85) was made to "Balance, January 1, 2018" to reflect the adjustment made to the fund balance in 2017 - Section 2.

2018 - Section 3

An adjustment of \$(6,000.00) was made to "Prior year equipment balance" to reflect the adjustment made to the equipment balance in 2017 - Section 3.

An adjustment of \$11,071.74 was made to "Major equipment expenditures" to reflect the adjustment made to major equipment purchases in 2018 - Section 1.

2019 - Section 1

Adjustments were made to "Maintenance and repair of roads and bridges," "Highway construction and rebuilding projects," and "Miscellaneous" because expenditures of \$8,397.34 were misclassified.

2019 - Section 2

An adjustment of \$299.27 was made to "Balance, January 1, 2019" to reflect the adjustment made to the equipment balance in 2018 - Section 2.

2019 - Section 3

An adjustment of \$(10,054.53) was made to "Prior year equipment balance" to reflect the adjustment made to the equipment balance in 2018 - Section 3.

Miscellaneous Receipt

On April, 26, 2018, the municipality deposited \$1,843.24 into its Liquid Fuels Tax Fund that was received from Fulton County for county aid.

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Miscellaneous Expenditures

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

<u>Payee</u>	<u>Description</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Financial Institution	Bank service charges	\$40.00	\$48.00	\$ 48.00
General Fund	Payroll taxes (see Finding No. 2)	-	-	8,172.00
Totals		<u>\$40.00</u>	<u>\$48.00</u>	<u>\$8,220.00</u>

Lease-Purchase Agreement

On February 18, 2013, the municipality entered into a lease-purchase agreement with Susquehanna Municipal Finance to purchase a 2012 Ford Super duty truck for \$58,991.26. The agreement was for a term of six years at an interest rate of 5.50 percent. Principal and interest payments of \$11,091.74 are due annually. Prior years' principal and interest payments from the Liquid Fuels Tax Fund were \$8,034.17 and \$1,965.83, respectively. Additionally, the municipality paid principal of \$20,812.53 and interest of \$2,402.69 from the General Fund.

During the current examination period, the municipality paid principal of \$26,583.53 and interest of \$1,559.95 from the Liquid Fuels Tax Fund. These amounts are reflected in major equipment purchases on the 2016, 2017, and 2018 Forms MS-965 - Section 1. Additionally, the municipality paid principal of \$3,561.03 and interest of \$1,510.71 from the General Fund. The lease-purchase agreement was paid-in-full on February 2, 2018.

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Lease-Purchase Agreement

On October 15, 2018, the municipality entered into a lease-purchase agreement with First National Bank of Pennsylvania to purchase a New Holland skid-loader for \$27,777.00. The agreement was for a term of five years at an interest rate of 3.50 percent. Principal and interest payments of \$505.95 are due monthly.

During the current examination period, the municipality paid principal of \$7,800.00 from the Liquid Fuels Tax Fund. This amount is reflected in major equipment purchases on the 2019 Form MS-965 - Section 1. Additionally, the municipality paid principal of \$6,048.37 and interest of \$1,034.93 from the General Fund. The outstanding balance of the lease-purchase agreement as of December 31, 2019, was \$13,928.63, plus interest.

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Finding No. 1 - Noncompliance With Advertising And Bidding Requirements

Our examination disclosed that the township expended \$36,090.97 from its Liquid Fuels Tax Fund during 2018 for 9.5mm Superpave. In addition, the township expended \$8,397.34 during 2018 and \$8,397.34 during 2019 from its Liquid Fuels Tax Fund for labor to apply the Superpave. Because the labor was required to apply the Superpave and the total cost of the Superpave and labor was over \$20,100.00, both the Superpave and the labor were required to be advertised and bid. The township purchased the Superpave material off the COSTARS contract; however, the labor was not advertised and bid.

The above expenditure for labor was not made in compliance with the advertising, bidding, and contract requirements of *The Second Class Township Code*, 53 P.S. § 68102(a), (also found at § 3102(a) of *The Second Class Township Code* as published by the Local Government Commission), which requires that purchases over \$18,500.00 during 2012 must be advertised, bid, and awarded by contract. The bidding threshold increased to purchases over \$19,400.00 for 2015 and 2016, \$19,700 for 2017, \$20,100.00 for 2018, and \$20,600.00 for 2019. *The Second Class Township Code*, 53 P.S. § 68104(a), (also found at § 3104(a) of *The Second Class Township Code* as published by the Local Government Commission) further states that advertising, bidding and contract requirements should not be evaded through piecemeal purchases.

The failure to comply with *The Second Class Township Code* could result in the township having to reimburse \$16,794.68 to its Liquid Fuels Tax Fund.

Recommendations

We recommend that the township reimburse \$16,794.68 to its Liquid Fuels Tax Fund upon official notification by the Department of Transportation.

We further recommend that, in the future, the township complies with *The Second Class Township Code* as noted in this finding.

Management's Response

The secretary/treasurer stated:

This was a miscommunication between our PENNDOT representative and our supervisors.

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Finding No. 1 - Noncompliance With Advertising And Bidding Requirements (Continued)

Auditor's Conclusion

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

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Finding No. 2 - Retroactive Expenditures

Our examination disclosed that the municipality transferred \$3,283.00 and \$4,889.00 from its Liquid Fuels Tax Fund to its General Fund on November 5, 2019, for the reimbursement of payroll tax expenditures incurred from 2017 and 2018, respectively, which are retroactive expenditures.

