

ATTESTATION ENGAGEMENT

Township of East Mahoning

Indiana County, Pennsylvania

32-211

Liquid Fuels Tax Fund

For the Period

January 1, 2017 to December 31, 2018

June 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 East Mahoning, Indiana County, for the period January 1, 2017 to December 31, 2018. The municipality's management is responsible for presenting the Forms MS-965 in accordance with the criteria 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)

In our opinion, 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 East Mahoning, Indiana County, for the period January 1, 2017 to December 31, 2018, 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.

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:

- Authorized Check Signers Are Related - Recurring.
- Failure To Properly Prepare Forms MS-965.

Independent Auditor's Report (Continued)

As part of obtaining reasonable assurance about whether the Forms MS-965 are free from material misstatement, we performed tests of the Township of East Mahoning, Indiana County's compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of amounts on the Forms MS-965. However, providing an opinion on compliance with those provisions was not an objective of our engagement, and accordingly, we do not express such an opinion. The results of our tests disclosed the following instances of noncompliance that are required to be reported under *Government Auditing Standards*:

- Restrictive Bidding.
- Related Party Transactions.

The examination finding for related authorized check signers cites a condition that existed in the operation of the municipality during the previous engagement period and was 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.

We appreciate the courtesy extended by the Township of East Mahoning, Indiana County, to us during the course of our examination. If you have any questions, please feel free to contact the Bureau of County Audits at 717-787-1363.



Eugene A. DePasquale
Auditor General

May 13, 2020

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

Background

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

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

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

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

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

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

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

Background (Continued)

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

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

<u>Expenditure Summary</u>	<u>Reported</u>	<u>Adjustments (Finding No.2)</u>	<u>Adjusted Amount</u>
Minor equipment purchases	\$ -	\$ -	\$ -
Computer/Computer related training	-	-	-
Major equipment purchases	34,500.00	-	34,500.00
Agility projects	-	-	-
Cleaning streets and gutters	-	-	-
Winter maintenance services	23,091.41	1,314.88	24,406.29
Traffic control devices	-	-	-
Street lighting	-	-	-
Storm sewers and drains	-	-	-
Repairs of tools and machinery	922.08	-	922.08
Maintenance and repair of roads and bridges	176,843.28	(57,189.90)	119,653.38
Highway construction and rebuilding projects	-	54,169.62	54,169.62
Miscellaneous (Note 5)	163.52	2,950.85	3,114.37
 Total (To Section 2, Line 5)	 <u>\$ 235,520.29</u>	 <u>\$ 1,245.45</u>	 <u>\$ 236,765.74</u>

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

TOWNSHIP OF EAST MAHONING
INDIANA COUNTY
LIQUID FUELS TAX FUND
2017 FORM MS-965 – SECTION 2
WITH ADJUSTMENTS

<u>Fund Balance</u>	<u>Reported</u>	<u>Adjustments (Finding No.2)</u>	<u>Adjusted Amount</u>
1. Balance, January 1, 2017	\$ 177,258.30	\$ (123.77)	\$ 177,134.53
Receipts:			
2. State allocation	131,167.52	-	131,167.52
2a. Turnback allocation	108,400.00	-	108,400.00
2b. Interest on investments (Note 3)	1,339.25	-	1,339.25
2c. Miscellaneous (Note 4)	36,574.12	-	36,574.12
3. Total receipts	<u>277,480.89</u>	<u>-</u>	<u>277,480.89</u>
4. Total funds available	<u>454,739.19</u>	<u>(123.77)</u>	<u>454,615.42</u>
5. Expenditures (Section 1)	<u>235,520.29</u>	<u>1,245.45</u>	<u>236,765.74</u>
6. Balance, December 31, 2017	<u><u>\$ 219,218.90</u></u>	<u><u>\$ (1,369.22)</u></u>	<u><u>\$ 217,849.68</u></u>

