

ATTESTATION ENGAGEMENT

Borough of Everett
Bedford County, Pennsylvania
05-403
Liquid Fuels Tax Fund
For the Period
January 1, 2023 to December 31, 2023

January 2025



Commonwealth of Pennsylvania
Department of the Auditor General

Timothy L. DeFoor • Auditor General



Commonwealth of Pennsylvania
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TIMOTHY L. DEFOOR
AUDITOR GENERAL

Independent Auditor's Report

The Honorable Michael Carroll
Secretary
Department of Transportation
Harrisburg, PA 17120

We examined the accompanying Form MS-965 With Adjustments for the Liquid Fuels Tax Fund of the Borough of Everett, Bedford County, for the period January 1, 2023 to December 31, 2023. The municipality's management is responsible for presenting the Form 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 Form 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 Form MS-965 is presented in accordance with the criteria described above, in all material respects. An examination involves performing procedures to obtain evidence about the Form 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 Form 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 qualified opinion.

We are required to be independent and to meet our other ethical responsibilities in accordance with ethical requirements relating to the engagement.

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

Independent Auditor's Report (Continued)

In our opinion, the Form MS-965 With Adjustments presents, in all material respects, the information required by the Pennsylvania Department of Transportation for the Liquid Fuels Tax Fund of the Borough of Everett, Bedford County, for the period January 1, 2023 to December 31, 2023, 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 Form 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 Form 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 Form MS-965 is presented in accordance with the criteria described above and not for the purpose of expressing an opinion on the internal control over reporting on the Form MS-965 or on compliance and other matters; accordingly, we express no such opinions.

A 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 Form 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 was for the limited purpose of expressing an opinion on whether the Form MS-965 is 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. We did identify a certain deficiency in internal control, described in the finding listed below, that we consider to be a material weakness in internal control:

- Inadequate Internal Control Over The Facsimile Signature Stamp And Liquid Fuels Tax Fund Checks - Recurring.

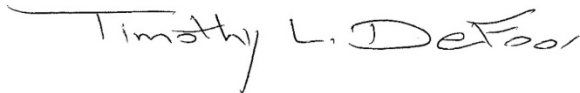
Independent Auditor's Report (Continued)

As part of obtaining reasonable assurance about whether the Form MS-965 is free from material misstatement, we performed tests of the Borough of Everett, Bedford 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 Form 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we did note 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 Allocation.

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 Borough of Everett, Bedford 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.



Timothy L. DeFoor
Auditor General
January 6, 2025

CONTENTS

	<u>Page</u>
Background.....	1
Financial Section:	
2023 Form MS-965 With Adjustments	5
Auditor Description Of Select Transactions.....	8
Findings And Recommendations:	
Finding No. 1 - Inadequate Internal Control Over The Facsimile Signature Stamp And Liquid Fuels Tax Fund Checks - Recurring	10
Finding No. 2 - Late Receipt Of Allocation	12
Summary Of Onsite Closeout Meeting.....	14
Report Distribution	15

BOROUGH OF EVERETT
BEDFORD COUNTY
LIQUID FUELS TAX FUND
BACKGROUND
FOR THE PERIOD
JANUARY 1, 2023 TO DECEMBER 31, 2023

Background

The Liquid Fuels Tax Municipal Allocation Law¹ provides municipalities other than counties (i.e., 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 upon: (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.

Section 9511 of Pennsylvania's Vehicle Code² 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.

¹ 72 P.S. § 2615.1 *et seq.* (Act 655 of 1956, as amended).

² 75 Pa.C.S. § 9511 (as last amended by Act 101 of 2016).

BOROUGH OF EVERETT
 BEDFORD COUNTY
 LIQUID FUELS TAX FUND
 BACKGROUND
 FOR THE PERIOD
 JANUARY 1, 2023 TO DECEMBER 31, 2023

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:

2020	2021	2022	2023
\$11,300.00	\$11,500.00	\$11,800.00	\$12,200.00

- 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:

2020	2021	2022	2023
\$11,300.00	\$11,500.00	\$11,800.00	\$12,200.00

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

BOROUGH OF EVERETT
BEDFORD COUNTY
LIQUID FUELS TAX FUND
BACKGROUND
FOR THE PERIOD
JANUARY 1, 2023 TO DECEMBER 31, 2023

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 received roads transferred 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.

BOROUGH OF EVERETT
BEDFORD COUNTY
LIQUID FUELS TAX FUND
BACKGROUND
FOR THE PERIOD
JANUARY 1, 2023 TO DECEMBER 31, 2023

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 maintaining, 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 pursuant to the Liquid Fuels Tax Act 655 of 1956 as amended. The MS-965 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.

