

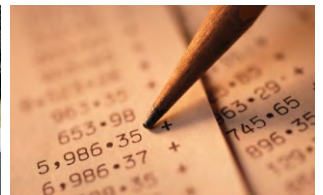


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GOVERNOR'S CENTER FOR
LOCAL GOVERNMENT SERVICES

Auditors Guide

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Auditors Guide

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I. Introduction

Purpose of Guide

Boroughs and townships are required by their codes to have an annual audit made by: (1) three elected auditors, or (2) an elected controller, or (3) under certain circumstances, certified public accountants or public accountants who may be appointed to make the audit instead of or in addition to the elected auditors. The elected auditor system is used almost exclusively in smaller townships and boroughs. This guide outlines what work auditors are expected and required to do. The Department set several goals in preparing the Guide:

1. To give direction and purpose to the elected auditors as they begin their audit task.
2. To acquaint elected auditors with their duties and responsibilities under the borough and township codes.
3. To outline the scope of an audit of a borough or township; to suggest programs for the audit of the various funds, and of the accounts of certain officials such as: tax collector, district justice and treasurer.
4. To offer instruction in the preparation of the uniform financial reports required to be filed with the Department of Community and Economic Development.

The Primary Purpose of Auditing

The auditor examines the accounting records and accounting practices of the organization or agency under review to enable him to express an informed opinion as to whether or not the balance sheet and the statement of revenues and expenditures prepared from the books and records present fairly the financial position and the results of operations of the municipality, and whether the municipality complied with applicable laws and regulations. The independent review by the auditor includes judgments as to facts, supporting evidence, and adherence to generally accepted accounting principles applied consistently from year to year.

In addition to these broad assignments, the auditor should be alert to possible irregularities and fraud, as well as weaknesses in internal control. It is important for the auditor to inform the responsible officials about such weaknesses when they are discovered.

Auditing Techniques

In fulfilling this primary purpose, the auditor generally obtains evidential material to form and support his conclusion on the financial statements. The auditor obtains the evidence in several ways:

1. **Analysis and Review.** A careful analysis and critical review of data presented by the municipality with a view to determining its reasonableness and reliability.
2. **Observation.** The auditor is present to observe how various procedures are being performed by the employees.
3. **Inspection.** The inspection of physical assets, such as securities, cash, inventories, as well as documents and other evidence supporting the figures in the accounting records.
4. **Confirmation.** Verify the correctness of the books under audit by direct advice from an individual, agency or company in a position to verify such items. The most common example of this technique is confirmation of bank balances directly with the bank or banks where the moneys are kept.

5. ***Inquiry.*** Secure information by discussing various transactions and other financial matters with officers and employees of the agency or organization under audit. The alert auditor will gain a better understanding of points not set forth clearly in the records or perhaps not disclosed in the books of account.

The Nature of Governmental Accounting

It is the purpose of governmental accounting to provide factual information concerning the financial operations of the governmental unit under consideration. This information constitutes an important tool in making plans, controlling, administering and reporting to interested parties. Some of those interested in the accounting results are:

- The administrative or managing staff
- The legislative body (borough council, board of commissioners or board of supervisors)
- Investors (those who purchase bonds issued by the municipality)
- The public and individual taxpayers
- State supervisory agencies
- Students of government and public finance

It should be emphasized that accounting is not a substitute for effective and efficient action on the part of the administrative staff and legislative body. Accounting is a means of facilitating such action.

Accounting — both commercial and governmental — is a systematic method whereby financial transactions are analyzed, classified, recorded in books of original entry and posted to general and subsidiary ledgers, trial balance summaries are compiled and, finally, financial statements are prepared. Financial or business transactions are exchanges of values measured in terms of money, that is, the receipt of money for taxes levied or the incurring and paying of an obligation for wages earned in cash. Transactions are evidenced by documents such as receipts, deposit tickets, checks, vouchers and contracts. Recording may be done by longhand pen and ink methods, bookkeeping machines, electronic data processing or by combinations of these methods.

For-profit accounting is designed to match revenues with corresponding expenses in the proper accounting period. The objective of governmental accounting, however, is to control and illustrate the proper authorization for expenditures. Because of this, governmental accounting has certain peculiar features:

1. ***Legal Requirements.*** Governmental accounting and finance for local units, such as boroughs and townships, are governed by the provisions of the borough and township codes, the uniform budget and financial report forms of the Department of Community and Economic Development and the debt and taxation limitations imposed by the Pennsylvania Constitution and the laws of the Commonwealth.
2. ***Legal Status of Budget.*** Statutory requirements also provide that a budget (which will control the expenditures for a given fiscal year) must be adopted by the legislative body. The budget must include revenue estimates as well as detailed classification of expenditures arranged in such form that it may be compared with actual revenues and expenditures set forth in the annual financial report.
3. ***Use of Funds.*** Governmental units have a number of purposes, activities, and agencies to deal with. The use of separate funds ensures that money is expended for the purpose for which the fund is established. The term fund has been defined by the National Committee on Governmental Accounting as “a sum of money or other resources segregated for the purpose of carrying on of specific activities and attaining certain objectives in accordance with special regulations, restrictions, or limitations and constituting an independent fiscal and accounting entity.”

This means each fund is a separately maintained, self-balancing set of books which is established for various specific reasons or activities. Each fund requires, in effect, a complete bookkeeping system.

There are three basic types of funds — governmental, proprietary, and fiduciary.

Governmental funds are used to account for the ongoing activities of governments. These activities usually are financed by general government revenues, such as taxes, license fees, grants, and entitlements. Governmental funds are generally accounted for on the modified accrual basis of accounting.

Proprietary funds are similar to ongoing businesses with operating expenses being met with current revenues. These funds are generally financed with user service charges and are accounted for on the accrual basis of accounting under ideal circumstances.

Fiduciary funds are used to account for situations where the governmental unit is acting as a trustee or agent for individuals or other governments. These funds may be maintained on the accrual or modified accrual basis of accounting. The funds most widely used in Pennsylvania local governmental units are:

- | | |
|---------------------------------|-------------------|
| • General Fund | Governmental Fund |
| • Special Revenue Funds | Governmental |
| • Capital Projects Funds | Governmental |
| • Utility Funds | Proprietary |
| • Special Assessment Bond Funds | Governmental |
| • Sinking Funds | Governmental |
| • Capital Reserve Funds | Governmental |
| • Highway Aid Fund | Governmental |
| • Agency and Trust Funds | Fiduciary |

These funds are explained in the Guide where the audit program is outlined for each.

Comparison of Commercial and Governmental Accounting

The same general principles and procedures are generally followed in the same manner as in commercial and governmental accounting. In the following respects the two types of accounting are similar:

- a. Transaction analysis, books of original entry and ledgers are similar in principle.
- b. A proper classification of accounts is essential to the preparation of financial statements.
- c. Uniform accounting terminology is very useful.

However, there are certain fundamental features which are peculiar to governmental accounting;

- a. The absence of the profit and loss motive in government.
- b. The use of budgets and funds within the accounting system.
- c. The legal requirements governing the operations of a local governmental unit.
- d. Depreciation of fixed assets, except possibly in the case of proprietary and fiduciary funds, is not used in governmental accounting.
- e. In Pennsylvania, uniform financial report and budget forms are mandated by law and provided by the Department of Community and Economic Development.

II. Powers and Duties of Office

Elected Auditors of Boroughs

Election and Compensation

In boroughs which have not established the office of controller, nor employed an independent auditor, three auditors are elected for a term of six years. One auditor is elected at each municipal election, providing for overlapping membership on the board.¹

Vacancies in the office of auditor are filled by borough council. If the vacancy is for more than two years, a new auditor is elected at the next municipal election coming at least 60 days after the vacancy occurs.²

Auditors may be paid between five and ten dollars per hour, as determined by council. No auditor in a borough with a population of 10,000 or less shall receive more than \$1,000 for completing the annual audit, settlement and adjustment. No auditor in a borough with a population in excess of 10,000 shall receive more than \$2,000. Each auditor shall be reimbursed for travel costs incurred in the performance of the auditing duties at a rate established by council; and for other actual expenses, including postage, notary fees or publication costs incurred during the audit.³

Organization

The auditors meet annually on the first Tuesday of January. They organize by electing a chair and a secretary.⁴ Two auditors constitute a quorum and may take official action as the board of auditors.⁵ However, a single auditor acting alone has no legal authority.⁶

The auditors may employ an attorney when deemed advisable by a majority of the board. The attorney's compensation is fixed by the auditors, but cannot exceed the sum payable to one auditor for making the annual audit, unless a greater compensation is allowed by council or the court in connection with any proceeding before it.⁷

Auditing, Adjusting and Settling Accounts

The auditors must audit, adjust and settle the accounts of the tax collector, district justice and all officers of the borough. They may also audit the accounts of any person, organization or agency receiving or spending borough funds.⁸

In addition to the annual audits after the end of the fiscal year, the auditors are also required to audit and report to the borough council on the accounts of every officer upon their death, resignation or removal from office.⁹

Witnesses; Documents

Auditors may compel the attendance of witnesses, administer oaths, petition the court to issue subpoenas to persons refusing to testify, authorize the payment of witnesses and settle accounts where witnesses do not appear.¹⁰ Auditors have the right to compel borough officials to appear at meetings with books, vouchers and papers for audit.¹¹ In a case where certain members of borough council refused to answer questions on the grounds that such answers might incriminate, and other parts of their testimony were confusing and evasive, the court held they must be surcharged. Whether other council members were guilty of such negligence as to be surcharged had to be determined by elimination, keeping in mind that they could not be absolved by ignorance nor relieved from the effects of mere carelessness or error.¹²

Audit Report

Each year, auditors must prepare a report containing an audit of the accounts of the last fiscal year. It must show a complete statement of the financial condition of the borough, including details of indebtedness, value of taxable property and a listing of the assets of the borough.

The report is to be prepared within 90 days after the close of the fiscal year. Uniform forms for the report as mandated by law, are provided by the Department of Community and Economic Development. Copies of the report must be filed with the borough secretary, clerk of the court of common pleas and the Department of Community and Economic Development.

Reports filed with the Department should be sent to:

Governor's Center for Local Government Services
Department of Community and Economic Development
400 North Street, 4th Floor
Commonwealth Keystone Building
Harrisburg, PA 17120-0225

Instead of filing manually, auditors now have the option to file the Annual Audit and Financial Report electronically. For more information, turn to page 60.

Failure to file the report, on conviction in a summary proceeding, means a fine of five dollars for each day's delay in filing up to a total of \$200 for each auditor.¹³

The audit is to cover only the fiscal year immediately preceding. No action taken on prior years' accounts has any validity.¹⁴

The decision of the auditors in prior years' reports is conclusive if it has not been challenged during the appeal period.

An auditors' report is final and conclusive when it is filed. It cannot be opened for correction of errors or additional inquiry into by auditors.¹⁵ An auditors' report cannot be reopened because the auditors had been unfamiliar with certain technical and legal requirements and had discovered new facts.¹⁶

Surcharges

The amount of any balance or shortage, or any expenditure made in a manner prohibited or not authorized by law, which causes a financial loss to the borough, must be surcharged against any officer responsible for the balance or shortage, or who by vote, act or neglect, has permitted or approved the expenditure. No elected or appointed officer is to be surcharged in excess of the actual financial loss sustained by the borough, based on the differing results produced by the act, error or omission and those produced had the procedure been strictly according to law.

The limits on the amount of surcharge do not apply to cases involving fraud or collusion on the part of officers nor to any penalty payable to the Commonwealth.¹⁷ Any official knowingly and willfully acting contrary to law in any matter involving any financial transaction can be found guilty of a misdemeanor, subject to a fine not exceeding \$100 and his office being declared vacant.¹⁸

In making a surcharge, the auditors must name an individual. An attempted surcharge against borough council as a body was disallowed by the court.¹⁹ Surcharge can be made where officials permitted or approved unauthorized expenditures from the borough treasury, causing a financial loss to the borough.²⁰ This includes council members who, by their vote, had authorized an illegal expenditure or, knowing it was illegal, neglected to inform council as a whole.²¹ This does not apply to council members who commit honest errors of judgment in discharge of their duties.

Procedures to Complete Audit

All orders, vouchers and certificates of indebtedness which have been marked paid must be canceled by the auditors by writing or stamping the word “audited” on their face.²²

Within ten days after the audit is completed, the auditors must publish a concise financial statement in at least one newspaper of general circulation in the borough. The statement is to include:

- The balance in the treasury at the beginning of the year
- All revenues received by major classifications
- All expenditures by major functions
- The current resources and liabilities of the borough at the end of the fiscal year
- The gross liability and net debt of the borough
- The assessed valuation of the borough
- The assets of the borough and their description
- The date of the last maturity of each form of funded debt and the assets in each sinking fund²³

Appeals from Audit

The report of the auditors may be appealed by the borough, by any taxpayer of the borough, or by any officer whose account has been settled. Appeals must be taken to the court of common pleas within 40 days of the date of filing of the report with the clerk.²⁴ The remedy provided in the Borough Code for judicial review of the report of borough auditors by appeal to the court of common pleas is the exclusive remedy under law.²⁵ Under the Borough Code, if a taxpayer believes that members of council have violated the Borough Code in authorizing the purchase of goods and services, the sole remedy is for the taxpayer to appeal the report of the borough auditors within the 40-day period after filing.²⁶

Appeals by taxpayers or officers require a \$1,000 bond and security to prosecute auditors' and pay all costs if a more favorable decision is not achieved.²⁷ When council members appealed an auditors' surcharge and lost, they were required to pay all costs.²⁸ In any proceeding on appeal, the accounts of any surcharged officer or organization may be examined again, but the burden is upon the surcharged party to establish credits claimed against the amount due. The opposing party may use findings in the auditors' report as prima facie evidence against the surcharged officer or organization.²⁹ In an appeal from a report of the borough auditors, the burden is placed on the public officers to establish the propriety of all expenditures made by them.³⁰ Several appeals may be combined into a single proceeding.

After a hearing, the court files its findings of fact and law and enters judgment. Exceptions to the court's decision may be appealed to the appellate court. Balances due to the borough in the account of any officer constitute a surcharge, and the amount is entered as a judgment by the prothonotary, if there is no appeal.³¹

Penalties Imposed on Auditors

In a case of neglect or refusal of any auditor to comply with the Borough Code requirements, the auditor is liable to a fine of not more than \$100 or, in default of the fine and costs, to be imprisoned for not more than ten days.³² Auditors cannot be sued to recover embezzled funds lost due to inadequate audits over several years. They are protected by governmental immunity. The appropriate remedy for negligent performance by auditors are the penalties provided in Section 1054 of the Borough Code.³³

References

1. 53 P.S. 45831; Borough Code, Section 831.
2. 53 P.S. 45901; Borough Code, Section 901.
3. 53 P.S. 46053; Borough Code, Section 1053.
4. 53 P.S. 46041(a); Borough Code, Section 1041(a).

5. 1 PA C.S.A. 1905; *In re Borough of Rankin*, 31 A.2d 543, 347 Pa.40, 1943.
6. *Hoffacker v. Hanover Borough*, 25 Dist. 960, (1916).
7. 53 P.S. 40652; Borough Code, Section 1052.
8. 53 P.S. 46041(b); Borough Code, Section 1041(b).
9. 53 P.S. 40641(g) Borough Code, Section 1041(g).
10. 53 P.S. 46055 to 46059; Borough Code, Section 1055 to 1059.
11. *Petition of Auditors of Borough of Nuangola*, 34 Luz. L. Reg. Rep. 321, 1941.
12. *Appeal from Auditors' Report, Dupont Borough*, 38 Luz. L. Reg. Rep. 281, 1946.
13. 53 P.S. 46041(d); Borough Code, Section 1041(d).
14. *Auditor's Report*, 20 Lack., 295, 11 Mun. 129, 1919.
15. *Steelton Borough v. Detweiler*, 26 Dauph. 270, 1923.
16. *Bond v. Fernandez*, 66 D.&C.2d. 494, 33 Beaver 199, 1974.
17. 53 P.S. 46041(c); Borough Code, Section 1041(c).
18. 53 P.S. 46041(e); Borough Code, Section 1041(e).
19. *Appeal of Baden Auditors' Report*, 20 Beaver 141, 50 Mun. 190, 1959.
20. *In re Borough of Rankin*, 31 A, 2d 543, 347 Pa. 40, 1943.
21. *Appeal of William*, 29 Mun. 177, 86 P.L.J. 241, 1938.
22. 53 P.S. 46042; Borough Code, Section 1042.
23. 53 P.S. 46043; Borough Code, Section 1043.
24. 53 P.S. 46044; Borough Code, Section 1044.
25. *In re Annual Audit of Borough of Turtle Creek*, 163 A. 2d 876, 401 Pa. 201, 1960.
26. *Gribble v. Miller*, 284 A 2d. 825, 3 Pa. Cmwlth. 520, 1971.
27. 53 P.S. 46045; Borough Code, Section 1045.
28. *In re Baden Auditors Report*, 21 Beaver 128, 1960.
29. 53 P.S. 46047; Borough Code, Section 1047.
30. *Appeal from Statement of Audit of Finances of Borough of Monaca*, 35 Mun. 111, 1944.
31. 53 P.S. 46049,46050,46051; Borough Code, Sections 1049, 1050 and 1051.
32. 53 P.S. 46054; Borough Code, Section 1054.
33. *Borough of West Fairview v. Hess*, 568 A. 2d 709, 150 Pa. Cmwlth. 385, 1989.

Elected Controllers Of Boroughs

Establishing Office

Borough council may establish the office of controller by enacting an ordinance. Upon petition, the court of common pleas appoints a controller to hold office until the first Monday of January after the next municipal election, when a controller is elected.¹ The controller is elected to a four-year term.

Qualifications

The Borough Code requires the controller to be a competent accountant.² The court has ruled that this requirement is “directory” and not “mandatory” and a matter for the voters themselves to decide.³ The controller must be a registered voter of the borough for at least four years prior to his election. The court has held that this requirement is mandatory and the controller must have resided in the borough for at least four years immediately prior to the election.⁴

The controller must take an oath to perform the duties of office with fidelity and a loyalty oath. The controller must give bond to the borough with a surety company approved by council. The amount of the bond is set by ordinance and must be sufficient to protect the borough from any illegal or unfaithful action by the controller. The premium is paid by the borough.⁵ In a court case the report of a controller who had been elected to office, but whose bond had not been approved by borough council, was voided by the court.⁶

Salary

Borough council must fix the annual salary of the controller, but may not increase or decrease this salary more often than once in two years.⁷

Auditing and Settling of Accounts

The controller has all the power and performs all the duties vested in the elected auditors. The annual audit must be filed and published in the same manner as required of auditors. The accounts of all borough officers and departments authorized to receive and disburse public moneys must be audited.⁸

In the making of any audit or settlement, the controller has the same power to require the attendance of witnesses and the production of books and papers as given to auditors.⁹ A borough controller whose term has ended has full power to compel attendance of witnesses and production of books and documents in making the final audit of borough accounts for the year preceding the expiration of his term.¹⁰

Appeals may be made from the controller's settlements and audits as shown in the report to the court of common pleas, subject to the same procedures as apply to elected auditors of the borough.¹¹

Supervising Borough Finances

In addition to the auditing function, the borough controller reviews the daily financial transactions of the borough. The controller countersigns each warrant drawn upon the borough treasurer, but only after determining it is properly due, made out to the right person, the goods or services purchased have been received and there are sufficient funds to pay for it in the appropriation.¹²

The controller may at any time require a statement from any borough officer of borough money or property in their control or possession. The controller has the power to verify bank accounts.¹³ Any irregularities discovered must be immediately reported to council.