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

TOWNSHIP OF EAST MAHONING
INDIANA COUNTY
LIQUID FUELS TAX FUND
2017 FORM MS-965 – SECTION 3
WITH ADJUSTMENTS

<u>Equipment Balance</u>	<u>Reported</u>	<u>Adjustments (Finding No.2)</u>	<u>Adjusted Amount</u>
1. Prior year equipment balance	\$ 177,258.30	\$ (123.77)	\$ 177,134.53
2. Add: Current year equipment allocation (20% of Lines 2 + 2a, Section 2)	47,913.50	-	47,913.50
3. PENNDOT approved adjustments	<u>-</u>	<u>34,000.00</u>	<u>34,000.00</u>
4. Total funds available for equipment acquisition	225,171.80	33,876.23	259,048.03
5. Less: Major equipment expenditures	<u>34,500.00</u>	<u>-</u>	<u>34,500.00</u>
6. Remainder	<u>190,671.80</u>	<u>33,876.23</u>	<u>224,548.03</u>
7. Equipment balance available for subsequent year (Lesser of Line 6 or Section 2 balance, but not less than zero)	<u>\$ 190,671.80</u>	<u>\$ 27,177.88</u>	<u>\$ 217,849.68</u>

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

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

<u>Expenditure Summary</u>	<u>Reported</u>	<u>Adjustments (Finding No.2)</u>	<u>Adjusted Amount</u>
Minor equipment purchases	\$ -	\$ -	\$ -
Computer/Computer related training	-	-	-
Major equipment purchases	-	-	-
Agility projects	-	-	-
Cleaning streets and gutters	-	-	-
Winter maintenance services	19,623.96	9.80	19,633.76
Traffic control devices	-	-	-
Street lighting	-	-	-
Storm sewers and drains	-	-	-
Repairs of tools and machinery	8,420.02	-	8,420.02
Maintenance and repair of roads and bridges	162,248.25	(3,815.32)	158,432.93
Highway construction and rebuilding projects	118,339.99	-	118,339.99
Miscellaneous (Note 5)	54,010.00	3,186.71	57,196.71
	<u>54,010.00</u>	<u>3,186.71</u>	<u>57,196.71</u>
 Total (To Section 2, Line 5)	 <u>\$ 362,642.22</u>	 <u>\$ (618.81)</u>	 <u>\$ 362,023.41</u>

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

TOWNSHIP OF EAST MAHONING
INDIANA COUNTY
LIQUID FUELS TAX FUND
2018 FORM MS-965 – SECTION 2
WITH ADJUSTMENTS

<u>Fund Balance</u>	<u>Reported</u>	<u>Adjustments (Finding No.2)</u>	<u>Adjusted Amount</u>
1. Balance, January 1, 2018	\$ 219,095.13	\$ (1,245.45)	\$ 217,849.68
Receipts:			
2. State allocation	137,464.13	-	137,464.13
2a. Turnback allocation	108,400.00	-	108,400.00
2b. Interest on investments (Note 3)	1,656.09	-	1,656.09
2c. Miscellaneous (Note 4)	21,327.79	-	21,327.79
3. Total receipts	<u>268,848.01</u>	<u>-</u>	<u>268,848.01</u>
4. Total funds available	<u>487,943.14</u>	<u>(1,245.45)</u>	<u>486,697.69</u>
5. Expenditures (Section 1)	<u>362,642.22</u>	<u>(618.81)</u>	<u>362,023.41</u>
6. Balance, December 31, 2018	<u>\$ 125,300.92</u>	<u>\$ (626.64)</u>	<u>\$ 124,674.28</u>

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

TOWNSHIP OF EAST MAHONING
INDIANA COUNTY
LIQUID FUELS TAX FUND
2018 FORM MS-965 – SECTION 3
WITH ADJUSTMENTS

<u>Equipment Balance</u>	<u>Reported</u>	<u>Adjustments (Finding No.2)</u>	<u>Adjusted Amount</u>
1. Prior year equipment balance	\$ 190,548.03	\$ 27,301.65	\$ 217,849.68
2. Add: Current year equipment allocation (20% of Lines 2 + 2a, Section 2)	49,172.83	-	49,172.83
3. PENNDOT approved adjustments	-	-	-
4. Total funds available for equipment acquisition	239,720.86	27,301.65	267,022.51
5. Less: Major equipment expenditures	-	-	-
6. Remainder	<u>239,720.86</u>	<u>27,301.65</u>	<u>267,022.51</u>
7. Equipment balance available for subsequent year (Lesser of Line 6 or Section 2 balance, but not less than zero)	<u>\$ 125,300.92</u>	<u>\$ (626.64)</u>	<u>\$ 124,674.28</u>