BOROUGH OF EVERETT
BEDFORD COUNTY
LIQUID FUELS TAX FUND
2023 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	17,659.68	-	17,659.68
Agility projects	-	-	-
Cleaning streets and gutters	-	-	-
Winter maintenance services	24,154.25	-	24,154.25
Traffic control devices	8,219.71	281.55	8,501.26
Street lighting	14,179.90	-	14,179.90
Storm sewers and drains	1,608.02	-	1,608.02
Repairs of tools and machinery	1,276.00	-	1,276.00
Maintenance and repair of roads and bridges	28,563.62	-	28,563.62
Highway construction and rebuilding projects	-	-	-
Miscellaneous	136.06	-	136.06
 Total (To Section 2, Line 5)	 <u>\$ 95,797.24</u>	 <u>\$ 281.55</u>	 <u>\$ 96,078.79</u>

BOROUGH OF EVERETT
 BEDFORD COUNTY
 LIQUID FUELS TAX FUND
 2023 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, 2023	\$ 84,202.75	\$ (49.50)	\$ 84,153.25
Receipts:			
2. State allocation	65,790.44	-	65,790.44
2a. Turnback allocation	-	-	-
2b. Interest on investments	78.16	-	78.16
2c. Miscellaneous	-	-	-
3. Total receipts	<u>65,868.60</u>	<u>-</u>	<u>65,868.60</u>
4. Total funds available	<u>150,071.35</u>	<u>(49.50)</u>	<u>150,021.85</u>
5. Expenditures (Section 1)	<u>95,797.24</u>	<u>281.55</u>	<u>96,078.79</u>
6. Balance, December 31, 2023	<u>\$ 54,274.11</u>	<u>\$ (331.05)</u>	<u>\$ 53,943.06</u>

BOROUGH OF EVERETT
 BEDFORD COUNTY
 LIQUID FUELS TAX FUND
 2023 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	\$ 23,729.66	\$ (6,966.25)	\$ 16,763.41
2. Add: Current year equipment allocation (20% of Lines 2 + 2a, Section 2)	13,158.09	-	13,158.09
3. PENNDOT approved adjustments	-	-	-
4. Total funds available for equipment acquisition	36,887.75	(6,966.25)	29,921.50
5. Less: Major equipment expenditures	17,659.68	-	17,659.68
6. Remainder	<u>19,228.07</u>	<u>(6,966.25)</u>	<u>12,261.82</u>
7. Equipment balance available for subsequent year (Lesser of Line 6 or Section 2 balance, but not less than zero)	<u>\$ 19,228.07</u>	<u>\$ (6,966.25)</u>	<u>\$ 12,261.82</u>

BOROUGH OF EVERETT
BEDFORD COUNTY
LIQUID FUELS TAX FUND
AUDITOR DESCRIPTION OF SELECT TRANSACTIONS
FOR THE PERIOD
JANUARY 1, 2023 TO DECEMBER 31, 2023

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

Adjustments

Section 1

An adjustment of \$281.55 was made to “Traffic control devices” because these expenditures were understated.

Section 2

An adjustment of \$(49.50) was made to “Balance, January 1, 2023” because of prior report adjustments that were not carried forward in the fund balance.

Section 3

An adjustment of \$(6,966.25) was made to “Prior year equipment balance” because of prior report adjustments that were not carried forward in the equipment balance.

Miscellaneous Expenditures

On May 31, 2023, the municipality expended \$136.06 from the Liquid Fuels Tax Fund for the purchase of checks.

Bank Loan

On September 8, 2005, the municipality borrowed \$337,436.05 from the Pennsylvania Infrastructure Investment Authority for project No. 05-05-403-02. The term of the loan was for 20 years at an interest rate of 1.0 percent. Principal and interest payments of \$1,551.15 were due monthly for the first 60 months. For the remaining 180 months, principal and interest payments of \$1,569.00 are due monthly. Prior years’ principal and interest payments from the Liquid Fuels Tax Fund were \$38,791.94 and \$7,742.56, respectively. Additionally, the municipality paid principal of \$235,599.45 and interest of \$29,026.05 from the General Fund.

During the current examination period, the municipality paid principal of \$18,195.42 and interest of \$632.58 from the General Fund. The outstanding balance of the loan as of December 31, 2023, was \$44,849.24, plus interest.