The controller must keep a regular set of books showing all appropriations, all receipts and expenditures of borough officers, departments and agencies and all trust accounts of the borough.¹⁴

The controller has the power to suggest plans to council for the management and improvement of borough finances, as deemed expedient or at the direction of council.¹⁵

References

1. 53 P.S. 46071; Borough Code, Section 1071.
2. 53 P.S. 45841; Borough Code, Section 841.
3. *Com. ex rel. Adams v. Stephens*, 28 A. 2d 924, 345 Pa 436, 1942.
4. *Ibid.*
5. 53 P.S. 46061; Borough Code, Section 1061.
6. *Controller's Report*, 83 Pitts. 245, 1934.
7. 53 P.S. 46062; Borough Code, Section 1062.
8. 53 P.S. 46063; Borough Code, Section 1063.
9. 53 P.S. 46064; Borough Code, Section 1064.
10. *Com. ex rel. Eagen v. Petrusefski*, 12 A. 2d 3, 338 Pa. 278, 1940.
11. 53 P.S. 46070; Borough Code, Section 1070.
12. 53 P.S. 46065, 46066, 46067; Borough Code, Section 1065, 1066 and 1067.
13. 53 P.S. 46063; Borough Code, Section 1063.
14. 53 P.S. 46069; Borough Code, Section 1069.
15. 53 P.S. 46068; Borough Code, Section 1068.

Independent Auditor For Boroughs

Appointment

By an ordinance passed by a two-thirds vote of the entire number of council members elected, council may create the office of independent auditor. Council annually appoints an independent auditor by resolution before the close of the fiscal year. The independent auditor must be a certified public accountant, a firm of certified public accountants, a competent public accountant or a competent firm of public accountants. When the office of independent auditor has been established, the office of elected auditors or controller is abolished. Those elected auditors or controllers still in office complete their terms, but do not make the annual audit.¹

Powers

The powers of the independent auditor are similar to those of the elected borough auditors.² This includes the responsibility to levy a surcharge against any officer responsible for any shortage or illegal expenditure uncovered in the audit.

The independent auditor shall annually examine, audit and settle all accounts and the audit shall consist of an examination in accordance with generally accepted auditing standards and shall include such tests of the accounting records and such other auditing procedures as he considers necessary.² The compensation of the independent auditor shall be determined by council and paid out of borough funds.³

References

1. 53 P.S. 46005(7); Borough Code, Section 1005(7).
2. 53 P.S. 46196(a); Borough Code, Section 1196(a).
3. 53 P.S. 46196(f); Borough Code, Section 1196(f).
4. 53 P.S. 46196, 46197, 46198, 46199; Borough Code, Sections 1196, 1197, 1198 and 1199.

Elected Auditors of First Class Townships

Election and Compensation

In townships of the first class which have not established the office of controller nor employed an independent auditor, three auditors are elected for a term of six years. One auditor is elected at each municipal election, providing for overlapping membership on the board.¹

Auditors must be registered voters of the township.² Auditors may not hold any other elective or appointive office.³ The office of party committeeman has been held incompatible with that of township auditor.⁴

Vacancies in the office of auditor are filled by the board of commissioners. If the vacancy is for more than two years, a new auditor is elected at the next municipal election coming at least 60 days after the vacancy occurs.⁵

Auditors are paid \$20 a day. A day consists of at least five hours employed in the duties of their office. In townships of less than 3,000 population, auditors must complete their audit in 20 days; in townships of more than 3,000, but less than 10,000, 30 days; in townships of 10,000 and more, 40 days.⁶

Organization

The auditors meet annually on the day following the organization meeting of the township commissioners. Two auditors constitute a quorum and may take official action as the board of auditors.⁷ A single auditor acting alone has no legal authority. The auditors may employ an attorney in case of a disagreement with any officials or boards they must audit. Before an attorney is employed, a reasonable effort to reach agreement

must be made, and notice must be given to the audited party. Compensation for the attorney is limited to \$30, unless an appeal is taken to court, in which case the court fixes additional compensation.⁸

Auditing, Adjusting and Settling Accounts

The auditors must audit, settle and adjust the accounts of the township commissioners, township treasurer, tax collector, secretary and other officers receiving and disbursing or authorizing the disbursement of township funds during the preceding fiscal year. The auditors audit the accounts of the district justice for the township to determine the amount of fines and costs paid or due to the township.⁹

The auditors must cancel all orders and vouchers presented to them which they find have been paid by writing the word “audited” on their face.¹⁰

The settlement of accounts of the treasurer and tax collector by the auditors includes accounting for all monies received and collected and for any credits against the funds collected, such as vouchers for money paid out as expenses connected with collection of township monies.¹¹

Witnesses; Documents

The auditors may issue subpoenas to obtain the attendance of officers and persons whose accounts they are auditing and any persons necessary to examine as witnesses. They may also compel the production of all books, vouchers and papers relative to such accounts. Auditors can administer oaths and affirmations to all persons appearing before them.¹²

All district justices must open and make available to the auditors their dockets, transcripts, records and all other official books or papers for the purpose of the audit.¹³

Surcharges

Any officer whose act or neglect has contributed to the financial loss of the township must be surcharged by the auditors with the amount of such loss.¹⁴ Any balance against any officer of the township will constitute a surcharge against the officer as fully as if expressly stated in the report to be a surcharge. Unless appealed, the auditors must direct the clerk of the court of common pleas to certify the amount of every balance or surcharge and the prothonotary must enter it as a judgment against the officer in favor of the township.¹⁵

In any case where the district justice charges a fine contrary to ordinances or to any act which makes the fine payable to the township, the auditors have the power to surcharge the justice any amount undercharged.¹⁶

Report; Publication

The auditors must complete their audit, settlement and adjustment within as short a time as possible. They file copies of the report with the secretary of the township, the clerk of court or prothonotary as provided by local rules of court and the Department of Community and Economic Development not later than 90 days after the close of the fiscal year.¹⁷ The court has ruled that this deadline is directory rather than mandatory. Failure to file within the prescribed time will not prevent reports from being valid.¹⁸

The audit report is final. Substantive changes cannot be made in the report after it is filed. Where a report was in substantive compliance with the law, the court allowed adding the prescribed oath and proof of publication within the 45-day appeal period.¹⁹

Within ten days after completion of their report, the auditors must publish a concise financial statement in a newspaper of general circulation in the township. The report must contain:

- The balance in the treasury at the beginning of the fiscal year;
- All revenues received by major classifications;

- All expenditures made by major functions;
- The current resources and liabilities of the township at the end of the year;
- The gross liability and net debt;
- The amount of the assessed valuation of the township;
- Details of township assets;
- The date of the last maturity of each form of debt;
- The assets of sinking funds.

The audit report and financial statement must be made on uniform forms mandated by law and provided by the Department of Community and Economic Development. They must be signed by all the auditors and the report must be verified by the oath of one of the auditors. Reports filed with the Department of Community and Economic Development should be sent to:

Governor’s Center for Local Government Services
 Department of Community and Economic Development
 400 North Street, 4th Floor
 Commonwealth Keystone Building
 Harrisburg, PA 17120-0225

Failure to file the report, on conviction in a summary proceeding, means a fine of five dollars for each auditor for each day’s delay in filing. All fines received are credited to the Commonwealth.²⁰

Appeals from Audit

The township, any registered voter or taxpayer, or any officer or person whose account is audited may appeal from the audit to the court of common pleas within 45 days after the settlement has been filed.²¹ The provision in the First Class Township Code is the exclusive statutory remedy for any challenge to an audit report.²²

Registered voters, taxpayers and officers appealing a report must post a bond to cover costs, if they fail to win a decision more favorable than the report. When more than one appeal is taken from a report, they may be consolidated and the court can frame an issue for trial. After a hearing, the court enters its judgment and assigns costs. Appeals may be taken to higher courts.²³

Penalty

Any auditor neglecting or refusing to comply with the provisions of the First Class Township Code is subject to a penalty of \$100 to be recovered by suit, instituted in the name of the township on the complaint of any taxpayer. The penalty is to be paid into the township treasury.²⁴ If any township officer refuses or neglects to perform his duties, one hundred citizens, owners of real estate residing in the township, may file a complaint with the court of common pleas. Upon a hearing of the proof that the facts alleged in the complaint are true, the court may declare the office vacant and appoint someone else to serve for the unexpired term.²⁵

References

1. 53 P.S. 55520; First Class Township Code, Section 520.
2. 53 P.S. 55501; First Class Township Code, Section 501.
3. 53 P.S. 55520; First Class Township Code, Section 520.
4. *In re Lower Chichester Twp. Auditor*, 23 D.&C.2d 176, 1982.
5. 53 P.S. 55530; First Class Township Code, Section 530.
6. 53 P.S. 56001; First Class Township Code, Section 1001.
7. *Ibid.*
8. 53 P.S. 56006; First Class Township Code, Section 1006.
9. 53 P.S. 56001; First Class Township Code, Section 1001.

10. 53 P.S. 56004; First Class Township Code, Section 1004.
11. *Skelton v. Lower Merion Twp.*, 178 Atl 387, 318 Pa. 356, 1935.
12. 53 P.S. 56002; First Class Township Code, Section 1002.
13. 53 P.S. 56001; First Class Township Code, Section 1001.
14. 53 P.S. 56003; First Class Township Code, Section 1003.
15. 53 P.S. 56007; First Class Township Code, Section 1007.
16. 53 P.S. 56001; First Class Township Code, Section 1001.
17. 53 P.S. 56003; First Class Township Code, Section 1003.
18. *In re Auditors' Report for Neville Twp, Allegheny County*, 70 A. 2d 379, 166 Pa. Super. 122, 1950.
19. *Ibid*
20. 53 P.S. 56003; First Class Township Code, Section 1003.
21. 53 P.S. 56009; First Class Township Code, Section 1009.
22. *Neville Twp.*, supra.
23. 53 P.S. 56010 through 56018; First Class Township Code, Section 1010 through 1018.
24. 53 P.S. 56005; First Class Township Code, Section 1005.
25. 53 P.S. 55604; First Class Township Code, Section 604.

Elected Controllers of First Class Townships

Establishing Office

The board of township commissioners may, by ordinance, establish the office of controller. When the office of controller is established, the office of township auditor is abolished. The court of common pleas, on petition of the commissioners, appoints a controller to hold office until the first Monday of January after the next municipal election, at which a controller is elected.¹ The controller is elected for a four-year term.

Qualifications

The controller must be a registered voter of the township and a competent accountant.² The First Class Township Code does not further define competency. However, a court held that a milk wagon driver-salesman whose sole experience in accounting was keeping his customers' accounts in a routebook was not a competent accountant within the meaning of the Code.³

The controller must take the oath required of township officers. The controller must give bond to the township in the amount of \$20,000 with a surety company approved by the board of commissioners.⁴

Salary

The salary of the controller is to be fixed by ordinance passed at least 30 days before the date of the election. The salary is not to exceed \$5,000.⁵

Auditing and Settling of Accounts

The controller has all the powers and performs all the duties vested in the elected auditors of a first class township. The annual report of the audit must be made and filed in the same manner required of auditors. All accounts in which the township is concerned must be examined, audited and settled by the controller. The controller must also audit and report on the account of any township officer upon their death, resignation, removal or the expiration of their term. The controller has the same power as auditors to require the attendance of witnesses and the production of books and papers.⁶ Appeals may be taken from the controller's audit report in the same manner as appeals from auditors' reports.⁷

Supervising Township Finances

In addition to the auditing function, the township controller monitors the daily financial transactions of the township. The controller countersigns each warrant drawn upon the township treasurer, but only after determining it is properly due, made out to the right person, the goods or services purchased have been received and there are sufficient funds to pay for it in the appropriation.⁸

The controller may at any time require a statement from any township officer of township money or property in their control or possession. The controller has the power to verify bank accounts. Any irregularities discovered must be immediately reported to the board of commissioners.⁹

The controller must keep a regular set of books showing all appropriations, all receipts and expenditures of township officers, departments and agencies, and all trust accounts of the township.¹⁰

The controller has the power to suggest plans to the board of commissioners for the management and improvement of township finances, as deemed expedient or at the direction of the board.¹¹

References

1. 53 P.S. 55526; First Class Township Code, Section 526.
2. 53 P.S. 55525; First Class Township Code, Section 525.
3. *Petition of Horton*, 11 D.&C.2d 706, 1959.
4. 53 P.S. 56101; First Class Township Code, Section 1101.
5. 53 P.S. 56102; First Class Township Code, Section 1102.
6. 53 P.S. 56103; First Class Township Code, Section 1103.
7. 53 P.S. 56109; First Class Township Code, Section 1109.
8. 53 P.S. 56104; First Class Township Code, Section 1104.
9. 53 P.S. 56103; First Class Township Code, Section 1103.
10. 53 P.S. 56108; First Class Township Code, Section 1108.
11. 53 P.S. 56107; First Class Township Code, Section 1107.

Independent Auditor for First Class Townships

Appointment

Instead of electing three auditors or a controller, a township may provide for the audit of its accounts by an independent auditor by ordinance. The auditor must be a certified public accountant, a firm of certified public accountants, a competent public accountant or a competent firm of public accountants. The independent auditor is appointed annually by resolution at least 30 days before the close of the fiscal year. When an independent auditor is appointed, the office of elected auditor is abolished. Compensation of the independent auditor is set by the board of commissioners.¹

Powers

The independent auditor has all the powers and must perform all the duties outlined in the First Class Township Code for elected auditors.²

References

1. 53 P.S. 55520; First Class Township Code, Section 520.
2. *Ibid.*

Elected Auditors of Second Class Townships

Election and Compensation

Each township of the second class elects three auditors.¹ At each municipal election, one auditor is elected to serve for a term of six years.² Auditors must be registered voters of the township.³ They may not be employed by the township or hold any other elective or appointive office in the township. Auditors must have resided continuously in the township for at least one year immediately prior to their election.⁴

Vacancies in the office of auditor are filled by the board of supervisors. The appointed successor serves until a new auditor is elected at the next municipal election coming at least 60 days after the vacancy occurs.⁵

Auditors taking office after August 15, 1999 are paid at the rate of \$10 for each hour necessarily employed in discharging their duties of office. An itemized listing of the dates, times, places and hours worked to perform the audit must be submitted to the township supervisors. In townships of less than 10,000 population, no auditor may receive more than \$1,000 for completing the audit. In townships of more than 10,000 population, the maximum amount that may be paid to any auditor is limited to \$2,000. In addition to amounts received for completing the annual audit, each auditor may receive compensation at the rate of \$10 per hour for auditing the accounts of any public official who handles public funds when a vacancy in office occurs. No more than 50 hours may be spent by each auditor in completing audits required because of vacancies in office. Each auditor is also reimbursed for necessary travel costs at rates as set by the township supervisors in accordance with the Uniform Mileage Fee Law. Other expenses including postage, notary fees, and publication costs related to the audit are also reimbursable.⁶

Organization

The auditors meet annually, at the place of meeting of the supervisors, on the day following the day fixed for the organization of township supervisors. They organize by electing a chair and a secretary. Two auditors constitute a quorum.⁷

The auditors may petition the court of common pleas to employ an attorney to represent them in cases of disagreement with any officials or boards they must audit. Before an attorney is employed, a reasonable effort to reach agreement must be made and notice must be given to the audited party. Compensation for the attorney is determined by agreement between the auditors and supervisors and is paid from the township general fund. If the dispute results in litigation, or if the auditors and supervisors cannot agree on the amount to be paid to the attorney, the attorney's compensation is determined by the court.⁸

Auditing, Adjusting and Settling Accounts

The auditors must audit, adjust and settle the accounts of all elected or appointed township officials, boards or agencies that received, disbursed or were otherwise entrusted with township funds during the preceding year. They also may audit the accounts of the district justice for the township to determine the amount of fines and costs paid or due to the township. Unless otherwise agreed to by the auditors and the officer being audited, the audit shall be conducted at the place where the records of the officer are normally kept.⁹

When any of the above offices becomes vacant through death or resignation, the auditors meet on the call of the chairman and audit the accounts of the former incumbent.¹⁰

Witnesses; Documents

The auditors may issue subpoenas to obtain the attendance of officers and persons whose accounts they are auditing and any persons necessary to examine as witnesses. They may also compel the production of all books, vouchers and papers relative to such accounts. Auditors can administer oaths and affirmations to all persons appearing before them.¹¹

The dockets and records of district justices are to be open to inspection by the auditors.¹²

Surcharges

Any elected or appointed officer whose act or omission, in violation of law or beyond the scope of the officer's authority, had contributed to the financial loss of the township must be surcharged by the auditors with the amount of such loss. Where the officer's act or omission results in an unintentional violation of law or abuse of authority, the auditors must limit the amount of the surcharge to the difference between the amount of loss actually incurred by the township and the amount of costs which would have been incurred had the act been performed in strict accordance with law or authorized procedures. Such limitation on the amount of the surcharge does not apply to cases involving fraud or collusion on the part of the officers.¹³

Any balance against any officer of the township will constitute a surcharge against the officer as fully as if expressly stated in the report to be a surcharge. Unless appealed, the auditors must direct the clerk of the court of common pleas to certify the amount of every balance or surcharge and the prothonotary must enter it as a judgment against the officer in favor of the township.¹⁴

In a case where supervisors contracted for highway work in excess of budgeted and appropriated amounts, the court held the acts occasioned township "financial loss" even though the township suffered no actual pecuniary loss and no fraud or dishonesty on the part of the supervisors was shown.¹⁵ In calculating the surcharge, auditors must take into account results of the questioned actions as compared to the results had procedures been followed strictly according to law.¹⁶

In another case, township supervisors replaced a full-time township manager with a part-time manager and paid themselves to undertake part of the duties of the township manager. The court held the supervisors must be surcharged because the payments were illegal. The fact that the illegal payments were made in good faith and without fraudulent intent did not relieve them of liability to surcharge.¹⁷

However, in another case where the supervisors had acted improperly, but their actions did not result in a financial loss to the township, the surcharges were not sustained by the Commonwealth Court on appeal.¹⁸ Another court held that failure to use sound discretion subjected the supervisors to surcharge for the amount of any loss to the township. They had a duty to use sound discretion in making purchases whether they were required by law to advertise or not.¹⁹ An annual audit showed an excess payment of \$88.00 to the supervisors, but there was no evidence to show who had received any excess. The court approved surcharging each supervisor the total amount. Satisfaction of the surcharge against any supervisor discharged the surcharges entered against the others.²⁰

Report; Publication

The auditors must complete their audit, settlement, and adjustment prior to March first of each year. They file copies of their report with the secretary of the township, the clerk of court or prothonotary as provided by local rules of court, the Department of Community and Economic Development and the Department of Transportation. Reports filed with the Department of Community and Economic Development should be sent to:

Governor's Center for Local Government Services
Department of Community and Economic Development
400 North Street, 4th Floor
Commonwealth Keystone Building
Harrisburg, PA 17120-0225

Each copy of the report must be signed by at least a majority of the auditors and verified by oath of the secretary of the auditors. The auditors' report must be made on forms mandated by law and provided by the Department of Community and Economic Development. On or before March 10 of each year, the auditors must publish a concise financial statement in a newspaper of general circulation in the township. In townships with populations of less than 200, the auditors may post five copies of the financial statement in public places in the township instead of publishing it in a newspaper.

Any secretary of the board of auditors who fails to file or publish the report commits a summary offense.²¹ The report of the township auditors is conclusive and can be challenged only by the statutory provision for appeal.²² In the absence of fraud or collusion, the auditors cannot reopen their report after filing.²³ The auditors may only settle the accounts for the preceding year. When an account has been regularly settled, an attempted resettlement in a subsequent year is of no validity.²⁴

Where an auditors' report consisted of a tabulation on a printed form and supplemental material on typewritten sheets apparently intended as a statement of surcharge, the court upheld the report.²⁵ Although the supplement was irregular in form and to some extent inconsistent with the first part, both parts were filed together and intended as a single document.