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

TOWNSHIP OF EAST MAHONING
INDIANA COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE PERIOD
JANUARY 1, 2017 TO DECEMBER 31, 2018

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:

2014	2015/2016	2017	2018
\$10,300.00	\$10,500.00	\$10,700.00	\$10,900.00

- 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:

2014	2015/2016	2017	2018
\$10,300.00	\$10,500.00	\$10,700.00	\$10,900.00

- 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.

TOWNSHIP OF EAST MAHONING
INDIANA COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE PERIOD
JANUARY 1, 2017 TO DECEMBER 31, 2018

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.

TOWNSHIP OF EAST MAHONING
INDIANA COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE PERIOD
JANUARY 1, 2017 TO DECEMBER 31, 2018

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 Second Class Township Code, Title 53 P.S. § 68204, authorizes the township to deposit its funds in the following:

- Deposits in savings accounts or time deposits, other than certificates of deposit or share accounts, of institutions having their principal place of business in the Commonwealth of Pennsylvania and insured by the Federal Deposit Insurance Corporation (FDIC) or other like insurance. For any amount above the insured maximum, the depository shall pledge approved collateral.
- Certificates of deposit purchased from institutions insured by the FDIC or other like insurance to the extent that such accounts are so insured. For any amounts in excess of the insured maximum, such deposits shall be collateralized by a pledge or assignment of assets. Certificates of deposit may not exceed 20 percent of a bank's total capital surplus or 20 percent of a savings and loan's or savings bank's assets minus liabilities.

Deposits consist of receipts and deposits in a financial institution. Pennsylvania statutes require all deposits to be insured and, for any amount above the insured maximum, to be secured with approved collateral as defined.

There were no deposits exposed to custodial credit risk as of December 31, 2018. 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.

TOWNSHIP OF EAST MAHONING
INDIANA COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE PERIOD
JANUARY 1, 2017 TO DECEMBER 31, 2018

2. Deposits (Continued)

Fund Balance

The fund balance as of December 31, 2018, consists of the following:

Cash	\$ 64,669.79
Certificate of deposit	60,004.49
Total	\$124,674.28

3. Interest On Investments

Our examination disclosed that the municipality deposited idle liquid fuels tax money in an interest-bearing account and a certificate of deposit which earned \$1,339.25 during 2017 and \$1,656.09 during 2018, thus providing additional funds for road maintenance and repairs.

4. Miscellaneous Receipts

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

Source	Description	2017	2018
General Fund	Reimbursement (Finding No. 3)	\$34,000.00	\$ -
Commonwealth of Pennsylvania	Winter maintenance agreement	2,574.12	-
General Fund	Reimbursements (Note 6)	-	5,975.91
General Fund	Reimbursement (Summary Of Prior Examination Recommendations)	-	15,351.88
Totals		\$36,574.12	\$21,327.79

TOWNSHIP OF EAST MAHONING
INDIANA COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE PERIOD
JANUARY 1, 2017 TO DECEMBER 31, 2018

5. 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>
Vendor	Duplicate payments (Note 6)	\$3,114.37	\$ 2,861.54
Financial Institution	Bank service charges	-	325.17
Grant Township	Bonding of road	-	54,010.00
Totals		<u>\$3,114.37</u>	<u>\$57,196.71</u>

6. Duplicate Payment Of Invoices

On December 5, 2017, and April 3, 2018, the municipality expended \$3,114.37, and \$2,861.54, respectively, from the Liquid Fuel Tax Fund to pay a vendor for aggregates. However, the amounts of the invoices were already paid-in-full to the vendor on November 8, 2017, and March 6, 2018, respectively. The municipality deposited \$3,114.37 on January 31, 2018, and \$2,861.54 on May 31, 2018, into its Liquid Fuels Tax Fund that was received from the vendor to correct the duplicate payment of invoices.