BOROUGH OF EVERETT
BEDFORD COUNTY
LIQUID FUELS TAX FUND
AUDITOR DESCRIPTION OF SELECT TRANSACTIONS
FOR THE PERIOD
JANUARY 1, 2023 TO DECEMBER 31, 2023

Bank Loan

On April 9, 2020, the municipality purchased a 2020 Isuzu street sweeper for \$172,525.00. The municipality made a down payment of \$27,500.00 from the Liquid Fuels Tax Fund. The municipality borrowed the remaining \$145,025.00 from Hometown Bank. The term of the loan was for ten years at an interest rate of 3.99 percent. Principal and interest payments of \$1,471.64 are due monthly. Prior years' principal and interest payments from the Liquid Fuels Tax Fund were \$33,137.87 and \$13,954.62, respectively.

During the current examination period, the municipality paid principal of \$13,377.81 and interest of \$4,281.87 from the Liquid Fuels Tax Fund. These amounts are reflected in major equipment purchases on the 2023 Form MS-965 - Section 1. The outstanding balance of the loan as of December 31, 2023, was \$98,509.32, plus interest.

BOROUGH OF EVERETT
BEDFORD COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2023 TO DECEMBER 31, 2023

Finding No. 1 - Inadequate Internal Control Over The Facsimile Signature Stamp And Liquid Fuels Tax Fund Checks - Recurring

We issued a finding in our prior report for the period January 1, 2022 to December 1, 2022 that disclosed the municipality used pre-signed computer generated checks and the secretary/treasurer had a signature stamp for one of the authorized signatures (President of Council). Our current examination disclosed that although the signature stamp was not used and the municipality stated it was destroyed, the municipality still used computer-generated pre-signed checks until November 2023.

Good internal control procedures require that checks be signed by two authorized signers only after the propriety of the expenditure has been determined and the payee, date, and amount to be paid has been confirmed. Additionally, prior to signing a check, the responsible municipal officials should require and compare the information with supporting documentation, such as invoices, contracts, etc. Without these controls, the risk that errors or misappropriations may occur and remain undetected increases significantly.

We were unable to determine why the municipality did not get two original signatures on all of the checks prior to November 2023.

Recommendations

We recommend that the municipality continue to maintain an adequate system of internal controls over disbursements.

Management's Response

The secretary stated:

We have resolved this issue by destroying the signature stamp.

BOROUGH OF EVERETT
BEDFORD COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2023 TO DECEMBER 31, 2023

**Finding No. 1 - Inadequate Internal Control Over The Facsimile Signature Stamp And
Liquid Fuels Tax Fund Checks - Recurring (Continued)**

Auditor's Conclusion

During our next examination, we will determine if the municipality continued to comply with our recommendations.

BOROUGH OF EVERETT
BEDFORD COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2023 TO DECEMBER 31, 2023

Finding No. 2 - Late Receipt Of Allocation

Our examination disclosed that the 2023 Liquid Fuels Tax Fund allocation of \$65,790.44, which should have been distributed from the Department of Transportation to the municipality during the first week of March of that year, was not received until July 6, 2023, 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 its Survey of Financial Condition timely, the municipality did not have use of the 2023 allocation for four months. Furthermore, had the allocation 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.

We noted that the municipality's 2024 Liquid Fuels Tax Fund allocation was received timely.

BOROUGH OF EVERETT
BEDFORD COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2023 TO DECEMBER 31, 2023

Finding No. 2 - Late Receipt Of Allocation (Continued)

Recommendation

We recommend that the municipality continue to comply 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 stated:

I don't know why it was late.

Auditor's Conclusion

During our next examination, we will determine if the municipality continued to comply with our recommendation.

BOROUGH OF EVERETT
BEDFORD COUNTY
LIQUID FUELS TAX FUND
SUMMARY OF ONSITE CLOSEOUT MEETING
FOR THE PERIOD
JANUARY 1, 2023 TO DECEMBER 31, 2023

An onsite closeout meeting was held August 6, 2024. Those participating were:

BOROUGH OF EVERETT

Ms. Ruth Bowman, Secretary

DEPARTMENT OF THE AUDITOR GENERAL

Michele Garman, CFE, Audit Supervisor

BOROUGH OF EVERETT
BEDFORD COUNTY
LIQUID FUELS TAX FUND
REPORT DISTRIBUTION
FOR THE PERIOD
JANUARY 1, 2023 TO DECEMBER 31, 2023

This report was initially distributed to:

The Honorable Michael Carroll
Secretary
Department of Transportation

Borough of Everett
Bedford County
100 Mechanic Street
Everett, PA 15537

The Honorable Harry Leonard
Mayor/Treasurer

The Honorable Charles Stone
President of Council

Ms. Ruth Bowman
Secretary

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.