Appeals from Audit

The board of supervisors, any registered elector or taxpayer or any officer whose account is audited may appeal from the audit to the court of common pleas within 45 days after the settlement has been filed.²⁶ The report of the auditors may be reviewed by the courts only on appeal as provided by the Code.²⁷ Appeal of the auditors report is the exclusive remedy for review of a township officer's accounts.²⁸

Registered electors, taxpayers and officers appealing a report must post bond to cover costs, if they fail to win a decision more favorable than the report.²⁹ There is no requirement for a bond where the appeal is by the township and has been duly authorized.³⁰

When more than one appeal is taken from a report, they may be consolidated, and the court can frame an issue for trial. After a hearing, the court enters its judgment and assigns costs. Appeals may be taken to higher courts.³¹

In hearing the case, the accounts of the officer may be investigated again, as if the account had been presented in the first instance.³² The figures of the auditors are assumed to be correct, and the burden of proof is on the officer whose accounts are questioned to prove otherwise.³³ Where taxpayers are appealing the audit and asking for a surcharge against an officer against whom the auditors found no balance outstanding, it is the taxpayers, and not the officer questioned, who must bear the burden of proving the auditors report is incorrect.³⁴

Penalties

Any auditor who fails to comply with the provisions of the Second Class Township Code commits a summary offense.³⁵ Any auditor who is interested, directly or indirectly, in any township transaction commits a summary offense and shall forfeit his office and shall also pay any financial benefit derived from the transaction to the township.³⁶ Auditors who fail to surcharge township officers are not subject to surcharge themselves on appeal.³⁷

Auditors are not empowered to surcharge themselves, and the court is without power to surcharge an auditor for failure to perform the duties of his office.³⁸

Setting Compensation of Working Supervisors

When supervisors are employed as roadmasters, laborers, township secretaries or treasurers, their compensation is fixed by the board of auditors. Compensation includes salary and wages. The auditors also approve the mileage allowance to be paid to the supervisors for use of their vehicles on township business.³⁹ The rate set should include provision for overtime rates if working overtime is expected.

Note that interpretations of the Federal Fair Labor Standards Act (FLSA) exclude township supervisors and all other elected officials from coverage by that law. Thus, while payment of overtime rates may be entirely appropriate in some situations, it is a local choice and not required by federal law.

Suggested Worksheet for Setting Compensation

Before beginning this process, the auditors should be familiar with sections 606, 703, 803 and 901 of the Second Class Township Code.

The intent of this worksheet is twofold: to help the auditors follow an organized process in setting pay rates for working supervisors, and to help them document the process in case a question should arise. If more room is needed, use as many additional sheets as necessary.

1. List 5-10 major duties of the job:

2. List employers you have contacted about compensation for similar jobs (such as other townships, contractors, or perhaps the PENNDOT County Maintenance Office):

Name	Telephone	Date	Person Contacted

3. List the two or three positions (by title, not a person's name) with duties most similar to the working supervisor. Note differences in job responsibilities (number of people supervised), skills (such as mechanic or grader operator), and years of experience. List the pay rate plus pension benefits, and paid time off (such as vacation, holidays, sick leave).

Job Title	Pay Rate	Paid	Paid Time Off

4. Agree on a base pay rate based on the above: If other compensation is intended, such as overtime or inclusion in the township retirement plan, the auditors must set these as well:

Since compensation for a working supervisor must not exceed compensation paid in the locality for similar services, the auditors may wish to check with nearby employers to compare wages, benefits and the type of work being performed. The worksheet above may be useful in the process, both in arriving at a reasonable figure and in documenting the process used to do so.

Setting and Filing The Treasurer's Bond

The Second Class Township Code requires that the board of supervisors set the amount for the treasurer's bond in an amount equal to the estimated maximum amount to be held by the treasurer at any one time during the year, totaling all accounts. The bond is given with a surety company and is filed with the board of auditors.⁴⁰

References

1. 53 P.S. 65402; Second Class Township Code, Section 402.
2. 53 P.S. 65404; Second Class Township Code, Section 404.
3. 53 P.S. 65401; Second Class Township Code, Section 401.
4. 53 P.S. 65404; Second Class Township Code, Section 404.
5. 53 P.S. 65407; Second Class Township Code, Section 407.
6. 53 P.S. 65902; Second Class Township Code, Section 902.
7. 53 P.S. 65901; Second Class Township Code, Section 901.
8. 53 P.S. 65906; Second Class Township Code, Section 906;
9. 53 P.S. 65901; Second Class Township Code, Section 901.
10. *Ibid.*
11. 53 P.S. 65903; Second Class Township Code, Section 903.
12. 53 P.S. 65901; Second Class Township Code, Section 901.
13. 53 P.S. 65907, Second Class Township Code, Section 907
14. *Ibid.*
15. *In re Lilly*, 19 A.2d 92, 341 Pa. 171, 1941.
16. *In re Bensalem Twp. Auditors' Report*, 7 Bucks 237, 1958.
17. *Cotlar v. Warminster Twp.*, 302 A. 2d 859, 8 Pa. Cmwth. 163, 1973.
18. *In re Report of Audit of South Union Township for 1975*, 407 A.2d 906, 47 Pa. Cmwth. 1, 1979.
19. *Appeal from Hazle Twp. Audit*, 51 Luz. L. Reg. 207, 1962.
20. *Appeal from Audit of Annual Twp. Report of Supervisors of Highland Twp.*, 8 Chest. 345, 1959.
21. 53 P.S. 65904; Second Class Township Code, Section 904.
22. *Brown v. White Deer Township*, 27 Pa. 109, 1856; *Baughman v. Hempfield Twp., Westmoreland Co.*, 48 A. 2d 41,159 Pa. Super. 178, 1946; *Brady Twp. v. Ashley*, 331 A. 2d 585, 17 Pa. Cmwth. 226, 1975.
23. *Auditor's Report, Lake Twp.*, 21 Luz. 387, 1921; *Appeal of Muhlenberg Twp. Supervisors*, 45 Berks 241, 1954.
24. *Middletown Twp. v. Miles*, 61 Pa. 290, 1897; *Com. v. Scanlon*, 51 Atl. 986, 202 Pa. 250, 1902.
25. *Bensalem Twp., supra.*
26. 53 P.S. 65909; Second Class Township Code, Section 909.
27. *Com. v. Joyce*, 3 Pa. Super. 609, 1897.
28. *Festa v. Derry Township*, 411 A. 2d 904, 49 Pa. Cmwth. 297,1980.
29. 53 P.S. 65910; Second Class Township Code, Section 910.
30. *South Union Twp., supra.*
31. 53 P.S. 65911,65913,65914, Second Class Township Code, Sections 911, 913, and 914.
32. 53 P.S. 65912; Second Class Township Code, Section 912; *In re Canton Twp., Washington County*, 192 A. 2d 727, 412 Pa. 26, 1963.
33. 53 P.S. 65912; Second Class Township Code, Section 912; *Appeal from Hazle Twp. Audit*, 50 Luz. L. Reg. 69, 1960.
34. *In re 1980 Auditors Report for New Castle Township*, 482 A. 2d 287, 84 Pa. Cmwth. 339, 1984.
35. 53 P.S. 65905; Second Class Township Code, Section 905.
36. 53 P.S. 65916; Second Class Township Code, Section 916.
37. *Canton Twp., supra.*
38. *Appeal of Warminster Twp.*, 29 D.&C.2d 197, 1964.
39. 53 P.S. 65606,65703; 65803 Second Class Township Code, Sections 606, 703, and 803.
40. 53 P.S. 65702, Second Class Township Code, Section 702.

Independent Auditor for Second Class Townships

Appointment

The township board of supervisors may employ an independent auditor to be appointed by the court of common pleas if a petition has been presented to the supervisors by at least 25 taxpayers of the township asking for such appointment.¹ After receiving the petition, the court must appoint an auditor, but retains the choice of who is appointed.² The auditor must be a certified public accountant, a firm of certified public accountants, a competent public accountant or a competent firm of public accountants. The auditor must be appointed at least 30 days prior to the close of the fiscal year. The amount of compensation shall not exceed the maximum allowed to be paid to the board of township auditors for the year, unless an additional amount is approved by the court.

The township supervisors may also appoint an independent auditor, without a taxpayers' petition or court approval, by adopting a resolution to replace the elected auditors at their annual organization meeting or anytime thereafter. The supervisors must advertise their intention to replace the elected auditors in a newspaper of general circulation at least 30 days prior to the organization meeting or any later vote to appoint the independent accountant. When appointed by resolution, the township supervisors determine the independent auditor's compensation.³

Powers

When an independent auditor is appointed, the township auditors do not audit and settle township accounts, but they still set the compensation of the supervisors.

The independent auditors have the powers given the elected auditors under the Code, except for the power to fix the compensation of supervisors. They are subject to the same penalties outlined in the Code for elected auditors and must conduct their audit in accordance with generally accepted auditing standards. The independent auditor's report may be appealed in the same manner as the report of the elected auditors.

For purposes of meeting federal or state audit requirements applicable to programs, grants and contracts funded by those sources, the supervisors may employ an independent auditor to perform an audit separate from that conducted by the elected auditors.

References

1. 53 P.S. 65917; Second Class Township Code, Section 917.
2. *Falls Township Board of Supervisors v. Bozzo*, 314 A 2d 559, 11 Pa. Cmwlth, 599, 1974.
3. 53 P.S. 65917; Second Class Township Code, Section 917.

Auditing Municipal Authorities

Status of Authorities

Elected borough and township auditors do not audit the books of municipal authorities. Although created by local government units and performing certain governmental functions, authorities are independent public entities created to do specific jobs. Examples of authorities are: water authorities, sewage authorities, parking authorities, school building authorities and transportation authorities. Many are joint authorities including two or more municipalities.

Audits

Every municipal authority must have its books, accounts and records audited annually by a certified public accountant. If the authority fails to have an annual audit made, then the controller, auditors or accountant designated by the municipality or municipalities may examine the accounts and books of the authority, including its receipts, disbursements, contracts, leases, sinking funds, investments and any other matters relating to its finances, operation and affairs. Such examination is to be at the expense of the authority. The Attorney General has the power to examine the books, accounts and records of any authority.¹

Similar provisions for auditing parking authorities are found in the Parking Authority Law.²

Filing; Publication

Municipal authorities and parking authorities must file an annual report of their fiscal affairs, including a copy of the audit report, with the Department of Community and Economic Development and with the municipality or municipalities creating the authority. The report must be on forms distributed by the Department of Community and Economic Development.

Those authorities whose fiscal year ends December 31 must file by July 1. Authorities whose fiscal year ends on other than December 31 must file within 90 days after the end of their fiscal year.

Reports filed with the Department of Community and Economic Development should be sent to:

Governor's Center for Local Government Services
Department of Community and Economic Development
400 North Street, 4th Floor
Commonwealth Keystone Building
Harrisburg, PA 17120-0225

A concise financial statement must be published annually at least once in a newspaper of general circulation in the municipality where the principal office of the authority is located.³

References

1. 53 P.S. 310; Municipality Authorities Act, Section 8.
2. 53 P.S. 350; Parking Authority Law, Section 10.
3. 53 P.S. 310, 53 P.S. 350; Municipality Authorities Act, Section 8, Parking Authority Law, Section 10.

Auditing Earned Income Taxes

Audits

Municipalities which levy earned income taxes must provide for an annual examination of the books, accounts and records of the income tax collector by a certified public accountant, a firm of certified public accounts, a competent independent public accountant or a firm of independent public accountants appointed by the municipal governing body. Reports of the audit are sent to the governing body. No further audit is to be performed by elected or appointed auditors.¹

Joint Collection Agencies

When a single person or agency has been selected to collect earned income taxes for more than one political subdivision, the books, accounts and records of the joint collector are to be audited by a single accountant. The accountant is to be selected by joint agreement of the political subdivisions involved or, in the lack of agreement, on the basis of voting according to the proportion of the population each subdivision bears to the entire population of the combined collection district. A majority of votes determines the appointment.²

Other Act 511 Taxes

Collection of all other taxes levied under the authority of the Local Tax Enabling Act, except for the earned income tax, is to be audited by the municipal auditors, controller or appointed auditor.³

References

1. 53 P.S. 6911; Local Tax Enabling Act, Section 11.
2. 53 P.S. 6911,6910; Local Tax Enabling Act, Section 11 and 10.
3. 53 P.S. 6912; Local Tax Enabling Act, Section 12.

Advisory Role of Elected Auditors

There are differences between professional auditing and the duties of elected auditors. By nature, professional auditing requires the auditor be a person trained in auditing and accounting.

An elected municipal auditor is not required to have any training in auditing and accounting. By way of duties, the professional auditor not only examines the financial transactions of the unit, but also has a responsibility to recommend improvements in accounting procedures, internal control devices and related fiscal matters. The elected municipal auditor has no responsibility for the financial welfare of the municipality beyond the settlement of the accounts.

Elected auditors are unable to compel installation of adequate accounting methods where they are lacking. They are not required to prepare supporting financial statements nor to adhere to any generally accepted accounting principles.

Obviously, this does not imply auditors are powerless in enforcing their findings where corrections are found necessary. The various codes provide that auditors may employ an attorney to assist in settling disagreements. Furthermore, the auditors have the power to surcharge individual officers of the municipality for any balances found due. Auditors also have a power of subpoena to compel the attendance of witnesses and the production of necessary evidence.

These powers, properly used, constitute an effective office for insuring the financial affairs of a municipality are carried out in a legal manner. The powers available become less clear, however, with regard to making management recommendations to improve an otherwise legitimate method of operation.

We suggest that the elected auditor take an advisory role in the improvement of municipal financial procedures as deemed appropriate. The elected auditors should, however, be reasonably certain that their position is valid since they can at times be personally responsible for the results of their work and recommendations. Any recommendations for operating improvements should therefore be properly developed and checked with knowledgeable municipal personnel prior to making them public.

Recommendations and related findings should include:

1. An explanation of the problem that exists.
2. The reason that the existing condition has a negative effect on the operation of the municipality.

3. The reason for the condition existing. This may include explanations provided by the municipality.
4. A discussion of the solutions — good business practice, laws, regulations.
5. Recommendation for operating improvements. It is suggested that any findings and recommendations be submitted in a separate management letter accompanying the Annual Audit and Financial Report. This letter should be addressed to the same parties as the report, should indicate its purpose, and should reference the Annual Audit and Financial Report.

Single Audit Act

On July 5, 1996, the federal government passed the Single Audit Act Amendments of 1996. The purpose of the Single Audit is to determine and report whether:

1. The government's entity wide financial statements fairly present its financial position and results of operations in accordance with generally accepted accounting principles (GAAP), including internal controls over financial reporting and compliance with laws and regulations that may have a material effect on those financial statements.
2. The government has established internal control systems to provide reasonable assurance that each major federal award program is managed in compliance with applicable laws and regulations.
3. The government has complied with the laws and regulations that may have a material effect on each major federal award program.

Applicability

Every state and local government entity that expends \$500,000 or more in federal awards in any fiscal year must have a single audit or, when permitted, a program-specific audit. Governments which expend less than \$500,000 in federal awards in any fiscal year are exempt from the single audit, as well as other federal audit requirements for that year. These exempt governmental entities, however are still required to maintain records concerning their federal awards and to permit federal agencies, pass-through grantors, and the Comptroller General access to those records.

Qualified Auditors

Federal Office of Management and Budget Circular A-133 defines auditors qualified to perform single or program-specific audits to generally include Certified Public Accountants and other governmental auditors meeting the independence and professional standards of the US General Accounting Office as issued by the Comptroller General of the United States in a publication entitled GAO Government Auditing Standards (commonly known as "the Yellow Book").

The elected auditor will generally not participate in a Single Audit. But, since the Single Audit includes the traditional audit of a governmental entity, the single audit could be feasibly performed by an independent audit organization working in conjunction with and possibly including the appointed municipal auditor. In any event, the elected or appointed auditor should be aware of situations where a Single Audit should have been performed and should take necessary steps to determine the outcome of that examination.

Additional information on the Single Audit requirements and program-specific audits from a the Commonwealth's perspective can be obtained from:

Commonwealth of Pennsylvania, Office of the Budget
Comptroller Operations
Bureau of Audits
Bell Tower - 6th Floor
303 Walnut Street
Harrisburg, PA 17101-1830
(717) 783-0114
www.budget.state.pa.us

III. Audit Programs

Planning the Audit

Importance of Planning

To perform a reasonably complete audit, the elected auditors should become familiar with the organization of the municipality to be audited, the officials and employees who keep the records, and the accounting system in use. Then a plan of action should be worked out so that the audit may proceed efficiently. The following suggestions may help.

Officials Who Keep the Records

Auditors must know both elected and appointed officers and employees involved with municipal finance. Some of the elected and appointed officials of boroughs and townships who may have accounts or records to be audited are:

I. Elected Officials

Boroughs	Townships-1st Class	Townships-2nd Class
Council Members	Commissioners	Supervisors
Tax Collectors	Treasurer	Tax Collectors
District Justices	District Justices	District Justices

II. Selected Appointed Officials

Boroughs	Townships-1st Class	Townships-2nd-Class
Secretary	Secretary	Secretary-Treasurer
Solicitor	Solicitor	Solicitor
Treasurer	Appt. Tax Collector	Appt. Tax Collector
Appt. Tax Collector	Police	Police
Police	Manager*	Manager*
Manager*		Roadmaster(s) (district) or Superintendent (entire township)

*(if the office is created by council, commissioners or supervisors) The auditors will be primarily concerned with the work of the secretary, treasurer, tax collector and district justices. Since administrative practices vary considerably from municipality to municipality, the auditors must determine which officers and employees have records to be audited.

Funds in Use

The auditors must determine what funds are in use by a particular borough or township. Since boroughs and townships vary in size and complexity of programs, there are differences in the funds used. (See page two). To determine the number and nature of funds to be audited, the auditors should check with appropriate municipal officials or employees, inspect prior audit reports, including prior Annual Audit and Financial Reports and approved budgets for the period under examination.

Records To Be Made Available to Auditors

Various municipalities may use a variety of records, methods of bookkeeping and accounting methods. The following records are needed for any accounting system and should be made available to the auditors for each fund for the fiscal year under audit.

1. The financial statement(s) of the municipality, if available
2. The general and subsidiary ledgers
3. All records pertaining to cash receipts, such as, documentation and journals.
4. All records pertaining to cash disbursements.
5. Any separate records maintained by the treasurer.
6. All bank statements, cancelled checks, voided checks, duplicate deposit tickets, passbooks and bank charge slips; a list of depositories, their addresses, account numbers, account names and authorized signatures.
7. A schedule of investment transactions for the year.
8. All vouchers together with invoices or bills.
9. The budget for the year under audit as officially adopted, together with the municipality's working budget and all amendments and changes.
10. Periodic financial reports prepared by the treasurer and submitted to meetings of council, commissioners or supervisors.
11. Ordinances and resolutions and official entries in the minutes authorizing transfer between funds, amendments to the budget and similar actions.
12. An organization chart including names of persons in each position.
13. A copy of the municipality's chart of accounts, accounting policies and document flow chart.
14. All cancelled bonds and interest coupons or, alternatively, cremation or other destruction certificates.
15. A schedule of all interfund loans or advances.
16. A summary of all litigation involving the local government.
17. Minutes of council, commissioners' or supervisors' meetings for the year under audit.
18. Insurance policies covering fire, other casualties, official surety bonds.
19. Records showing inventories of real property, plant and equipment.
20. Copies of appraisal reports by professional appraisers, if any.
21. Records of all outstanding indebtedness such as bank loans and bonded debt.
22. Copies of leases or contracts, if any.
23. Copies of documents in support of advertising and bidding procedures.