7. Road Bond

On August 17, 2018 the township expended \$54,000.00 to bond Nashville and East Creek Roads, which are located in Grant Township. The bond was required by Grant Township because East Mahoning's trucks would exceed the posted weight limit as they traveled to and from the Rowe Road project site. On January 8, 2019, which was subsequent to our current examination period, \$54,000.00 was deposited into the Liquid Fuels Tax Fund.

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

Finding No. 1 - Authorized Check Signers Are Related - Recurring

We cited the municipality for having related authorized check signers in our prior report for the period January 1, 2015 to December 31, 2016. Our current examination disclosed that only two signatures are required to authenticate Liquid Fuels Tax Fund checks. Out of the four authorized signers, two of the signers are a supervisor and the secretary/treasurer, who are son and mother.

Good internal control procedures ensure that at least two unrelated persons are authorized to sign checks drawn on the Liquid Fuels Tax Fund.

Without this control, the risk of unauthorized disbursements, errors, or irregularities occurring and remaining undetected increases significantly.

Recommendation

We again recommend that the municipality improve internal control procedures over disbursements by requiring at least two signatures of unrelated municipal officials on all disbursements from the Liquid Fuels Tax Fund account.

Management's Response

The secretary/treasurer stated:

Even though my son is an authorized signer, he does not sign the checks with me.

Auditor's Conclusion

Although the secretary/treasurer's son does not sign checks, he is authorized to do so and could sign checks. During our next examination we will determine if the municipality complied with our recommendation.

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

Finding No. 2 - Failure To Properly Prepare Forms MS-965

Our examination disclosed that there were numerous errors made in the preparation of the municipality's 2017 and 2018 Forms MS-965. These errors resulted in the following adjustments:

2017 - Section 1

- An adjustment of \$1,314.88 was made to "Winter maintenance services" because check No. 7032 was reported as \$922.08 but was issued for \$902.08, check No. 7035 was reported as \$485.69 but was issued for \$485.64, and check No. 7148 for \$1,334.93 was not reported.
- An adjustment of \$(57,189.90) was made to "Maintenance and repair of roads and bridges" because five checks were reported incorrectly resulting in an understatement of \$.16, check No. 7141 in the amount of \$69.59 was voided but included as an expenditure, expenditures of \$163.52 for maintenance and repair of roads and bridges were misclassified as miscellaneous, construction expenditures of \$54,169.62 were misclassified, and miscellaneous expenditures of \$3,114.37 were misclassified.
- An adjustment of \$54,169.62 was made to "Highway construction and rebuilding projects" because these expenditures were misclassified as maintenance and repair of roads and bridges.
- An adjustment of \$2,950.85 was made to "Miscellaneous" because maintenance and repair of roads and bridges expenditures of \$163.52 were misclassified as miscellaneous, and miscellaneous expenditures of \$3,114.37 were misclassified as maintenance and repair of roads and bridges.

2017 - Section 2

- An adjustment of \$(123.77) was made to "Balance, January 1, 2017" because of prior report adjustments that were not carried forward in the fund balance.

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

Finding No. 2 - Failure To Properly Prepare Forms MS-965 (Continued)

2017 - Section 3

- An adjustment of \$(123.77) was made to “Prior year equipment balance” because of prior report adjustments that were not carried forward in the equipment balance.
- An adjustment of \$34,000.00 was made to “PENNDOT approved adjustments” because a reimbursement for a truck purchase was not reported as an approved adjustment.