The Department of Transportation's *Publication 9* contains the policies and procedures for the administration of the Liquid Fuels Tax Fund. *Publication 9*, Chapter Two, Section 2.7.2, states, in relevant part:

Examples of what Liquid Fuels Tax Fund monies may not be expended for are:

16. Retroactive expenditures or repayment of other funds for prior period expenditures.

Because these expenditures were paid from the General Fund during 2017 and 2018, and were not reimbursed with Liquid Fuels Tax Fund money until November 5, 2019, the expenditures incurred were not reimbursed in a reasonable period of time. Therefore, the municipality did not comply with the Department of Transportation's *Publication 9*.

The failure to follow the Department of Transportation's *Publication 9* as noted above could result in the municipality having to reimburse \$8,172.00 to its Liquid Fuels Tax Fund.

Recommendations

We recommend that the municipality reimburse \$8,172.00 to its Liquid Fuels Tax Fund upon official notification by the Department of Transportation.

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

Management's Response

The secretary/treasurer stated:

This was simply a late payment. I was not aware that this would create a "finding."

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Finding No. 2 - Retroactive Expenditures (Continued)

Auditor's Conclusion

The municipal officials should review regulations regarding retroactive expenditures included in the Department of Transportation's *Publication 9* and implement procedures to ensure that this condition does not occur in the future. During our next examination, we will determine if the municipality complied with our recommendations.

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Finding No. 3 - Over Expended Equipment Purchase Tally

Our examination disclosed that the municipality expended \$7,017.21 from its Liquid Fuels Tax Fund in excess of the amount available for the purchase of equipment for 2018, as follows:

<u>2018</u>	<u>Actual</u>
1. Prior year equipment balance	\$ 4,054.53
2. Current year equipment allocation (20% of Lines 2 + 2A, Section 2)	-
3. PENNDOT approved adjustments	<u>-</u>
4. Total funds available for equipment acquisition	4,054.53
5. Less: Major equipment purchases	<u>11,071.74</u>
6. Amount Over Expended for equipment	<u><u>\$(7,017.21)</u></u>

The Department of Transportation's, *Publication 9*, Appendix D, Section 449.11, 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, 20 percent of the current year's Liquid Fuels Tax Fund allocations, and any approved adjustments.

The municipality reimbursed \$7,017.21 to its Liquid Fuels Tax Fund on June 24, 2020, which was subsequent to our examination period.

Recommendation

We recommend that the municipality only expend up to the approved amount on equipment expenditures in accordance with the Department of Transportation's *Publication 9*.

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Finding No. 3 - Over Expended Equipment Purchase Tally (Continued)

Management's Response

The secretary/treasurer stated:

Since the distribution of 2018's Liquid Fuels Tax Fund allocation was not received until the beginning of 2019, the amount available for the purchase of equipment was not available in 2018. The \$7,017.21 has been repaid to the Wells Township State Fund.

Auditor's Conclusion

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

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Finding No. 4 - Liquid Fuels Money Over Expended On Project

Our examination disclosed that the municipality expended \$44,488.31 of Liquid Fuels Tax Fund money on construction project No. 18-29211-001. However, the amount of Liquid Fuels Tax Fund money approved by the Department of Transportation to be expended from the Liquid Fuels Tax Fund for this project was \$43,566.69. The difference of \$921.62 should have been paid directly from the General Fund.

The Department of Transportation's Regulations do not permit a municipality to expend Liquid Fuels Tax Fund money in excess of the amount approved on Municipal Services Completion Report Form MS-999.

The municipality reimbursed \$921.62 to its Liquid Fuels Tax Fund on September 23, 2020, which was subsequent to our examination period.

Recommendation

We recommend that, in the future, the municipality expend only the approved amount of Liquid Fuels Tax Fund money on road construction projects.

Management's Response

The secretary/treasurer stated:

The \$921.62 was deposited into the General Fund and was still there at the time of the audit. It has now been deposited into the Wells Township State Fund.

Auditor's Conclusion

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

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Finding No. 5 - Late Receipt Of Allocations

Our examination disclosed that the 2017, 2018, and 2019 Liquid Fuels Tax Fund allocations of \$36,716.18, \$38,482.28, and \$39,381.21, 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 August 11, 2017, January 24, 2019, and October 30, 2019, 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.
- 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.

Because the municipality failed to file documents and information timely as noted above, the municipality did not have use of the 2017 allocation for more than five months, the 2018 allocation for more than ten months, and the 2019 allocation for more than seven months. 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.

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Finding No. 5 - Late Receipt Of Allocations (Continued)

Recommendation

We 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 secretary/treasurer stated:

The distribution of these funds was due to various reasons, one being a glitch in the submission. However, this issue actually caused the issue in Finding #3. Since the distribution of 2018's Liquid Fuels Tax Fund allocation was not received until the beginning of 2019, the amount available for the purchase of equipment was not available in 2018. The \$7,017.21 has been repaid to the Wells Township State Fund.

Auditor's Conclusion

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

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SUMMARY OF EXIT CONFERENCE
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An exit conference was held September 4, 2020. Those participating were:

TOWNSHIP OF WELLS

Ms. Connie L. Barnett, Secretary/Treasurer

DEPARTMENT OF THE AUDITOR GENERAL

Ms. Tammy Fleisher, Audit Supervisor

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

TOWNSHIP OF WELLS
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REPORT DISTRIBUTION
FOR THE PERIOD
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This report was initially distributed to:

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

Township of Wells
Fulton County
891 Enid Road
Wells Tannery, PA 16691

The Honorable Carl D. Souders
Chairman of the Board of Supervisors

Ms. Connie L. Barnett
Secretary/Treasurer

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