Tax Collectors' Reports That Should be Available:

1. Original assessed valuations as certified by the county showing separately the amount of assessed valuations for real estate tax, occupation tax and the number of taxables for per capita tax.
2. The required monthly reports submitted by the tax collector to the council, commissioners and supervisors, showing for current period:
 - a. Names of taxpayers making payment
 - b. Amount of taxes collected
 - c. Discounts granted
 - d. Penalties applied
 - e. Reconciliation of each collected
3. Separate reports pertaining to any Act 511 taxes for which the elected collector is responsible, or for which any appointed collector is responsible, such as the following:
 - a. Real Property Transfer Tax
 - b. Amusement Tax
 - c. Per Capita Tax
 - d. Earned Income (Wage) Tax
 - e. Mercantile/Business Privilege Tax
 - f. Mechanical Devices Tax
 - g. Other Act 511 Taxes
4. Separate reports of any specially appointed collectors of any delinquent or Act 511 taxes.

Tax Collection Reports from County Tax Claim Bureau

Periodic reports from the county showing delinquent real estate taxes collected plus interest and penalties and minus commissions should exist. Each delinquent year should be shown separately.

General Audit Procedures

The auditors should follow these general procedures. The following sections include more detailed auditing procedures.

1. Understand the primary objectives of the audit, which is to determine whether the Annual Audit and Financial Report, Commonwealth of Pennsylvania Department of Community and Economic Development Form DCED-CLGS-30, is fairly stated, and to determine whether the municipality has complied with applicable laws and regulations.
2. Understand the basic operations of the municipality such as: services provided, number and type of employees, the accounting system, the number and type of funds and the form of government, and make an assessment of the management's capabilities.
3. Consider the need for and adequacy of internal controls and the possible effect of them on the conduct of the audit.
4. Review prior years' financial statements, report and working papers; review minutes, major contracts; discuss audit procedures and their timing with appropriate municipal personnel.
5. Perform a detailed review, test and evaluation of internal control if the auditor intends to rely upon internal control.
6. Perform substantive tests of accounting records. The auditor may perform substantive testing one fund at a time, or may audit by account type (for instance, cash accounts for all funds or accounts receivable for all funds).

The following sections describe a reasonably detailed audit program for each fund commonly in use by boroughs and townships. The depth to which auditors actually check records may vary depending upon the amount of records involved and the complexity of the financial system.

Evaluation of Existing Internal Control Procedures

Although elected Pennsylvania municipal auditors have no legal responsibility for guaranteeing the adequacy of internal control procedures or for recommending improvements where adequate controls do not exist, a discussion of the evaluation of internal control procedures is presented for the benefit of those who wish to do more than merely examine and settle the accounts of the municipality.

What Is Internal Control?

Generally, internal controls involve the way the people and their work are organized, and the methods and procedures they use to safeguard assets and other resources and to ensure that those assets and resources are used as effectively as possible as directed by the governing body and management.

Several broad objectives for internal control are included in the definition, including the activities necessary to assure that:

- Assets and resources of the municipality are used in accordance with authorizations which may stem from applicable laws, regulations, or actions of the governing body;
- Transactions are executed in accordance with authorizations by the governing body and with management directives, and are executed as efficiently and effectively as possible;
- All transactions are properly recorded to permit preparation of reliable reports, and to maintain accountability over assets;
- Timely and accurate reports of the municipality's activities are provided to its governing body, tax payers and other agencies which require them.

The purpose of the independent auditor's evaluation of internal accounting controls is to determine their reliability and extent to which auditing procedures are to be applied. The independent auditor is not obligated by GAAS to review, test, and evaluate internal accounting controls if the auditor does not intend to rely upon them. Note that the standards for audit of the U.S. General Accounting Office do require that internal control be examined, but that the examinations discussed here need not be made in accordance with either U.S. GAO, nor by elected auditors in accordance with GAAS.

Characteristics of a Satisfactory System of Internal Control

- **Segregation of Functions:** the control system should minimize incompatible functions. Incompatible functions are those that place any person in a position to both perpetrate and conceal errors or irregularities in the normal course of his duties.
- **Personnel:** should be adequately trained and supervised.
- **Execution of Transactions:** the system should provide reasonable assurance that transactions are executed as authorized; this requires independent evidence that transactions are executed as authorized, and that authorizations are issued by persons acting within the scope of their authority.
- **Recording of Transactions:** requires that transactions be recorded at the amounts and in the accounting periods in which they were executed and classified in the appropriate accounts.
- **Access to Assets:** should be limited to authorized personnel.
- **Confirmation of Recorded Balances:** periodically recorded balances of assets should be confirmed by someone other than the person responsible for recording and reporting of the balances.

- **Management Responsibility:** Management should be aware that the establishment of a system of internal control is an important responsibility of management.
- **Reasonable Assurance:** Internal accounting control provides reasonable, but not absolute, assurance that its objectives will be accomplished. Inherent in the concept is that the cost of internal control will not exceed the benefits derived.

Following are common and important internal control techniques including application of control procedures to cash receipts, cash disbursements, securities, materials and supplies, plant and equipment. An internal control questionnaire is included in Appendix B.

Internal Control of Cash

Custody

1. Bank accounts should be properly authorized.
2. Separate bank accounts should be maintained for each fund or, if not, there should be adequate fund control over pooled cash.
3. There should be fidelity insurance covering those involved with cash.
4. General ledger control should exist over all bank accounts.
5. Responsibility for preparing and approving bank account reconciliations should be segregated from other cash receipt and disbursement functions.

Cash Receipts

1. Responsibilities for the collection and deposit preparation functions should be separated from the recording of cash receipts.
2. Responsibilities for cash receipts functions should be separated from cash disbursements.
3. Receipts should be deposited on a timely basis (preferably daily).
4. Receipts should be deposited intact. Receipts should not be used to make change or for petty cash.
5. Incoming mail should be opened by someone other than the bookkeeper, who lists checks received.
6. Restrictive endorsements should be placed on each incoming check upon receipt.
7. Receipts in person should be controlled by cash register, prenumbered receipts or similar means.
8. Daily reported receipts should be compared to bank statements on a test basis to verify timeliness of deposits.

Cash Disbursements

1. To the extent possible, the responsibilities for disbursement preparation, approval, recording and purchasing functions should be separated.
2. Prenumbered checks should be used.
3. Unused checks should be adequately controlled.
4. Check signing machines and signature plates should be controlled with limits on amounts which can be paid using facsimile signatures, two signatures required on checks over certain amount, signature plates under custody of signer when not in use.
5. Voided and spoiled checks should be retained for examination.
6. Checks should not be made to cash or bearer.
7. Invoices and supporting documents should be furnished to check signers prior to signing. They should also be cancelled to prevent reuse.

Petty Cash Disbursements

1. Use the so-called imprest system. The fund is set up for a definite fixed amount, for example, \$50.00. By drawing checks periodically on the regular bank account in the amount of funds expended, the fund remains at \$50 unless it is desired to increase or decrease the size of the fund.
2. Place the fund in the hands of a single custodian who is not involved in handling cash receipts or in keeping the books of account.
3. Expenditures from the fund must be supported by vouchers or receipts written in ink. Each voucher should be labeled with the expenditure account for which the expenditure was made. For example, a postage receipt might be labeled "400.325 General gov't postage."
4. The vouchers should be approved by a responsible employee.
5. When the fund needs to be reimbursed, a check is drawn to the order of the custodian for an amount to bring the fund up to the established amount of \$50.00. For example, suppose the vouchers covering expenditures made from the fund total \$42.85. The check is drawn for \$42.85 which, added to \$7.15 remaining unspent, will bring the fund up to \$50.00. The check is charged to the expenditure accounts shown on the vouchers, in the respective amounts.
6. The vouchers supporting the reimbursement check should be cancelled in order to prevent their use a second time.
7. It is considered a bad practice to cash a check from this fund for the accommodation of an employee or official. It is also undesirable to make advances to an employee or official on his I.O.U.
8. Surprise counts by management of the petty cash, and audits of petty cash vouchers are recommended.

Internal Control of Securities

1. Good internal accounting controls over investments include to the extent possible the segregation of:
 - a. Purchasing and evaluating securities from the detailed accounting;
 - b. Custodial duties over security documents from accounting detail;
 - c. Monitoring market values and performance from investment acquisition decisions.
2. The local government unit should have policies and procedures designed to ensure investments are the type required by law; the investment portfolio is checked periodically by persons not involved in investment portfolio management activities; and there are formally established levels of approval required for purchasing or selling investments.
3. Local government units frequently own U.S. government or state government bonds held as part of a sinking fund, as a temporary investment of construction funds, or as collateral security for bank deposits. These securities are usually negotiable and should be kept in a safety deposit box or held for safekeeping by a corporate trustee.
4. If the securities are kept in a safety deposit box, borough council, the board of commissioners or board of supervisors should require at least two persons be present when the box is opened. The governing body should appoint two or more persons who have authority to open the box for clipping interest coupons and removing or adding to the securities.
5. A separate record should be kept showing a description of the security, the denomination, the interest rate and the serial number. For example, U.S. Treasury Bond, 5 1/2%, 2004/12, \$1,000 face value, No. 171533.
6. Purchases and sales should be authorized by the governing body.

Internal Control of Materials and Supplies

If a borough or township keeps a substantial supply of materials on hand to be used in connection with the police, fire, street, health and sanitation or other departments, the following procedures are useful in exercising control over such materials:

1. The materials should be kept in a suitable building, such as a warehouse or garage, with a storekeeper in charge.
2. All purchases should be delivered to the storekeeper who is required to keep perpetual inventory cards showing quantity, unit price and total cost of each item received.
3. All withdrawals for use on borough or township projects should be authorized by written orders or requisitions signed by some responsible official designated to authorize such issues from stock. The requisitions should show quantity, unit price and total cost which must be posted on the perpetual inventory cards.
4. The materials inventory should be insured for an adequate amount.
5. Periodic physical inventories should be taken and compared with the perpetual inventory cards. If differences arise, the perpetual inventory cards must be adjusted.

Internal Control of Property, Plant and Equipment

A borough or township often owns property and equipment such as office equipment, police cars, radio system, firefighting equipment and trucks, road rollers, scrapers, bulldozers, street cleaning trucks and snowplows. To control such property the municipality should:

1. Maintain a system of plant ledger sheets or other records for each item or class of property to include (a) full description of item showing manufacturer's serial number, (b) date acquired, (c) cost and (d) where kept.
2. Maintain a record of all insurance policies covering properties and equipment, and review it periodically to assure adequate insurance coverage.
3. Require periodic appraisals by a disinterested appraisal company to determine if there is adequate insurance coverage.
4. Correct plant ledger sheets whenever assets are disposed of by trade-in, sold as used equipment, or sold as junk or scrap.
5. Ensure proceeds from the sale of scrap or junk are recorded as cash receipts.
6. Establish a system to safeguard small tools and repair parts and materials.

Other Aspects of Internal Control

Other aspects of internal control are contained in the audit programs for various types of revenues, expenditures, payrolls, bond transactions, bank loans and general procedures. Many of the desirable elements of an internal control system will be absent in a very small office. This is often not a weakness that can be corrected, but one that the auditor should be aware of during the conduct of the audit.

General Fund: Revenues, Receivables, Receipts, Assets

These sections on the general fund audit program will essentially work for every fund type with certain modifications. Subsequent sections will describe those fund types and any additional audit objectives and procedures specific to them.

Purpose of General Fund

The General Fund is established to cover the following types of transactions:

1. All general sources of revenue except sources earmarked by law or contractual agreement for other designated funds.
2. Non-revenue receipts such as temporary loans, refunds, sale of investments, transfers from other funds and other receipts which do not increase the net worth of the municipality.
3. Governmental expenditures incurred to carry on such governmental functions as general administration, protection to persons and property, health and sanitation and highways or streets.
4. Non-governmental disbursements such as repayment of indebtedness, refunds, purchase of investments, or transfers to other funds and other expenditures which do not decrease the net worth of the municipality.

The General Fund is probably the fund most used by boroughs and townships, and will reflect the major portion of recorded activities and business transactions. The audit of this fund will require a large share of the auditor's time and effort. The audit program for the General Fund will also provide a general pattern which may be adapted to the audit of other funds.

Revenues, Receivables, Receipts Described

Following are sources of revenues in boroughs and townships:

1. Taxes-Current Year
 - a. Real estate
 - b. Occupation
 - c. Per capita
 - d. Realty transfer
 - e. Amusement
 - f. Earned income
 - g. Mercantile/business privilege
 - h. Mechanical devices
 - i. Miscellaneous Act 511 Taxes
2. Prior Year Delinquent Taxes Received in Current Year
 - a. Real estate taxes (County Tax Claim Bureau)
 - b. Occupation (tax collector-delinquent taxes)
 - c. Per capita (tax collector-delinquent taxes)
 - d. Other delinquent taxes
3. Licenses and Permits
 - a. Beverage
 - b. Building
 - c. Street
 - d. Business and mercantile
 - e. Health and plumbing
 - f. Other

4. Fines, Forfeits and Costs
 - a. Motor vehicle code violations
 - b. Violations of ordinances or statutes
5. Interest and Rents
 - a. Interest on bank balances
 - b. Rent of buildings, property and equipment
6. Intergovernmental Revenues
 - a. From housing authorities in lieu of taxes
 - b. From federal and state governments
 - c. From county as aid for highways
7. Charges for Services (Departmental Earnings)
 - a. Police services
 - b. Parking meters
 - c. Inspection services
 - d. Sewer rents
 - e. Sewer installations
 - f. Street repairs and openings
 - g. Recreational facilities
 - h. Special services (market, cemetery, airport)
 - i. Other departments or services
8. Special assessments and liens (only where project is financed through the General Fund)
9. Miscellaneous Revenue (items not covered in above classification are miscellaneous revenues).

Not every borough or township will have all of the revenue receipts. However, each borough or township will have a large number of the types of revenue so classified and the auditors will need to make a careful review of such items.

Taxes

Collections of real estate taxes, per capita taxes and occupation taxes usually are made by the elected tax collector and turned over to the borough or second class township. In first class townships the elected treasurer serves as the collector. A report is made by the collector to the treasurer showing in running account form the status of the duplicate after each payment. The following information is shown for each tax handled by the tax collector:

	Amount
Date _____	
Uncollected balance	\$ _____
Additions to duplicate	\$ _____
Penalties added	\$ _____
Total to be accounted for	\$ _____
Deductions	
Discounts allowed	\$ _____
Exonerations claimed	\$ _____
Returns to county	\$ _____
Cash collections	\$ _____
Total deductions	\$ _____
Uncollected balance (receivable) on (date) _____	\$ _____

Section 10 of the Local Tax Collection Law (1945 P.L. 1050) provides that taxpayers who pay the full amount of their tax within two months after the date of the tax notice are entitled to a discount of two percent of the amount of the tax. The law also provides that all taxpayers who fail to pay their tax within four months after the date of the tax notice are subject to a penalty of up to 10 percent. Treatment of discounts and penalties by the tax collector should be carefully reviewed by the auditors.

The council, board of commissioners or board of supervisors has authority to exonerate a tax collector from collecting such taxes as are uncollectible because of mistakes, indigent persons, deaths or removals. The tax collector may initiate the claim for exonerations by submitting to the council, board of commissioners or board of supervisors a list showing name, amount of tax and reason why the tax cannot be collected. The auditors must verify approval of all exonerations before allowing the tax collector credit. The taxing body has no authority to initiate exonerations.

The real estate transfer tax applies when real property is sold or changes hands. It is collected by the county Recorder of Deeds at the time the deed transfer is recorded. The recorder remits the moneys collected to the borough or township treasurer together with a list of properties sold. The law authorizes the county to withhold two percent of the amount to cover expenses. The county receives no other compensation for collecting the tax.

Other special taxes may be collected by the regular elected tax collector or by a special collector appointed for the purpose. These taxes include the tax on admissions to amusements, wage or earned income tax, mercantile and business privilege tax and mechanical devices tax. All depend upon the voluntary filing of returns and payment of tax with the return. The enforcement depends upon compiling lists of persons and business or professional firms who should file a return and then making sure returns are filed by all on whom the tax is levied, even though no tax is due in some cases.

If a balance occurs at the close of the year following the year of levy, there is probably an error or the collector has not turned over all the money collected. The procedure for delinquent per capita and occupation taxes is essentially the same, except they are not turned over to the county for collection.

When the tax collector returns the list of delinquent real estate taxes to the county tax claim bureau, the bureau becomes responsible for collection. Returns of real estate taxes are due no later than January 15 of the year following the year of levy. From time to time, the tax claim bureau will send the municipality a check along with a list of persons paying taxes. The amount paid represents the original face value of the real estate tax plus penalty and interest. The municipality should maintain a file of returned taxes and check off the names of payees as the money is received from the county.

Licenses and Permits

These revenues include:

1. Beverage licenses
2. Building permits
3. Street permits
4. Business and mercantile permits or licenses
5. Plumbing permits
6. Other permits

The State Liquor Control Board pays municipalities a share of the liquor and beer license fees which have been collected from licensees in the municipality. Payments are made by the state from the Liquor License Fund on the first day of February and August of each year in accordance with the provisions of the Liquor Code (1951 P.L. 90, Section 801). Of course, if a borough or township has voted to be a "dry" community, no money from this source will be received.

Items 2 to 6 are authorized by local ordinances. There should be carbon copies or stubs of the receipts given to the persons taking out such permits, which the auditor should reconcile with the record of cash receipts. The auditors must distinguish between a business or mercantile permit or license and an Act 511 business privilege or mercantile tax. Act 511 business taxes may easily be confused with permit and license fees. The distinction will be found in the authorizing ordinance or resolution.

Fines and Forfeits

Fines may be either: (1) motor vehicle code violations or (2) violations of ordinances or statutes. These fines must be checked with monthly reports of fines turned over by the district justices. The auditors must also examine the dockets of these officials. Carbon copies of prenumbered receipts issued to the officials for fines turned over to the treasurer should be available for inspection by the auditors.

Under the provisions of the Vehicle Code, fines and penalties resulting from State Police enforcement of the Code are paid by the district magistrate to the Department of Revenue and credited to the Motor License Fund. One half of this revenue is then distributed to municipalities according to the same formula used to distribute liquid fuels tax proceeds to municipalities. This formula is based on the municipality's population and road mileage. The distribution of funds has no relationship to the State Police arrests which generated the funds. These funds cannot be audited as part of the local auditors' examination of district magistrates accounts. The funds are, however, audited by the Department of Revenue.

One half of all fines and penalties resulting from local police enforcement of the Vehicle Code and all fines and penalties resulting from local police enforcement of parking are paid by the district magistrate to the municipality under which the local police are organized. These funds can be included as part of the local audit.

Interest and Rent

Interest on bank balances can be verified from the credits allowed by the bank and shown on savings account passbooks or bank statements, or cash or check received from the bank on a certificate of deposit.

The auditors should keep in mind the October 11, 1974, opinion by the Attorney General of Pennsylvania that funds may be combined for investment purposes so long as they meet certain procedural requirements. The most important of these is that a clear audit trail must be maintained to prevent money from any particular account or fund from losing its identity perhaps resulting in it not actually being spent for the intended purposes.