2018 - Section 1

- An adjustment of \$9.80 was made to “Winter maintenance services” because check No. 7283 was reported as \$903.53 but was issued for \$903.33, and check No. 7284 was reported as \$121.75 but was issued for \$131.75.
- An adjustment of \$(3,815.32) was made to “Maintenance and repair of roads and bridges” because nine checks were misstated resulting in an overstatement of \$953.78 and miscellaneous expenditures of \$2,861.54 were misclassified.
- An adjustment of \$3,186.71 was made to “Miscellaneous” because bank service charges of \$325.17 were not reported and expenditures of \$2,861.54 were misclassified as maintenance.

2018 - Section 2

- An adjustment of \$(1,245.45) was made to “Balance, January 1, 2018” because an incorrect fund balance was carried forward.

2018 - Section 3

- An adjustment of \$27,301.65 was made to “Prior year equipment balance” because an incorrect fund balance was carried forward.

Good internal controls ensure that the municipality completes its Forms MS-965 accurately and completely. The failure to properly complete Forms MS-965 increases the risk that errors or misappropriations may occur and remain undetected.

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

Finding No. 2 - Failure To Properly Prepare Forms MS-965 (Continued)

Recommendation

We recommend that the municipality ensure that its Forms MS-965 are complete and accurate.

Management's Response

The secretary/treasurer stated:

In the future, I will try and correct any mistakes before submitting, and do a better job.

Auditor's Conclusion

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

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

Finding No. 3 - Restrictive Bidding

Our examination disclosed that on July, 5, 2017, the municipality expended \$34,500.00 from the Liquid Fuels Tax Fund for a 2006 International Navistar 7500 Tandem truck. On August 11, 2017, the municipality reimbursed \$34,000.00 to the Liquid Fuels Tax Fund from the General Fund. The advertisement for this purchase requested sealed proposals for a 2006 or newer International 7400 Tandem HT-570 diesel truck. International is a Brand name. The use of Brand names in advertising for equipment without including the words “or its equivalent” is considered restrictive bidding, and therefore, is prohibited by the Department of Transportation’s *Publication 9*, § 449.3(f), which states:

Brand names. In advertising for equipment to be rented or purchased, or for materials to be purchased or delivered in place, it is unlawful to require or specify any particular make or brand thereof, thereby excluding other makes or brands; however, a particular brand name or its equivalent may be specified if equal consideration is given to all brands which are reasonably similar to the specified brand. Such specifications must be reasonable and not merely imposed in order to exclude some brands of equipment or material in favor of other brands.

The failure to follow the Department of Transportation’s *Publication 9* as noted above could result in the municipality having to reimburse \$500.00 to its Liquid Fuels Tax Fund.

Recommendations

We recommend that the municipality reimburse \$500.00 to its Liquid Fuels Tax Fund upon official notification by the Department of Transportation.

We further recommend that, in the future, the municipality follow with the Department of Transportation’s *Publication 9* if it uses brand names in future advertisements for purchases as cited above.

Management’s Response

The municipal officials stated:

The municipality paid back \$34,000.00 to Liquid Fuels Fund. The municipality was short \$500.00. If necessary, the municipality will pay the balance back. Money was to buy a truck that was bid out.

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

Finding No. 3 - Restrictive Bidding (Continued)

Auditor's Conclusion

Although the municipality advertised and bid for the truck, it used a brand name in the advertisement. The Department of Transportation's *Publication 9* prohibits the use of Brand names when advertising for bids. During our next examination we will determine if the municipality complied with our recommendations.

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

Finding No. 4 - Related Party Transactions

Our examination disclosed that the township expended \$16,660.00 during 2018 from the Liquid Fuels Tax Fund for the hauling of stone that was done by a business owned by a township supervisor. Due to the township supervisor's financial interest in the company that provided services and the lack of an open and public award process, this contract appears to violate *The Second Class Township Code* and The Public Official and Employee Ethics Act. Therefore, it should not have been entered into by the township.