Interest earnings should be verified by computing the share of each fund of the total investment and checking to insure that the same share of the total interest earning was returned to the proper fund. The audit program for interest income is included with the investment audit program.

If rent is received for use of space in a borough or township building, the rental agreement under which such space is rented should be examined by the auditors. For example, the water authority may have offices in the municipal building and pay the borough or township rent for the use of such space.

Intergovernmental Revenue

The auditors should examine each of these items carefully to make sure the amount is properly recorded and deposited in the bank. It is also important to make sure that items in the General Fund belong there, and not in a special fund. For example, under the Highway Aid Fund Act, boroughs and townships receive grants from the Motor License Fund which must be deposited in a special fund known as the "Highway Aid Fund."

Note that under generally accepted accounting principles (GAAP) for governmental units, grants are to be recorded as revenues when they have been earned; that is, expenditures have been made for eligible project purposes. Prior to that, grants received should be shown as liabilities (advances) rather than revenues.

Similarly, if the governmental unit were to expend funds on eligible project purposes prior to receiving grants, then the proper entry would be to charge (debit) a receivable and credit the appropriate grant revenue account. Note also that it is not necessary to prepare the Annual Audit and Financial Report in accordance with GAAP.

Charges for Services (Departmental Earnings)

Under this classification are grouped receipts for various services and use of facilities. In the financial reports used by boroughs and townships, the following earnings are listed:

1. Police services
2. Parking meters
3. Inspection services
4. Sewer rents
5. Sewer installations
6. Street repairs and openings
7. Recreational facilities
8. Water charges

For most of these services the auditors should make sure there is a proper billing procedure and a follow-up to see the bills are paid, receipts are issued to all who make payments and a duplicate or stub of such receipts is kept on file for tracing into the cash receipts book and into the bank as deposits.

Special mention needs to be made of parking meter receipts, which usually involve a large amount of small coins. The auditors should critically examine how this cash is handled from the time it is taken from the meter until it is recorded in the cash receipts book and deposited in the bank. Refer also to Section 2, "Evaluation of Existing Internal Control Procedure."

Sewer Rents and Installation Fees

The proper auditing procedure for sewer rents and sewer installation charges depends upon which of the following situations exists in the borough or township under audit:

1. The operation and maintenance of the sanitary sewer system may be financed through the General Fund. Under these circumstances the sewer rents and installation charges are properly classified as General Fund receipts.
2. The operation and maintenance of the sanitary sewer system may be financed through a special utility fund called the Sewer Fund. In this situation, the sewer rents and installation charges are classified as receipts of the Sewer Fund.
3. The operation and maintenance of the sanitary sewer system may be financed through a municipal authority called The Borough or Township Sewer Authority. Under this arrangement the sewer rents and installation charges will be receipts of the sewer authority and need not be audited by elected auditors.
4. There may be a sewer authority, but the sewer system could be leased back to the borough or township. The municipality then makes periodic lease rental payments to the authority which uses this revenue to make its debt service payments. If the sewer rents are received by the borough or township treasurer, those receipts and corresponding expenditures must be audited by the borough or township auditors. This audit may be made in addition to an audit made by the authority auditor.

Special Assessments

The term "special assessment" is used where local improvements such as paving, curbing or sewer mains, are constructed on a particular street by petition of the owners living on the street and the cost of improvement is assessed against the abutting property owners, usually on a front-foot basis.

Only special assessments and liens collected on projects financed through the General Fund will be reported under the revenue receipts of a borough or first class township in its General Fund accounting. The comments made with respect to receipt forms and billing, in connection with departmental earnings apply here as well. The accounting for special assessments and special assessment bonds, is usually handled in a separate Special Assessment Fund which will be considered in a later section.

Non-revenue receipts

The sources of non-revenue receipts of a borough or township are listed in the annual financial report as follows:

1. Borrowed Funds
 - a. Temporary loans
 - b. Sales of bonds
2. Other Non-revenue Receipts
 - a. Sale of property, supplies and equipment
 - b. Refunds of expenditures
 - c. Transfers from other funds

Much of the procedure described in this section with respect to the various revenue receipt items applies to these non-revenue items, with the following additional comments.

Sale of Bonds

Instructions in the financial report indicate only proceeds of the sale of bonds paid directly into the General Fund should be reported as non-revenue receipt of the General Fund. Bonds are generally issued for a specific purpose and the proceeds usually go into a special fund to carry out the special purpose.

Sale of Property, Supplies and Equipment

Where real property, supplies or equipment are sold, the auditors should:

1. Determine the sale has been authorized by the borough council, board of township commissioners or board of supervisors;
2. Examine agreements of sale, invoices or other documents concerning the sale;
3. Ascertain the agreed price has actually been received, recorded in the books and deposited in the bank.

Refunds

Receipts classified as refunds include:

1. Refund of money paid out where some error occurred in the billing or some defect was found in the purchased item;
2. Refund of insurance premium because of cancellation of policy;
3. Return of money temporarily advanced to some governmental agency such as an authority.

These are generally not considered revenues but rather refunds of expenditure except that refunds of prior years expenditures are placed under Other Financing Sources.

Transfers from Other Funds

Transfers of money from other funds should be authorized by motion or resolution as required in the appropriate municipal code and may include transfers for the following purposes:

1. If the General Fund wishes to receive money from another fund, a transfer may be authorized. It is unwise, if not illegal, to borrow from a Special Assessment Fund or Sinking Fund, since those funds are definitely earmarked to pay interest and retire bonded debt. To borrow from such funds would defeat the purpose of the fund and would violate the trustee features under which the funds operate.
2. If there is a surplus in a utility or other fund which is needed by the General Fund, a transfer may be made.

In auditing transfers, the auditors should look for several items:

1. Are the funds, in fact, unencumbered and otherwise eligible for transfer?
2. Is the transfer approved prior to the actual transaction by appropriate supporting documents such as recorded motions (in boroughs) or adopted resolutions (in townships of the second class)?
3. Is the transfer consistent with the approved budget or with later changes to the budget?

Audit Program

Starting the Audit

1. Obtain an understanding of the internal control system of the governmental unit.
2. Obtain an understanding of the governmental unit's organization and key personnel.
3. Request the solicitor for the borough or township under audit to set forth in a letter any legal or other situations which may affect the financial condition of the borough or township. Examples of such matters are: pending litigation and contingent liability. This letter is to be supplied at the close of fieldwork.
4. Secure a letter from borough council, board of commissioners or board of supervisors indicating to the best of their knowledge and belief the financial records reflect all assets, liabilities, receipts and expenditures for the year under audit. Such a letter does not relieve the auditors of their responsibility to make a careful examination, but it does place a burden on the responsible officials to see all financial matters are disclosed in the records and reports.
5. Read minutes of meetings of the governing body.
6. Examine the insurance policies of the governmental entity.
7. Obtain or prepare a trial balance for each fund.
 - a. Determine whether the trial balance accounts are classified in a manner which is compatible with the Report Form.
 - b. If not compatible, the auditor will need to reclassify transactions during the course of the examination to insert figures in the Annual Audit and Financial Report (DCED-CLGS-30).

Audit of Cash

The objectives of the audit of cash are to determine that:

1. Reported cash balances are correct and belong to the governmental unit.
2. Cash balances presented on the balance sheet represent all cash items.
3. Cash balances are properly classified in the financial reports.

Audit Procedures

1. Confirm bank balances as of the balance sheet date for all banks used during the year. A standard bank confirmation form is found at the back of the book.
2. Obtain copies of bank reconciliations for the financial statement date.
 - a. Compare reconciled balances to the balance sheet(s) and ledgers to verify agreement
 - b. Compare reconciled balances to bank confirmations.
 - c. Test clerical accuracy of the reconciliation.
 - d. Trace deposits in transit and outstanding checks to the subsequent bank statement.
3. Obtain or prepare a schedule of cash in savings accounts or certificates of deposit.
 - a. Trace balances to the general ledger.
 - b. Confirm balances as of the balance sheet date (part of confirmation process).
 - c. Examine passbooks and certificates of deposit, compare with confirmations; be alert for unrecorded transactions occurring on or before the balance sheet date, but not recorded in the accounting records.
 - d. Recompute interest earned and trace to related income accounts (Account #341).
4. Prepare a schedule of transfers between bank accounts; include the following information:
 - a. Name of disbursing and receiving bank accounts and numbers.
 - b. Amounts.
 - c. Date disbursed per books and per bank statement.
 - d. Date deposited per books and per bank statement.

Review the schedule to determine agreement of dates and amounts on the disbursement and deposit sides; investigate uncompleted transactions and determine whether time lags appear reasonable.

Petty Cash

1. Identify all petty cash funds, locations, custodians and purpose.
2. Count undeposited cash in the presence of the custodian:
 - a. List coin and currency by denomination.
 - b. List other items, stamps, checks, vouchers; examine date, payee, amount, authorization, account, documentation supporting vouchers.
 - c. Trace the fund balance to the balance per the general ledger.
 - d. List unusual items, such as postdated checks or vouchers prepared in pencil to discuss with appropriate personnel.
 - e. Have the custodian sign a receipt at the conclusion of the count certifying return of the funds.

Audit of Investments

The objectives of the audit of investments are to determine that:

1. The municipality owns the investments at the balance sheet date and has physical evidence of this.
2. Related income is properly recorded and received.
3. Restrictions, pledges or liens on any of the investments are identified and disclosed.
4. Investments and related income are fairly presented in the financial statements.

Audit Procedures:

1. Obtain or prepare an analysis of investments, showing.
 - a. A description of securities held at the beginning of the period including values, maturity dates, interest rates.
 - b. Additions to investments made during the year.
 - c. Sales and dispositions made during the year including sale price, cost, and gain or loss.
 - d. Investments held at the end of the year.
 - e. Investment income earned during the year.
2. Trace ending balances to accounting records and beginning balances to prior year audit report.
3. Inspect securities on hand (in presence of the municipal custodian) and verify agreement with accounting records.
 - a. Note ownership by municipality.
 - b. Obtain a signed receipt from the custodian that the securities were returned by the auditor in good order.
4. Confirm investments held by independent custodians and consider inspecting them.
5. Determine whether approval for purchases and sales are contained in the minutes of the municipality.
6. Trace purchases and sales to cash books and supporting documentation.

Revenues, Receivables, Interfund Transfers

The objectives of the audit are to obtain assurances that:

1. Revenue accounts include all transactions related to the period.
2. Any related receivables are valid, fairly stated and the governmental unit has the legal right to collect them.

Audit Procedures - Property Taxes:

1. Trace monthly reports of money received, prepared by the tax collector for the treasurer, to the cash receipts journal.
2. Reconcile the ending uncollected balance with the beginning balance, accounting for collections, additions, discounts or penalties of the report period.
3. Compare current year's assessed value with the prior year, obtain explanations of significant differences.
4. Review the computation of total assessed value for property for mathematical accuracy.
5. Recalculate the tax levy (assessed value multiplied by tax rate).

6. Review delinquent taxes to ascertain whether the penalty has been applied where applicable.
7. Review discounts to determine whether justifiable.
8. Verify approval for exonerations from the governing body of the governmental agency.

Audit Procedures - Other Taxes and Income

1. Compare current year revenues with current budget and prior year actual.
2. Review the reasonableness of any levies and test mathematical accuracy.
3. Trace other types of receipts (beer and liquor license fees, building permits) from the source document into the cash receipts journal and bank deposit.
4. Account for the sequential numbering of preprinted forms used for permits and licenses.
5. Examine rental agreements for property rented by the governmental unit to other entities.
6. Analyze ending accounting receivables and consider confirming.

Audit Procedures - Grants and Similar Revenues From Other Governments and Quasi-Government Entities

1. Examine documentation transmitting grants to verify authenticity, proper amounts, funds and accounts, as well as possible restrictions on use which could affect accounting.
2. Trace cash grants through the receipts journal and validated bank statement.
3. Trace non-cash grants into the accounting records.
4. Analyze ending accounts receivable and consider confirming.

The General Fund: Expenditures and Related Liabilities

Audit of Governmental Expenditures

The expenditures incurred in carrying on the major governmental functions and activities of a borough or township are divided into the following classifications in the annual financial report.

General Government

1. Administration
2. Tax collection
3. Municipal buildings

Protection to Persons and Property

1. Police protection
2. Fire protection
3. Building regulation, planning and zoning

Health and Sanitation

1. Board of health
2. Sanitary sewers
3. Sewage disposal
4. Public comfort stations
5. Solid waste collection and disposal

Highways

1. Streets and bridges
2. Street lighting

Culture-Recreation

1. Parks and playgrounds
2. Shade trees
3. Libraries
4. Senior centers

Special Services

1. Market
2. Cemetery
3. Airport

Miscellaneous

1. Insurance (if not distributed to functions cited above)
2. Pensions
3. Other miscellaneous items not classified elsewhere

Debt Service

1. Interest on bonds
2. Interest on temporary loans
3. Debt principal

Comments on Governmental Expenditures

Expenditures is the term used in governmental accounting to describe transactions which either decrease financial resources or increase current liabilities. Expenditures include some, but not necessarily all, cash disbursements. Disbursements for operating the local government, acquiring capital assets or for debt service are considered to be expenditures; however, disbursements to acquire securities for investment purposes would not be considered an expenditure under most circumstances. Also, under an accrual or modified accrual basis of accounting, expenditures will often be recorded in the accounting records prior to a cash disbursement being made.

The above outline is condensed and attention is called to additional classifications of expenditures that exist under each governmental function. The classifications include:

1. Classification by character and object — example:

Current Expense

- a. Salaries and wages for personal services
- b. Contractual services
- c. Materials and supplies
- d. Other charges

Capital Outlay

Fixed assets (land, structures, equipment)

2. Classification by activity — example:

Highways

- a. Snow removal
- b. Cleaning streets and gutters
- c. Street lighting
- d. Street signs and markings

The report form filed by auditors is the same for boroughs and townships. It is designed to follow the Chart of Accounts for Pennsylvania Municipalities, which provides a uniform numbering system. The numbering system in the Chart of Accounts is adaptable for use with either single or double entry accounting and may be expanded for those municipalities with more complex needs. The Chart of Accounts is designed for a program budget system. This is a combination of the features of line item budgets and performance budgets. Line item budgets specify the amounts to be spent for each category of purchases regardless of the ultimate use of the purchase (For example, a total amount for gasoline without specifying the amounts needed for administrative vehicles, police vehicles or road maintenance vehicles). Performance budgets, on the other hand, budget money according to the desired result, such as X number of hours of police coverage at a particular cost per hour.

The program budget combines these features by designating specific line items in each of several program categories. The actual use of the Chart of Accounts and the design of the budget may vary somewhat from one municipality to another. The important feature for the auditors to consider is the integrity of the system within the municipality and the ability to convert the audited transactions onto the system used in the standardized audit form.

Following is a description of procedures governing the expenditure of municipal funds:

1. All expenditures must be approved by the governing body at a public meeting. The secretary may be authorized in advance by resolution to pay certain recurring obligations (such as payroll or utility bills) when received.
2. Reference to bills approved in minutes of meeting - The bill list (if used) should include: date of bill, amount, name of payee and brief description of what was purchased, if not self-explanatory. Use of a bill list can improve the efficiency of a meeting.
3. Order to treasurer signed by two supervisors in township of second class or president and secretary if borough or township of first class.
4. Treasurer signs check for payment of bill only if sufficient monies are available.

Tax Collector's Bond

The bonding of tax collectors is governed by Section 4 of The Local Tax Collection Law. In third class cities and first class townships, the elected treasurer serves as tax collector, but, in boroughs and second class townships the tax collector is an elected official. In both cases, the treasurer or tax collector is charged with collecting taxes for all local taxing units (the municipality, the school district, and in most cases the county). One surety bond must be issued covering all taxes for which the treasurer or tax collector is responsible. The amount of the bond is fixed by the court of common pleas and may not exceed the estimated amount of the duplicates to be delivered to the collector in one year. In some counties the practice is to fix the bond at approximately one third of the tax duplicate. The cost or premium for the bond is prorated among the taxing districts within the jurisdiction of the tax collector or treasurer involved. Verification of bonds must be made at the county clerk's office and with the insurance agency writing the bond.

Audit Procedures - Expenditures and Related Liabilities

The objective of the audit is to obtain evidence that expenditures incurred during the period have been identified and properly supported, recorded and classified in the correct amounts, funds, accounts and accounting periods.

Audit Procedures

1. Verify cash disbursements
 - a. Compare paid checks, cash disbursements journals and invoices or other supporting documents to ascertain agreement of amounts, proper approvals, adequate cancellations and correct fund and account classifications.
2. Determine whether the governmental unit complied with applicable laws for awarding contracts for those tested expenditures requiring such compliance.
 - a. Review bids, contracts, insurance coverage required of contractors and progress payments.
 - b. Determine whether the expenditures are financed through the General or some other fund such as Bond Fund or Special Assessment Fund.

Auditors should review the applicable code provisions regarding bidding and contracting requirements:

Sections 1401-1411 of The Borough Code;
Sections 1801-1811 of The First Class Township Code;
Sections 3101-3109 of The Second Class Township Code.

3. Analyze accrued liabilities at year end.
 - a. Obtain a trial balance of accounts payable and/or vouchers payable.
 - b. Examine supporting documentation noting receipt of goods or services within the fiscal year.
 - c. Verify payment in subsequent period.

Audit Procedures - Interfund Transfers

1. Determine that interfund transactions are properly approved by examining minutes and other supporting documentation.
2. Ascertain that transfers are properly accounted for as to amount, account, fund.

Audit Procedures - Payroll

1. Compare cancelled checks with payrolls.
2. Check the mathematical accuracy of payrolls.
3. If a separate bank account is used for payroll disbursements, compare total payroll with amount deposited in a payroll account and with the General Fund disbursing check.
4. Compare individual earnings records with (a) authorization of employment and (b) rate of pay.
5. Test changes in rates, employment and dismissal of personnel by reference to approval by council, commissioners or supervisors.
6. Test basis for payments to supporting records such as time cards, temporary employee records, absence records.
7. Compare salary lists with W-4 withholding exemption slips on file.
8. Review payroll tax returns for regularity.
9. Determine payments, if any, made to pension funds, hospital insurance agency or other agencies for which payroll deductions have been made.

Special Revenue Funds

Purpose of Special Revenue Funds

Special revenue funds are similar to the General Fund, except that the special revenue source and the records for its funds have been established for one specific purpose. In these cases, it is particularly important for the auditors to ensure revenues received for a particular purpose are actually spent for that designated purpose. Examples of special revenue funds include street light and hydrant assessments. These are often used in municipalities where only a portion of the township is serviced by street lights or fire hydrants.

These special assessments are levied on a front-foot basis, and must be distinguished from any millage levy in the report. Such assessments are more frequently found in townships with clusters of development requiring certain special services not needed in more sparsely settled portions of the township. The residents of the second area should not be expected to finance improvements intended only for other areas.

Audit Program - Special Revenue Funds

A program similar to the program for the General Fund should be followed consisting of:

1. Audit of cash.
2. Audit of revenue receipts.
3. Audit of governmental expenditures.

Refer to Sections 3 and 4 for specific procedures regarding the auditing of these categories.

Utility Funds

Purpose of Utility Funds

This term is used when a borough or township owns and operates a water works, electric plant or sanitary sewers and sewage disposal plant. Under such situations, the governmental unit will collect fees or service charges for use of water, electricity and sanitary sewers. The purpose of such a fund is to account for the revenue receipts, non-revenue receipts, operating expenditures, capital outlay, nongovernmental expenditures, and transfers to other funds. The different possible methods of handling the utilities in the various local governmental units are discussed below.

1. A borough or township might purchase a private water company or establish its own water works. This is usually done by issuing bonds to acquire or establish the municipal water works. The Water Fund under discussion is used to reflect the operations of the water works and its financing. Since it is important that the water system be maintained on a self-supporting basis, its transactions must be separately recorded and reported in the Water Fund. It is not sound accounting or good administrative practice to permit any of the water department transactions to be reflected in the General Fund.
2. A municipality may create a municipal authority to acquire or establish and operate a water system. In this event, the water authority becomes an independent political subdivision organized to provide water services to the community. Such an authority is not under the supervision or control of the borough or township government. The audit of the authority is not the job of the municipal auditors.
3. A borough or township may construct and operate a sanitary sewer system and sewage disposal plant as a part of its General Fund operations. In such a case, the financing is done by taxation and other revenues of the General Fund and no special charge is made to the users of the service. The elected auditors will examine the transactions pertaining to the sanitary sewer system and sewage disposal operations as a part of the audit of the General Fund.

4. The sanitary sewer system and sewage disposal plant may operate as a public utility financed largely by sewer rents collected from the users of the service. In this event, the Sewer Fund reflects the transactions pertaining to sanitary sewers and sewage disposal. The sewer system is thus maintained on a self-supporting basis under a Sewer Fund independent of general tax money.
5. The sewer system may operate as a municipal authority. In this case, the sewer authority, like the water authority, becomes an independent political subdivision organized to provide the community with sewer service, and the audit of municipal authorities is outside the jurisdiction of municipal auditors.
6. A borough or township may create a municipal authority to finance the construction of utility facilities, but the authority then leases the facilities to the borough or township for operation. In cases where facilities owned by an authority are being operated by a borough or township on a leaseback, the elected municipal auditors must audit the Utility Funds since it is their responsibility to audit all funds that are handled by borough or township officers or employees.

The leaseback agreement may provide for an audit of the Utility Fund by a certified public accountant. Such an agreement does not relieve the elected auditors of their responsibility. If such an agreement exists, then the Utility Fund is audited twice.

The accounts of a municipal authority must be audited by a certified public accountant, but a leaseback agreement providing for such an audit of any borough or township Utility Fund is purely a discretionary matter with the municipal governing body.

All borough or township funds must be kept on the basis of a single fiscal year. A borough or township may not have one fiscal year for one fund and a different fiscal year for another fund. If the fiscal year of the authority does not coincide with the fiscal year of the borough or township, this may present a problem where there is a leaseback agreement. Nevertheless, the borough or township Utility Fund must be kept on the same fiscal year basis as the other borough or township funds. These are generally proprietary type funds.

Variations on and combinations of the possible organizational structures mentioned above may exist, but they should not affect the basic auditing procedures.

The classification of Water Fund receipts and disbursements is outlined below:

Revenue Receipts

1. Water sales
 - a. Metered sales—industrial and commercial
 - b. Metered sales—residential
 - c. Metered sales—other
 - d. Unmetered sales
2. Other revenue receipts, such as service on customers' installations, merchandising and interest

Non-revenue Receipts

1. Borrowed moneys
2. Other non-revenue receipts
3. Transfers from other funds

Governmental Expenditures

1. Operation and maintenance
 - a. Water collection
 - b. Purification

- c. Pumping
 - d. Distribution
 - e. General expenses
2. Capital outlay
 3. Interest

Other Disbursements

1. Payments to municipal authority
2. Principal paid on indebtedness
3. Refunds
4. Transfers to other funds

The classifications of items of receipts and expenditures for the Electric Fund and Sewer Fund differ somewhat as to operation and maintenance, but in general they follow the same pattern as the Water Fund classification.

Audit Program - Utility Funds

1. Refer to audit programs contained in Sections 3 and 4 as applicable.
2. Additional accounts receivable procedures:
 - a. Examine billing procedure for efficiency and accuracy.
 - b. Construct a summary for the year. Total receivables at the beginning of the year plus the total billed for the year for water services, less cash collections on account, plus adjustments, corrections or write-offs should give the total accounts receivable outstanding and uncollected at the close of the year.
 - c. Obtain a list of uncollected accounts at close of year and compare the total of the list with the result obtained in (b) above. The two amounts should agree. If there is a difference, investigate further to find the cause.
 - d. Compare the total cash collections credited to the customers' accounts with the total cash reported as water sales.
 - e. If deemed necessary, the amounts outstanding should be confirmed by sending a statement to each customer owing money at the close of the year with a request that the customer report directly to the auditors as to the correctness of the account.

Special Assessment Funds

Purpose of Special Assessment Funds

This type of fund is established for the financing of local improvement projects such as curbing, street paving, street widening and construction of sewer mains. Special assessment funds are no longer appropriate under generally accepted accounting principles but are still found in many Pennsylvania municipalities. The projects are usually financed by levying special assessments against the abutting property owners whose property is improved by the project.

The accounting for such projects is rather complicated and should provide for recording the following:

1. Petition to borough council, township commissioners or supervisors signed by property owners abutting on the street where the improvement project is sought;
2. Temporary financing of construction costs pending sale of bonds;
3. Engineer's determination of cost of entire project and the assessable cost per front-foot;

4. Billing of property owners for each owner's share of cost. The total of such charges will equal the special assessments accounts receivable for the project under review;
5. Billing property owners for recording liens against their properties in the office of the prothonotary at the county courthouse;
6. Provision must be made for periodically billing the interest due on the unpaid balance of the special assessments, which is usually payable over a period of five to ten years;
7. The disbursements of the proceeds from the sale of bonds in for the project should generally be made from the fund where such proceeds were deposited. Such bond proceeds must be used solely to pay for the costs incurred in construction of the project being financed.

Since all bond issues used to finance special assessment projects since 1941 have been, and under existing law must be, general obligations of the municipality, pledging the full faith and credit of the municipality as well as project revenues, it is perhaps most common to record all transactions involving a special assessment project in a Special Assessment Fund. However, there may be no legal objection to accounting for such projects in a Utility Fund (if the nature of the project involves a utility service) or General Obligation Bond Fund. The auditors should simply make sure a complete and logical procedure is followed.

1. The municipality may have a share in the construction cost which it must finance from the General Fund.
2. Payments of interest and principal on bonds sold to finance special assessment projects may be handled in accordance with either of the following plans:
 - a. Interest and principal payments may be paid directly from the Special Assessment Fund; or
 - b. Interest and principal allotments may be first transferred to a Sinking Fund and then payments made to the bond holders from the Sinking Fund established for each bond issue.

The particular plan to follow will depend upon the terms of the bond indenture.

Comments

The above accounting procedure relates to one project. However, a particular municipality may have a large number of projects spread over a several year period. The auditors should keep in mind the stated principle of creating as few new funds as possible. A number of different projects to be started in a single year may be combined under a single bond issue if that is the method of financing. Furthermore, if bond issues are made on a too frequent basis, the municipality may be on the way to overextending its capability to finance them along with other recurring expenditures. Procedures in the Local Government Unit Debt Act as well as management practices discussed in such other Department of Community and Economic Development publications such as the *Fiscal Management Handbook* will be helpful in preventing problems.

Audit Program - Special Assessments

1. Follow audit procedures as applicable from previous Sections
2. In connection with accounts receivable balances, preparing the following schedule for each project is suggested

List of account balances at	
beginning of fiscal year	\$ _____
Add:Charges for year	\$ _____
Total	\$ _____
Deduct: Cash collections	\$ _____
Adjustments	\$ _____
List of account balances attend	
of fiscal year (should agree with bank	
balance for accounts receivable) . .	\$ _____

3. Examine the certificates from the prothonotary's office to prove liens have been filed and are still valid.
4. Request property owners to send a statement directly to the auditors indicating whether or not their account is correct.

Debt and Debt Service Accounts

Governments may, with proper approvals, make short- and long-term borrowings. Short-term borrowings could be in the form of tax revenue anticipation notes which are collateralized by the collection or receipt of taxes, sales of bonds and grants. Short-term borrowings are generally accounted for within the fund receiving them.

Long-term debt is generally used to finance construction or other major projects. It includes general obligation bonds, special or limited obligation bonds, capital leases, as well as other obligations having a long-term repayment schedule. General obligation bonds are backed by the full faith and credit of the issuing government entity; special bonds are similarly pledged, but also pledge specific receipts such as taxes. An example of other types of obligations would be an equipment purchase contract containing an installment payment term. Long-term debt is generally accounted for in the long-term debt group of accounts rather than through a fund. Repayments of interest and principal are made through sinking funds.

Audit Program - Debt and Debt Service Accounts

Audit objectives

To determine that:

- Debt is authorized, and fairly presented as to fund, account and amount in the financial statements.
- Related interest expense is fairly presented.

Audit procedures

1. Obtain or prepare an analysis of notes or other long-term debt including a description (date incurred, type, face amount, interest rate, amount of payments); principal balance at beginning of year, changes during the year and balance at end of year; and interest expense incurred during the year, paid during the year and accrued at the end of the year.
2. Trace totals to the respective fund or group of accounts (see section on sinking funds, following).
3. Trace authorization for new debt to board/council minutes.
4. Examine supporting documentation for all debt and related interest, such as note agreements and correspondence.
5. Consider confirming outstanding balances or terms with the creditor.
6. Examine debt cancelled and/or paid during the year.
7. Recompute interest or test local government's computations.
8. Where interest is paid by redeeming bond coupons, the auditors must check the coupons with outstanding bonds, verify that the paid coupons are cancelled by the bank paying the coupons, or inspect the bank's certificate of cremation.
9. Where some of the bonds are redeemed during the year, the auditors should inspect the cancelled bonds and make note of the numbers on the coupons.

10. A control over the entire bond issue should be established showing (for example):

Original issue at par.	\$200,000
Less: Redemption in prior years	\$30,000
Redemption in current year.	\$10,000. \$40,000
Bonds outstanding at close of fiscal year.	\$160,000

The total bonds outstanding should correspond with a list of bonds known to be outstanding and on which coupons are being paid.

Sinking Funds

Purpose of Sinking Funds

Sinking funds are created to provide for the regular payment of interest and the retirement of bonds or notes as they come due. The monies to meet these purposes may come from a number of sources, including taxes or transfer from other funds. A separate sinking fund is created for each bond issue.

The significance of sinking funds has declined because of the wise use of serial bonds today. The historical purpose was to mandate the periodic deposit of funds sufficient to pay off term bond issues. For term bonds, the entire principal amount of the bond comes due upon maturity. Term bonds are no longer generally in use. Municipalities now use a series of bonds which require regular payments on the principal throughout the life of the bond issue. Thus, the use of sinking funds to insure that the municipality has set aside sufficient funds to cover maturing debts is largely irrelevant. Nonetheless, the requirement remains in the law and sinking funds are normally seen as simply an accounting transaction through which funds are transferred before they are actually used to pay a portion of a bond issue.

Sources and Uses of Sinking Fund Assets

Sources:

- Taxes
- Cash from sale of investments
- Interest on deposits or securities
- Transfers from other funds

Uses:

- Interest expense
- Bonds retired
- Cash paid for investments
- Transfers to other funds

The balances of this fund at both the beginning and close of the fiscal year may be composed of cash and securities or investments held. Thus the accounting for this fund can be complicated by holding, purchase and sale of securities in which Sinking Fund monies are invested.

Sinking Fund Investments

The governing body is charged with the management and investment of sinking fund money. However, the provisions of the Local Government Unit Debt Act specify the types of investments which may be made:

1. Deposits in banking institutions and savings and loan associations so long as they are covered by Federal Deposit Insurance or secured for any amount in excess of insurance coverage.
2. Securities authorized for the investment of Commonwealth funds at the time the investment is made.

Audit Procedures - Sinking Funds

1. Audit cash in each separate Sinking Fund for a designated bond issue (See Section 3).
2. Audit revenues, receivables, and receipts from taxes earmarked for debt service in the manner outlined in Section 3.
3. Audit investments and related income per Section 3.
4. Review transfers from General Fund or other funds.
5. Audit debt and debt service per Section 8.

Comments

Refer also to Section 2 describing internal control of securities.

A simplified example for determining remaining nonelectoral debt capacity is as follows:

Capital Projects Fund

Purpose of Capital Projects Funds

The capital projects fund is generally used to record the acquisition of major facilities through purchase or construction. These facilities are then used in general government operations. The projects can be financed through debt proceeds, taxes, grants from other governments or transfers from other funds. When projects are funded by way of debt proceeds, these proceeds are included under "other financing sources" in the revenues section of the Audit Report. The debt liability is accounted for separately in the general long-term debt account group. When projects are funded by grants from other governments, the grants are recognized as revenues to the capital projects fund as they are expended for eligible project purposes. Prior to that they are recorded as liabilities. Upon completion, capital assets are recorded in the fixed asset account group.

Audit Objectives

The objective of the audit is to obtain evidence that:

1. The financial statement(s) for capital projects funds are fairly stated.
2. Capital expenditures comply with budgetary, legal, grantor and contractual requirements

Audit Program - Capital Projects Funds

1. Refer to the audit programs for cash, investments, receivables, payables, transfers, revenues and expenditures in Sections 3, 4 and 6.
2. If projects are funded through grants from other governments, review any grant agreements to determine any contract terms the governmental unit must meet and test these if material.
3. Consider inspecting capital projects in process to verify their existence.

SIMPLIFIED EXAMPLE FOR DETERMINING REMAINING NONELECTORAL DEBT

	2001	2002	2003
ALL MONEY RECEIVED	\$70,000	\$55,000	\$65,000
less interest received on sinking fund deposits	200	-0-	300
less one-time grant funds	3,800	5,000	7,700
less revenue from sale of assets	\$20,000	\$ 3,000	-0-
“TOTAL REVENUE”	\$46,000	\$47,000	\$57,000

“BORROWING BASE” = $\frac{46,000}{3} + \frac{47,000}{3} + \frac{57,000}{3} = \frac{150,000}{3} = \$50,000$

“DEBT LIMIT” = $50,000 \times 250\% = 50,000 \times 2.5 = \$125,000$

GROSS OUTSTANDING PRINCIPAL (electoral and nonelectoral)	\$92,000
less electoral debt outstanding	\$60,000
“GROSS NONELECTORAL DEBT”	\$32,000
less amount in Sinking Fund	-0-
less debts due municipality	\$4,000
less assessments and liens expected	\$5,000
less surplus unappropriated cash	\$5,000
“NET NONELECTORAL DEBT”	\$22,000

Limit on new nonelectoral debt is “debt limit” less existing “net nonelectoral debt” e.g., $\$125,000 - 22,000 = \$103,000$ remaining nonelectoral debt limit.

Other Borough and Township Funds

Various special funds are often created for specific purposes such as providing special services or meeting particular local needs. The funds are of two general types:

1. Those used to set aside money for a major capital expenditure.
2. Those serving as “operating funds” for providing particular services.

The operating funds are often not created when the number of transactions is little enough to continue the use of a separate account within the General Fund. This meets the desired objective of keeping the number of funds in a municipality’s system to a minimum. Where they are created, they frequently deal with such services as recreation programs or solid waste collection and disposal. Auditing procedures for these funds should follow those established for other similar activities including the General Fund and Special Utility Funds.

Capital Reserve Funds

The borough and township codes authorize establishing capital reserve funds to prepare for the eventual expenditure of large sums of money for specific projects or equipment. Capital reserve funds are, in essence, a savings program to accumulate money for future uses. The authority to establish such funds is contained in the following sections of the respective municipal codes:

Borough Code, Section 1201 (33).

First Class Township Code, Section 1502 (LVIII).

Second Class Township Code, Section 1508.

Money is transferred into this fund as budgeted and available. Because such funds are only drawn upon infrequently, the money should be maintained in interest-bearing securities.

Disbursements from this fund will be for only two purposes:

1. Purchases of investment securities
2. Actual purchases of land, buildings or equipment.

The *Fiscal Management Handbook* prepared by the Department of Community and Economic Development is an excellent reference for more information on the establishment and proper use of these funds. It should be noted that it is possible to change the intended use of these funds by proper action of the governing body. These actions must be taken in accordance with the particular section of the municipal code regulating the establishment and use of the fund.

Audit Program - Capital Reserve Fund

1. Procedures discussed in previous sections as applicable.

State Highway Aid Fund

In 1956 the state legislature passed Act No. 655 (P.L. 1944) allocating part of the state liquid fuels tax to be distributed among cities, boroughs, incorporated towns and townships to promote construction and modernization of local roads and streets. The money allocated under Act 655 must be deposited in this fund and kept separate from all other monies. Expenditures from this fund may be made only for road and street work authorized by the Department of Transportation.

All municipalities must annually submit to the Department of Transportation both a summary accounting of state fund expenditures and a record of checks drawn on the state fund in the previous year. Forms are mailed to municipal secretaries sometime prior to the first meeting of the year, and should be completed and submitted to the District Office on or before January 31. Delays in submitting the reports may result in delays in payments of the annual allocations.

The summary report of liquid fuels expenditures for the previous year is submitted on Form MS 965 and must be certified by the president of the council or township commissioners or chairman of the board of supervisors and attested by the secretary. The report shows the amounts expended in both construction and non-construction according to prescribed classes of work. The report must include the ending balance of the previous year, state allotment received during the current year and any investment earnings, amount expended and the balance.

In order to verify liquid fuels funds have been expended for authorized purposes, Form MS 965S must be completed to show for each check issued the date, check number, budget item number, payee and the amount and purpose. Both forms must be submitted in quadruplicate to the appropriate district office, and one copy is returned for the local files. Electronic submissions eliminate this requirement.

Annual allocations of these funds are determined by a 50/50 statutory formula based on the number of miles of official streets and population from the latest census. The Department of Transportation will recognize only those streets or roads that have been officially adopted, as evidenced by ordinances, resolutions, plot plans or survey plans submitted to the Department together with certification that the street or road has been recorded in the ordinance book, or with the Clerk of Courts. Having once secured approval of the initial street plan, secretaries are responsible for notifying the Department as changes occur in the street system of the municipality.

As a result of the passage of Act 114 of 1998, effective February 1, 1999, municipalities may now use their liquid fuels fund allocation for the maintenance, repair, construction or reconstruction of alleys, courts and ways. The liquid fuels allocation formula is not changed by this legislation, only the usage of funds. A project application (MS 329) and completion (MS 999) form should be completed for this work in the same manner as other highway projects.

State funds allotted under the Liquid Fuels Act may not be commingled with any other local funds. A separate checking account must be established for deposits and payments, and an annual check record of this account must be submitted to the Department of Transportation. However, the Department permits municipalities to expend money for highway purposes directly from the General Fund and to reimburse the General Fund by transfer from the Liquid Fuels Fund. Such transfers can only be made if the municipality can identify the reimbursed costs, and the costs must be allowable as liquid fuels fund expenditures. The transfers must be by check or wire/telephone transfers drawn on the liquid fuels fund and reported on the annual check record account.

Municipalities are encouraged to take advantage of increasing interest income by combining funds from various accounts, including the Highway Aid Fund. Here a distinction must be made between “combining” and “commingling.” In the first instance, a clear record is kept of the sources and amounts of money combined from various accounts to make a larger total investment. Commingling, which is illegal, is the mixing of funds in such a way that there is no clear delineation of how much money was obtained from each of several funds or accounts or how much of the total interest earnings should be credited to each of the various sources.

An opinion of the Attorney General of Pennsylvania dated October 11, 1974, finds the practice of combining funds for investment purposes to be both legal and within the responsibilities of municipal officials to seek investment with a high rate of return. This is discussed at greater length elsewhere in this guide. State Highway Aid Funds are eligible for combining with other funds so long as a clear audit trail is maintained and the other guidelines of the Attorney General’s opinion are followed.