The Second Class Township Code, 53 P.S. § 68102(i), as amended, states, in part:

No township official, either elected or appointed, or township employee who knows, or who by the exercise of reasonable diligence could know, shall be interested to any appreciable degree, either directly or indirectly, in any contract for the sale or furnishing of any supplies or materials for the use of the township or for any work to be done for such township involving the expenditure by the township of more than five hundred dollars (\$500.00) in any year unless the contract is awarded through the public bid process. This limitation does not apply if the officer or appointee of the township is an employee of the person, firm or corporations to which the money is to be paid in a capacity with no possible influence on the transaction and the officer cannot possibly be benefited thereby, either financially or otherwise. If a supervisor is within this exception, the supervisor shall so inform the board of supervisors and refrain from voting on the payments and shall in no manner participate in the contract. . . .

This information is also published in § 3102(i) of *The Second Class Township Code* as published by the Local Government Commission.

The Public Official and Employee Ethics Act ("Ethics Act"), 65 P.S. 1103(f), states, in part:

No public official or public employee or his spouse or child or any business in which the person or his spouse or child is associated shall enter into any contract valued at \$500 or more with the governmental body with which the public official or public employee is associated or any subcontract valued at \$500 or more with any person who has been awarded a contract with the governmental body with which the public official or public employee is associated, unless the contract has been awarded through an open and public process, including prior public notice and subsequent public disclosure of all proposals considered and contracts awarded. In such a case, the public official or public employee shall not have any supervisory or overall responsibility for the implementation or administration of the contract.

TOWNSHIP OF EAST MAHONING
INDIANA COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
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Finding No. 4 - Related Party Transactions (Continued)

Because this contract violates *The Second Class Township Code* and the Ethics Act, the township could be required by the Pennsylvania Department of Transportation to reimburse \$16,660.00 to its Liquid Fuels Tax Fund.

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

Recommendations

We recommend that the township reimburse \$16,660.00 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* and the Ethics Act.

Management's Response

The secretary/treasurer stated:

We used the related party after bidding three times and getting no bids. We needed to start the road project and he was the only one available.

Auditor's Conclusion

Because this expenditure was paid to a related party and was not awarded through a public bidding process, it appears to violate *The Second Class Township Code* and the Ethics Act. During our next examination we will determine if the township complied with our recommendations.

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

Summary Of Prior Examination Recommendation

In our prior report we recommended that the Department of Transportation review our examination findings to determine if the municipality should reimburse \$15,351.88 to its Liquid Fuels Tax Fund. This amount consists of \$14,915.98 for failing to maintain documentation to support payroll expenditures and \$435.90 for nonpermissible expenditures.

During our current examination we reviewed a letter dated April 3, 2018, from the Department of Transportation directing the municipality to reimburse \$15,351.88 to its Liquid Fuels Tax Fund. We noted that the municipality reimbursed this amount to its Liquid Fuels Tax Fund on June 6, 2018.

In our prior report we also recommended that the municipality:

- Ensure good internal control over payroll by maintaining daily time sheets that identify the nature of work performed and the location of work assignments.
- Improve internal control procedures over disbursements by requiring at least two signatures of unrelated municipal officials on all disbursements from the Liquid Fuels Tax Fund account.
- Comply with the Liquid Fuels Tax Municipal Allocation Law and the Department of Transportation's Regulations regarding permissible expenditures.

During our current examination we noted that the municipality complied with the first and third bulleted recommendation but did not comply with the second bulleted recommendation (see Finding No. 1).

TOWNSHIP OF EAST MAHONING
INDIANA COUNTY
LIQUID FUELS TAX FUND
SUMMARY OF EXIT CONFERENCE
FOR THE PERIOD
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An exit conference was held February 12, 2020. Those participating were:

TOWNSHIP OF EAST MAHONING

Mrs. Bertha Ackerson, Secretary/Treasurer

DEPARTMENT OF THE AUDITOR GENERAL

Mrs. Oldriska Hoch, Auditor

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

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

This report was initially distributed to:

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Acting Secretary
Department of Transportation

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Indiana County
P.O. Box 164
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Marion Center, PA 15759-0164

The Honorable Patrick Ackerson
Chairman of the Board of Supervisors

The Honorable Chris Stewart
Supervisor

Mrs. Bertha Ackerson
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.