The current year’s allotment will be forwarded to the municipality when all qualifying forms have been received and approved by the Harrisburg Office of the Bureau of Municipal Services. Maintenance funds may be spent without further approval of the Department. Funds budgeted for construction or reconstruction of streets, roads and bridges can be expended only upon application to and approval of the Department.

Detailed instructions for completing forms required to qualify for Liquid Fuels allocations are contained in Publication No. 9, available from the Department of Transportation, Bureau of Municipal Services. Additional copies are available through the Department of Transportation’s Publications Sales Store, P. O. Box 2028, Harrisburg, PA 17105, or the web at www.dot.state.pa.us.

Audit Program - State Highway Aid Fund

1. Follow audit procedures discussed in previous sections as applicable.
2. Additional audit procedures for expenditures:
 - a. Examine payroll, material and equipment invoices and vouchers in the usual manner.
 - b. Determine that the expenditures are incurred to improve and maintain the local roads and streets in accordance with the provisions of Act 655 and Publication No. 9, *Policies and Procedures for the Administration of Liquid Fuels Funds*.
 - c. Determine all work done conforms to the requirements and regulations of the Department of Transportation.

Comments

Grants from the county as county aid for highway purposes must be deposited and expended from the General Fund.

The accounting system designed and published by the Department of Transportation as Form 903 is entitled *Treasurers Account Book*. It may be used by townships and boroughs.

The certification of the Municipal Treasurer's Bond (MS 904) has been incorporated into MS 965, the *Actual Use Report of State Funds*.

Agency and Trust Funds

Purpose of Agency and Trust Funds

Where a borough or township serves in the capacity of a trustee or custodian in administering certain assets to be held in trust for the benefit of certain persons or for carrying out some particular public purpose, such a fund is called a Trust Fund. An Agency Fund is established to account for assets received by a borough or township acting as an agency for some other governmental unit. There are so many types of agency and trust situations that it is impractical to attempt a discussion of all possible types. Therefore, it is proposed to consider, as examples, one Agency Fund and one Trust Fund.

Agency Fund

In this example, both a township and its school district levy a mercantile tax. By joint agreement, the township treasurer serves as collector for both taxes. Businesses file quarterly returns with the treasurer. The treasurer then splits the receipts between the township and school district. The township treasurer is acting as an agent for the school district, and mercantile tax collections for the school district are recorded in an agency fund.

Audit Program - Agency Fund for Joint Tax Collection

1. Follow audit procedures in previous sections as applicable.
2. Review or test quarterly returns filed by businesses.
3. Confirm with the school treasurer the amount received from the township treasurer.
4. Ascertain what balance of collected monies exists, if any, and determine the township or other account to which it belongs.

Comments

The cost of operating the tax collection operation is assumed by the township and is charged under general government expenditures.

The school district makes a payment to the township for its share of the cost of operating the mercantile tax office. These payments are classified as departmental earnings in reporting the receipts of the township.

The audit of an Agency Fund account of the above type should not be confused with the audit of taxes received by the school district or township or with the audit of tax collectors' accounts.

Trust Fund

A Police Pension Fund will be used as an example of a Trust Fund. Under the Act of May 29, 1956, P.L. 1804, as amended, a Police Pension Fund is mandatory in boroughs or townships where a police force of three or more members is maintained. The money received by the Pension Fund may be used to establish an actual

fund administered by the borough or township, or the money may be used to purchase annuities for each member of the police force. For our example the annuity plan has been adopted.

The receipts of money to support such a plan come from the following sources:

1. Contributions or assessments from the members of the force.
2. Annual appropriations, made by the borough or township, if needed.
3. General municipal pension system state aid allocations.
4. Gifts, grants, devises or bequests of money or property.
5. Dividends, interest or refunds from the insurance companies.
6. Earnings from investments.

The disbursements from the fund are made for the following purposes:

1. Premiums to insurance companies incurred in connection with the purchase of annuity contracts to pay retirement benefits when the member of the force retires because of age or disability.
2. Other expenses of the fund. State aid monies can be used to defray administrative expenses of pension plans including actuarial costs.

Note that pension trust funds can be considered in this category.

Audit Program - Trust Fund for Police Pensions

1. Follow audit programs in Sections 3, 4, and 6.
2. Examine annuity contracts and ascertain whether or not such contracts comply with the provisions of the Pension Fund Law (Act of May 29, 1956, P.L. 1804, as amended).
3. Examine payroll records to see that any payroll deductions made from salaries and wages of members of the police force are correctly transferred from the General Fund to the Police Pension Fund.
4. Verify or confirm interest-bearing monies on deposit with the insurance company.
5. Confirm that actuarial studies as required by Act 205 of 1984 have been completed and reported to the Public Employees Retirement Study Commission.

Accounts of Tax Collectors, Township Treasurers and District Justices

There are certain officials who collect revenues for a borough or township which must be turned over intact to the municipality and which must be audited. They are:

1. Tax collector in boroughs and second class townships
2. Treasurer who also serves as tax collector in first class townships
3. District justices in boroughs and townships.

Tax Collector in Boroughs and Second Class Townships

These officials are elected and are responsible for the collection of real estate taxes shown in the tax duplicates. They are also frequently appointed to collect Act 511 per capita or occupation taxes. The duplicates contain names, assessed values of property or occupations and the per capita rate. The duplicates are delivered to the tax collector by the taxing district. The collector then has 30 days to send out the tax notices. Taxpayers are entitled, by statute, to a two percent discount for payment during the first two months after the date of the tax notice. They pay the face rate during the two following months, and a penalty of up to ten percent is added four months after the date of the notice.

Refer to Section 3 for extensive comments concerning the audit of the tax collector's accounts particularly in relation to the cash receipts from taxes. The audit of the tax collector's accounts and the audit of receipts from taxes may be combined so that there is no duplication of effort on the part of the auditors.

Audit Program Tax Collector in Boroughs and Second Class Townships

1. Ascertain the tax collector is bonded. This may be verified in the county commissioners' office and with the insurance agency selling the surety bond. The bond will cover the tax collector's responsibility in collecting taxes for a borough or township, a school district and a county.
2. Ascertain the correct assessed valuation of taxable property in the borough or township, the amount of taxes levied on the duplicates and all additions to the duplicates.
3. Determine the amount of penalties added.
4. Ascertain the amount of discounts allowed.
5. Examine the lists of exonerations and make sure exonerations lists have been approved by the borough council or the township commissioners or supervisors.
6. Examine the list of real estate taxes returned to the county as delinquent taxes. Check the list with the county tax claim bureau and also be sure the penalty is added.
7. Examine the receipts issued by the borough or township treasurer (in townships of the second class) and see all monies collected have been turned over to the governmental unit under audit.
8. Secure the tax collector's agreement as to the correctness of the uncollected taxes outstanding at the close of the fiscal year.
9. If it appears the tax collector has not turned over to the taxing unit all of the monies collected, it may be necessary to hold the tax collector strictly accountable for the duplicates plus additions and penalties less discounts, exonerations and returns to the county. This difference is due the borough or township and should be covered by the tax collections turned over to the borough or township.

Where the regular elected tax collector is called upon to collect special taxes such as amusement, wage, mercantile or business privilege taxes refer to Section 3.

Treasurer-First Class Township

The treasurer in first class townships is an elected official. His responsibilities cover two areas:

1. Township Treasurer. In this capacity, the treasurer is in charge of township monies and keeps the accounts of the township government.
2. Township Tax Collector. As tax collector, the treasurer collects township, school and in most cases, county real estate taxes. In general he has all powers, duties and responsibilities imposed upon elected tax collectors in boroughs and second class townships by the Local Tax Collection Law. The audit of the treasurer's accounts for taxes should follow the same pattern set forth in Section 3 and in this Section.

District Justices

The district justices have judicial duties in connection with a variety of offenses and violations of local and state laws, as well as criminal cases. They impose fines, penalties and forfeitures and collect costs. These items are disposed of as follows:

1. Fines belonging to the county must be reported and turned over to the county treasurer quarterly.
2. Fines belonging to the Commonwealth must be reported and paid monthly into the state treasury through the Department of Revenue.
3. Fines belonging to a borough or township must be reported and paid monthly to the treasurer of the borough or township.

4. The costs collected are remitted by the district justices to the county.

The district justices are required to keep dockets and records which will enable them to report in affidavit form to each agency noted above the following information:

1. Names and addresses of offenders.
2. Offenses charged and dates of offenses.
3. Amounts collected.

The county controller or auditors must annually audit the accounts of every district justice within the county and report the results to the county commissioners, the Auditor General and to the governing body of each political subdivision which is entitled or has a right to receive any monies or funds collected by the district justice. In addition to the county audit, the local auditors are also required to audit the accounts of the district justice.

Suggested Audit Program - Records of District Justices

1. Determine from dockets and records what persons have been fined by the district justice and the amount of fines and costs imposed on the offenders.
2. Ascertain what fines, penalties, forfeits and costs belong to the municipality under audit and trace those into the municipal treasury.
3. If any fines have not been turned over to the municipality, the district justice shall be requested to make good the deficiency.
4. It is the district justice's responsibility to see any fines belonging to the county or state are paid into the treasury of each agency.
5. In all cases, watch for a timely transfer of money to the municipality since it represents potential interest income.

Interim Audit Check List for Elected Auditors

When any of the offices you are required to audit becomes vacant during the calendar year, the auditors must meet and audit the accounts of the former incumbent. There is no other legal guidance or requirement for an interim audit; what follows is recommended practice.

Goal: The goals of the interim audit process should be:

- To review and settle the accounts of the former incumbent. If balances are due to the municipality from the official, action to collect from the official or his bonding company cannot proceed until the amounts due are identified by the auditors in their report.
- To produce a firm set of figures for the incoming official to begin with.
- To provide figures and work papers to ease the work of the year-end auditors.

The report of this examination need only be communicated to the governing body. Work papers prepared in the course of the interim audit should be retained by the auditors.

Minimum action on an interim audit is not recommended; rather, the auditors should consider the steps needed for a normal year-end audit for the funds handled by the former incumbent, and depart from those steps only where such departure seems justified.

IV. Annual Financial Reports

Financial Statements

Objectives of Audit

The major objective of an audit is to analyze the books, records and transactions of the municipality to insure the financial statements fairly and accurately present the financial position of the municipality. A second objective is to check that funds have been properly handled and all transactions have been made in accordance with good practices and legal requirements. The financial statements include balance sheets and statements of cash receipts and disbursements.

An important distinction between statements of revenue and expenditures versus balance sheets is the time period covered by the report. Statements of revenues and expenditures always cover a period of time, such as a month, a quarter or a year. The audit statement required by the Department of Community and Economic Development includes all transactions for the fiscal year from January through December. Balance sheets, however, are prepared as of a specific date. This should be done for auditing purposes as of the ending date of the fiscal year being reviewed.

All borough and township audits must be submitted on Form DCED-CLGS-30, titled “Annual Audit and Financial Report,” to the Department of Community and Economic Development. A number of general comments regarding the preparation of the report are in order prior to discussing the specific schedules in detail.

Use of the Chart of Accounts

A significant improvement was made in Pennsylvania municipal accounting with the preparation in 1982 of a uniform chart of accounts for all municipal accounting systems. This numbering system provides standardized classifications for the many types of revenues and expenditures encountered in municipal government. It is expandable to fit the situations in large as well as small municipalities. It can also be used in automated accounting systems.

The chart of accounts system has three basic elements to the account number.

1. Prefix- identifies the fund
2. Account Number - identifies the specific account within the fund
3. Suffix - provides additional detail.

As an example of the use of the numbering system, a typical expenditure account number is shown below:

	01.432.15	
01 - Prefix	432 - Account Number	15 -Suffix
01. indicates the general fund		
400.00 indicates an expenditure		
430.00 indicates an expenditure on highways		
432.00 indicates an expenditure on highways for snow removal		
432.10 indicates an expenditure on highways for snow removal - salaries		
432.15 indicates an expenditure on highways for snow removal - salaries/ employee benefits		

In the account number section, the 100 series designates assets, the 200 series designates equity (liability and fund balance), the 300 series designates revenues and the 400 series designates expenditures.

A copy of the *Chart of Accounts* can be obtained from the Governor's Center for Local Government Services, Department of Community and Economic Development, 400North Street, 4th Floor, Commonwealth Keystone Building, Harrisburg, PA 17120-0225 or on the web at www.inventpa.com.

Receipts and Expenditures Compared to Transfers

An important distinction with regard to investments must be understood if an audit is to fairly represent the financial situation of a municipality. Many times throughout the fiscal year, idle funds may be used to purchase investments to earn interest income on money that is not immediately needed. Good accounting practice would call for writing a check to purchase the investment. Similarly, another entry would be made when an investment is redeemed and the cash is deposited back in the checking account. It is obvious the same amount of money could be invested and redeemed several times during the year. If the amounts of the checks for purchasing the investments were totaled and added to expenditures, the total expenditures would be far out of line with the amount of money actually spent since the amount invested would be counted several times.

The same holds true for redeeming the investments and depositing the money in a checking account. The only true revenue is the amount of interest earned. It is inaccurate to show as revenue money that was actually only held in another form and converted back to cash even though the balance in the checking account is increased. Transactions of this type must not be classified as revenue or expenditures when the audit report is prepared.

Reports Required by the Department of Community and Economic Development

Parts of Report

DCED-CLGS-30, "Annual Audit and Financial Report" is used by cities, boroughs, townships and home rule communities. The information required must be shown in each of several schedules:

- Balance Sheet
- Statement of Revenues and Expenditures
- Debt Statement
- Statement of Capital Expenditures
- Tax Rates, Census and Other Information

Electronic Filing

Instead of filing manually, auditors now have the option to file the Annual Audit and Financial Report directly to DCED through a secure Internet connection. Filing electronically creates many benefits for auditors, local officials and citizens, including increased accuracy, less preparation time, elimination of lost reports and information that is more readily available to end users. Electronic filing also enhances the Center's ability to provide more timely and accurate information. Each year, the number of reports filed online has increased.

Upon receipt of the report, the Center engages in a comprehensive review of the information entered in order to increase its accuracy. Changes have been implemented that have resulted in more consistent and accurate reporting. The information gathered from the various reports may be viewed online at the Center's website at www.inventpa.com. Types of information that may be obtained are lists of municipal officials, tax rates levied and financial information such as, revenues, expenditures and debt detail.

For more information, or to sign up for electronic filing, contact the Municipal Statistics staff at the Governor's Center for Local Government Services (888-223-6837).

Source of Data for Reports

The borough or township should maintain account books in which the receipts and expenditures for each fund are classified in the same manner used in the financial report forms prescribed by the Department of Community and Economic Development and the Department of Transportation. These books should be footed monthly and then summarized for the year. If the borough or township uses a double entry system of accounting, the data will be contained in a trial balance representing the balances of all ledger accounts. The borough or township secretary and treasurer may prove helpful in preparing a summary of the yearly totals for each fund.

The data for the Tax Rates should be available from the tax ordinance resolution or motion.

The data for the Debt Statement may have to be compiled from many sources such as the minutes, bond issue record, bank confirmations, bank statements pertaining to bond coupons, bond redemptions and bank loans. However, if the Debt Statement was correctly prepared in the preceding year, it will be only necessary to start with the balance outstanding at the beginning of the current year (that is, the balance at the close of the preceding year), add on new debt incurred during the year, and deduct amounts paid on debt during the year. The result will be the debt outstanding at the close of the current year under audit. The amount of debt outstanding at the beginning of the year under audit must be identical with the amount of debt outstanding at the end of the previous year.

Published Financial Statements

In addition to requiring a report on a uniform form prepared by the Department of Community and Economic Development, the municipal codes require the auditors to publish a concise financial statement. The statement must include the current resources and liabilities of the municipality at the end of the fiscal year, the gross liability and net debt, the amount of the assessed valuations, the assets of the municipality with the character and value thereof, the date of the last maturity of the respective forms of funded debt, and the assets in each Sinking Fund. This requirement is found in Section 1043 of the Borough Code, Section 1003 of the First Class Township Code, and Section 904 of the Second Class Township Code.

In order to meet these requirements, the auditors may use the financial statement formats presented on the following page. They represent all funds combined, and are highly summarized to minimize advertising costs.

BOROUGH/TOWNSHIP OF _____
CONCISE FINANCIAL STATEMENTS FOR PUBLICATION
PREPARED ON A CASH BASIS

CONCISE BALANCE SHEET - COMBINED FUNDS
 DECEMBER 31, 20XX
 ASSETS

CASH	\$	
INVESTMENTS, AT COST		
ACCOUNTS RECEIVABLE :		
TAXES RECEIVABLE		
ASSESSMENTS		
OTHER		
GENERAL FIXED ASSETS - AT INSURED VALUES (1)		
TOTAL	\$	

LIABILITIES AND FUND BALANCES

BONDED DEBT (LAST MATURITY 20XX, NET DEBT XXX)		
RESERVE FOR UNCOLLECTED TAXES, ASSESSMENTS & OTHER RECEIVABLES		
FUND BALANCES:		
INVESTED IN GENERAL FIXED ASSETS		
APPROPRIATED(2)		
UNAPPROPRIATED		
TOTAL	\$	

- (1) Or what ever basis used, such as cost (rarely) or estimated.
 (2) The amount considered to be available for the succeeding year's budgetary purposes.

CONCISE STATEMENT OF REVENUES RECEIVED AND EXPENDITURES PAID
 COMBINED FUNDS YEAR ENDED DECEMBER 31, 20XX

BALANCE IN TREASURY, BEGINNING OF YEAR		
CASH	\$	
INVESTMENTS AT COST		
REVENUES RECEIVED:		
TAXES-ALL SOURCES (RE ASSESSED VAL.\$XXXXXX)		
LICENSES AND PERMITS		
FINES AND FORFEITS		
INTEREST, RENTS AND ROYALTIES		
INTERGOVERNMENTAL REVENUES		
CHARGES FOR SERVICES		
MISCELLANEOUS REVENUES		
OTHER (3)		
EXPENDITURES PAID:		
GENERAL GOVERNMENT		
PUBLIC SAFETY		
HEALTH AND WELFARE		
PUBLIC WORKS		
-SANITATION		
-HIGHWAYS		
-OTHER PUB. WORKS & ENTERPRISES		
CULTURE - RECREATION		
CONSERVATION AND DEVELOPMENT		
DEBT SERVICE		
MISC. EXPENDITURES/EXPENSES(3)		
BALANCE IN TREASURY, END OF YEAR:		
CASH		
INVESTMENTS AT COST (4)		

- (3) Assumes all remaining items to not represent major sources of revenue or major functions.
 (4) Must agree with Balance Sheet.

Appendix A. Glossary of Terms

Account

Any classification or category for accumulating additions and subtractions relating to a single asset, equity item, receipt or expense. Examples include Cash, Housing Rehabilitation Expense, DCED Grant.

Accounting Bases for Revenue and Expenditures Determination

- A. *Accrual Basis*. A system of accounting where revenues are recognized when they become measurable and available, and expenditures are recognized when the obligation is incurred.
- B. *Cash Basis*. In this case, revenue is recorded when it is actually received and expenditures are accounted for when paid.

Accounting Period

This term refers to the financial period used as a basis for making periodic financial reports. It is frequently referred to as the fiscal year. The fiscal year for boroughs and townships begins on January 1.

Adjusting Entry

An entry made to the General Journal to record transactions or other accounting events which, for some reason, have not been recorded or have been improperly recorded.

Analysis

The appraisal of data found in books, records and supporting documents to determine the reasonableness and reliability of the data presented. An analysis may take the form of making comparisons between certain accounts and amounts for the current year with corresponding accounts and amounts for the preceding fiscal year. The analysis also may involve breaking down the balance in an account or in a certain classification into a detailed list comprising such totals. In this way significant and unusual items will be identified for further investigation, if necessary.

Appropriation

The legal authorization to spend public funds, referred to in Section 1701 of the First Class Township Code Section, 3202 of the Second Class Township Code, and Section 1312 of the Borough Code.

Assets or Resources

The term assets (or resources) refers to all property owned by a governmental unit. Examples are: cash, taxes receivable, inventories, investment securities, land, buildings and equipment. Assets owned at the close of the fiscal year appear in the balance sheet.

Assessed Valuation

The value placed upon real estate, other property or occupations by a governmental unit as a basis for taxation. The county commissioners establish a certain percentage of the fair market value as the assessed value for real estate tax purposes. Counties have the sole authority to set assessed values for real estate and occupations for boroughs and townships in Pennsylvania.

Assessment Roll

This represents the official list of persons and property subject to local taxation, together with the value placed upon each occupation and each parcel or tract of real property by the chief county assessor.

Audit Trail

The recorded evidence of a transaction from the beginning, through source documents, journals, ledgers to the financial statements.

Audit Work Papers

The handwritten or typed records, lists and schedules that show the auditing work itself. Specifically, they show how the audit examination supports figures included in the published Concise Financial Statement and in the Annual Audit and Financial Report submitted to DCED. Work papers should be kept as official records by the auditors because they indicate the extent of their work, and are the property of the auditors. They may be considered evidence in court proceedings.

Balance Sheet

A statement showing assets or resources, liabilities and equity.

Bond Discount

The excess of the face value of a bond over the price for which it is sold is called bond discount. For example, where a \$1,000.00 face or par value bond is sold for \$950.00, the bond discount is \$50.00.

Bond Premium

The excess price for which a bond is sold over its face or par value is the bond premium. For example, where a bond is sold for \$1,060.00 and the face value is \$1,000.00, the bond premium is \$60.00. NOTE - in case of bonds sold at either a premium or discount, the sale price should not include accrued interest at the date of the sale.

Books of Original Entry

This term refers to books or records in which transactions are formally recorded for the first time. Examples are: (a) cash receipts journal, (b) cash disbursements journal, (c) payroll journal, and (d) general journal. These books, especially (a) and (b) must be kept whether the governmental unit is using the double or single entry system of accounting. Basic business documents are evidences of business transactions and should not be confused with books of original entry. Examples of business documents are: bank deposit tickets, receipts, checks, invoices, contracts, leases or deeds.

Books of Final Entry-Ledgers

In double entry bookkeeping, transactions are first analyzed, classified and recorded in books of original entry and then increases and decreases are posted or transferred to ledger accounts reflecting different types of assets, liabilities, equities, revenues and expenses.

Budget

A plan identifying the purposes for which money will be spent and the expected sources of revenue to finance the expenditures. Municipal budgets in Pennsylvania normally follow the format of a “Program Budget” which allocates money to the functions or activities of a municipality, then further classifies expenditures according to specific object items.

Capital Outlay

Expenditures made to acquire fixed assets or additions to them.

Cash

This term refers to currency, checks, money orders, drafts or bank deposits. Cash is an asset in the fund to which it belongs and is subject to any restrictions or limitations which apply to that fund.

Chart of Accounts

A listing of all account numbers, with the names of the accounts they represent.

Confirmation

This term indicates the auditor is seeking advice of some agency or individual outside the governmental unit in order to verify certain items. For example, bank balance reports are obtained directly from the banks in which the borough or township money is deposited.

Credit

As a noun, an entry on the right-hand side of an account. Records increases in equity and receipts; records decreases in assets and disbursements in a double entry system.

Critical Review

In popular parlance, this term means taking a “hard look” at the situation and the evidence being examined and analyzed. The objective is to be able to determine the reasonableness and the reliability of the records under review.

Current Assets or Resources

Those assets which are readily available to meet the cost of operations or to pay current liabilities. Examples include cash, temporary investments and current taxes receivable.

Current Liabilities

Obligations which are due and payable in a year or less.

Debit

As a noun, an entry on the left-hand side of an account. As a verb, to make an entry on the left hand side of an account. Debits record increases in assets and disbursements; they record decreases in equity receipts in double entry systems.

Debt Limit

The maximum amount of obligation for the future payment of money permitted for a unit of local government. Such debt may be one or two broad categories: (1) debt approved by the electorate of the municipality; (2) debt incurred without asking for the approval of the electorate. There is no limit to the amount of money which the citizens of a municipality may vote to incur. The non-electoral debt of a municipality is limited, under the Local Government Unit Debt Act, to 250 percent of the borrowing base. Non-electoral and lease rental debt combined may not exceed 350 percent of the borrowing base. Borrowing base is, generally, the arithmetic average of total revenue over the three preceding years calculated according to the provisions of the law.

Deferred Revenue

A liability entry used to record revenues received prior to being earned (such as advance payments received in December for a Recreation Department-sponsored trip to be held in January). These would normally be recognized as revenue in a future period.

Delinquent Taxes Receivable

Such taxes as remain unpaid at the beginning of the penalty period are considered delinquent. This date is four months after the date of the original tax notice. Delinquent real estate taxes remain the responsibility of the tax collector until returned to the county tax claim bureau. Delinquent per capita and occupation taxes remain the responsibility of the tax collector until collected or exonerated.

Depreciation

While a number of definitions exist with respect to depreciation, it is deemed best to consider depreciation as the portion of an asset's original cost which is charged to expense to a particular fiscal year.

Double Entry and Single Entry Bookkeeping

Double Entry is a system of bookkeeping based on the fundamental accounting equation which states that in every organization's finances the assets must equal the liabilities plus the equities (including revenues and expenditures), and on the fact that every transaction has two effects on those finances. Debits and credits are used to show the two effects, and recording a transaction properly requires that debits equal credits. Each type of account has a "normal balance" and increases and decreases are converted to debits and credits as follows:

<i>Account</i>	<i>Increase</i>	<i>Decrease</i>
Asset	Debit	Credit
Liability and Equity	Credit	Debit
Revenue	Credit	Debit
Expenditure	Debit	Credit

For example, when tax revenues are received, both the asset account "cash" and the appropriate revenue account must increase. As the chart indicates, a debit and a credit accomplish this. When checks are written to pay bills, the asset account "cash" decreases and the appropriate expenditure accounts increase. Again the chart indicates that debits and credits accomplish this. All transactions are analyzed in this manner (including revenue and expense), and the basic equation will remain in balance as long as equal debits and credits are recorded. To offer another example, money borrowed at the bank results in an increase of the asset "cash" and an increase in the liability "Bank loans or notes payable."

Single Entry bookkeeping is a term covering all systems of record keeping not qualifying as a complete double entry system. For governmental accounting purposes, the cash receipts and disbursement journals should be kept in such a manner as will accumulate the information required for the financial reports made to the

Department of Community and Economic Development. The records must be supplemented by various additional records concerning taxes, indebtedness and property. Single entry has no set standards or definitions, either in Pennsylvania or nationally - the term is a catch-all rather than a commonly understood definition. As such, an accountant or auditor working with such an operation must learn its unique characteristics.

Equity

This term refers to the excess of assets over liabilities. It is sometimes called surplus. If the liabilities exceed the assets the term deficit is used.

Floating Debt

This term refers to current liabilities, such as accounts payable, bank loans or notes payable.

Footing

Checking footings, a routine auditing step, is verifying that columns of figures are added correctly.

Full Faith and Credit Obligations

This term is used when the general taxing power of the municipality is pledged for the payment of obligations. Such general obligation bonds are used for purposes which will not, in themselves, generate sufficient income to pay for the debt. Examples are recreation facilities or a municipal building. These types of bonds are to be distinguished from Revenue Bonds which are designed to be paid from receipts or charges generated by the facility for which the bond was issued. For example, a municipal water system charging the users of the system may use a revenue bond and not otherwise obligate the taxing power or other income of the municipality. Self-liquidating revenue bonds are not counted against the debt limitation of the municipality.

Fund

A fund is a fiscal and accounting entity containing a self-balancing group of accounts which include asset, liability, equity, revenue and governmental operating expense accounts, segregated for the purpose of carrying on specific activities.

Funded Debt

This term is used in the same sense as bonded debt. It is the fixed liability represented by the bonds outstanding at the close of the fiscal year.

General Journal

The formal record for transactions which cannot be recorded in the other books of original entry (the receipts and expenditures journals). It is used to record opening balances, interest credited to savings accounts, telephone transfers and corrections in a double entry system.

General Ledger

The name for the formal ledger containing all of the accounts. In a double entry system, it has equal debits and credits as evidenced by the trial balance.

Grant

This term refers to a contribution of one governmental unit to another unit to be used for some particular governmental function. For example, the contribution made by the state to boroughs and townships for highway aid is a grant.

Imprest System of Petty Cash

Petty cash is a sum of money set aside to cover immediate payments of comparatively small amounts for expense items. Where a fixed amount is designated as petty cash and is replenished periodically by a sum equal to the exact amount spent, it is called the imprest system. At any point in time the cash on hand plus the disbursements made but not reimbursed should equal the original fixed amount. Further discussion of petty cash funds may be found in Chapter III.2 under “Internal Control of Cash”.

Inspection

This term refers to one of the techniques employed by auditors. It covers a variety of procedures, such as looking over physical assets, documents and other supporting evidence, counting cash, testing inventory counts, examining checks and invoices or reading minutes.

Investigation

While this term is loosely used to cover inspection and examination, its proper use should be limited to cover a special examination of books and records for some particular purpose.

Inventory

A detailed list of consumable supplies. It shows descriptions, quantities, unit prices and total costs or values of the items included. Fixed assets are sometimes listed in an inventory.

Investments

This term covers securities held for the production of revenue in the form of interest.

Levy

This term means the imposition of taxes or special assessments by a governmental unit. The amount of a levy is equal to the assessed valuation times the tax rate.

Liabilities

This term covers debts or other legally enforceable obligations which must be paid, renewed or refunded at some future date.

Municipality

A unit of general purpose local government which is a political subdivision of the state, including counties, cities, boroughs, towns and townships.

Obligations

This is a broad term covering liabilities, legal claims against a government unit or other financial commitments.

Overdraft

This term refers to a situation where the payments or disbursements from a bank account exceed the cash available in the fund. If the overdraft is permitted by the bank, the overdraft is borrowing from the bank on the part of the government.

Post

To record entries in an account in a ledger; usually the entries are copied from a journal.

Preaudit and Postaudit

In some municipalities it is the duty of some person, such as a controller, to examine proposed transactions before they occur in order to pass upon their legality and to see that such transactions are within the unexpended appropriations. This type of examination is known as preaudit. An examination or audit made after the close of the fiscal year is called a postaudit.

Pro Forma

This term refers to a sample form which is an example of a document or statement. The sample formats presented in Chapter IV.3 illustrate the use of the term.

Reconcile

This term is used when it is necessary to determine whether or not two records representing the same things are in agreement.

Tax Duplicate

A duplicate is an extension of an assessment roll. As assessment roll is delivered by a county to a taxing district. The taxing body computes the amount of tax due from each taxable, and enters the amounts on the assessment roll. The assessment roll then becomes known as a tax duplicate, and is issued to the tax collector by the taxing district.

Tax Limit

This term refers to the maximum rate of tax which a local government unit may levy. These limits are set forth in the codes and laws pertaining to boroughs and townships. For example, a borough may levy a tax not exceeding 30 mills for general borough purposes plus additional millage sufficient to meet interest and Sinking Fund charges and for various special purposes.

Testing

This procedure refers to examining or checking a selected number of items on a random basis. If the random sample checks out in a satisfactory manner, the balance of the items in the group under review are assumed to be correct. The extent of the testing may rest upon the experience and judgment of the auditor. Provisions of the local government codes require elected auditors to examine each voucher and to write "audited" on its face.

Trial Balance

A listing of accounting balances taken from the general ledger pages in a double entry system; all accounts with debit balances are totaled separately from accounts with credit balances. The two totals should be equal.

Voucher

A document which contains the supporting evidence relating to a given transaction, and also indicates the accounts to which the transactions are to be posted.

Appendix B. Internal Control Questionnaire

To help evaluate the municipality's system of internal control over cash receipts and disbursements, the auditor should complete or have a responsible municipal official complete this questionnaire.

1. List the petty cash funds:

Location	Amount	Custodian

- | | Yes | No |
|--|--------------------------|--------------------------|
| 2. Is the responsibility for each petty cash fund vested in only one person? | <input type="checkbox"/> | <input type="checkbox"/> |
| 3. Are personal loans from the petty cash fund prohibited? | <input type="checkbox"/> | <input type="checkbox"/> |
| 4. Are reimbursements from the petty cash fund made only on the basis of proper documentation? | <input type="checkbox"/> | <input type="checkbox"/> |
| 5. Is the petty cash fund reconciled periodically by someone other than the custodian? | <input type="checkbox"/> | <input type="checkbox"/> |
| 6. List the bank accounts maintained, the authorized check signatures, employee who prepares checks and the person who reconciles the account. | <input type="checkbox"/> | <input type="checkbox"/> |

Bank	Authorized Signature	Employee Who Prepares Checks	Person Who Reconciles Account
A. _____			
B. _____			

- | | Yes | No |
|---|--------------------------|--------------------------|
| 7. Are all disbursements, except those from petty cash, made by check? | <input type="checkbox"/> | <input type="checkbox"/> |
| 8. Are all checks prenumbered and accounted for? | <input type="checkbox"/> | <input type="checkbox"/> |
| 9. Are unused checks properly controlled? | <input type="checkbox"/> | <input type="checkbox"/> |
| 10. Are voided checks mutilated and held available for subsequent inspection? | <input type="checkbox"/> | <input type="checkbox"/> |
| 11. Is the practice of making checks out to "cash" or "bearer" prohibited? | <input type="checkbox"/> | <input type="checkbox"/> |
| 12. Is there an enforced rule against signing checks in advance? | <input type="checkbox"/> | <input type="checkbox"/> |
| 13. Are checks prepared by a person other than those who approve invoices? | <input type="checkbox"/> | <input type="checkbox"/> |
| 14. Are supporting documents presented with the checks when submitted for signature? | <input type="checkbox"/> | <input type="checkbox"/> |
| 15. Are supporting documents cancelled (stamped) to prevent reuse? | <input type="checkbox"/> | <input type="checkbox"/> |
| 16. After being signed, are checks mailed or distributed by employees other than those who prepare checks and vouchers? | <input type="checkbox"/> | <input type="checkbox"/> |
| 17. Are receipts of currency and checks listed in detail by the person who opens the mail? | <input type="checkbox"/> | <input type="checkbox"/> |
| 18. Are the listed mail receipts compared with the accounting records by an independent person? | <input type="checkbox"/> | <input type="checkbox"/> |
| 19. Is the incoming mail opened by someone other than a person who has access to the accounting records? | <input type="checkbox"/> | <input type="checkbox"/> |
| 20. Are cash receipts deposited daily? | <input type="checkbox"/> | <input type="checkbox"/> |

	Yes	No
21. Does a person other than the person who prepares the bank deposit make the deposit?	<input type="checkbox"/>	<input type="checkbox"/>
22. Are bank stamped duplicate deposit tickets compared with the cash receipts journal?	<input type="checkbox"/>	<input type="checkbox"/>
23. Are prenumbered receipt forms in use?	<input type="checkbox"/>	<input type="checkbox"/>
24. Are the receipt forms accounted for and safeguarded?	<input type="checkbox"/>	<input type="checkbox"/>
25. Are the accounting records kept up to date and balanced monthly?	<input type="checkbox"/>	<input type="checkbox"/>
26. The records have been posted through_____.		
27. Are all employees who are responsible for receipt or disbursement of funds covered by a fidelity bond?	<input type="checkbox"/>	<input type="checkbox"/>
On the last page of questionnaire list persons bonded and amount of bonds.		
28. Are names placed on the payroll only on the basis of proper (written) authorization?	<input type="checkbox"/>	<input type="checkbox"/>
29. Are written authorizations required for all changes in pay rates?	<input type="checkbox"/>	<input type="checkbox"/>
30. Are bank accounts reconciled by someone other than the person(s) who prepared the checks?	<input type="checkbox"/>	<input type="checkbox"/>
31. Are bank reconciliations prepared monthly?	<input type="checkbox"/>	<input type="checkbox"/>
32. Are long outstanding checks properly followed up?	<input type="checkbox"/>	<input type="checkbox"/>
33. Is special approval required for high dollar value purchases?	<input type="checkbox"/>	<input type="checkbox"/>
34. Who authorizes the investment of agency funds?	<input type="checkbox"/>	<input type="checkbox"/>

35. Who is responsible for making investments?		

36. Are investment documents periodically inspected and reconciled to the accounting records?	<input type="checkbox"/>	<input type="checkbox"/>
37. Is a detailed investment register maintained?	<input type="checkbox"/>	<input type="checkbox"/>

The above questions were answered by:

Signature	Title	Date
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.04

Standard Form to Confirm Account Balance Information with Financial Institutions

Customer Name

Financial Institution's Name and Address []

We have provided to our accountants the following information as of the close of business on _____, 20____, regarding our deposit and loan balances. Please confirm the accuracy of the information, noting any exceptions to the information provided. If the balances have been left blank, please complete this from by furnishing the balance in the appropriate space below.* Although we do not request nor expect you to conduct a comprehensive, detailed search of your records, if during the process of completing this confirmation additional information about other deposit and loan accounts we may have with you comes to your attention, please include such information below. Please use the enclosed envelope to return the form directly to our accountants.

1. At the close of business on the date listed above, our records indicated the following deposit balance(s):

Account Name	Account No.	Interest Rate	Balance

2. We were directly liable to the financial institution for loans at the close of business on the date listed above as follows:

Account No./Description	Balance	Due Date	Interest Rate	Date through which interest is paid	Description of Collateral

Customer's Authorized Signature

Date

The information presented above by the customer is in agreement with our records. Although we have not conducted a comprehensive, detailed search of our records, no other deposit or loan accounts have come to our attention except as noted below.

Financial Institution Authorized Signature / Title

Date

Exceptions and/or comments

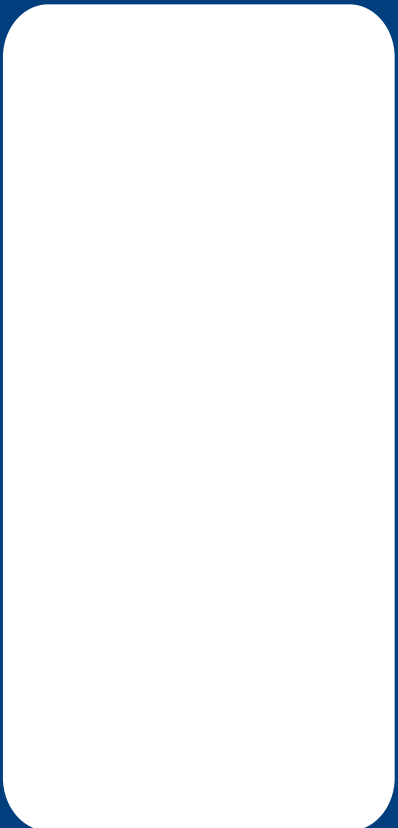
Please return this form directly to our accountants:

*Ordinarily, balances are intentionally left blank if they are not available at the time the form is prepared.

[] D 451 5951

Pennsylvania Department of Community & Economic Development
Governor's Center for Local Government Services
Commonwealth Keystone Building
400 North Street, 4th Floor
Harrisburg, PA 17120-0225

USPS 100
APPROVED POLY



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DEPARTMENT OF COMMUNITY
& ECONOMIC DEVELOPMENT