TOWNSHIP OF LIBERTY
MCKEAN COUNTY
42-211

LIQUID FUELS TAX FUND
EXAMINATION REPORT

FOR THE PERIOD
JANUARY 1, 2010 TO DECEMBER 31, 2012

COMMONWEALTH OF PENNSYLVANIA

EUGENE A. DEPASQUALE - AUDITOR GENERAL

DEPARTMENT OF THE AUDITOR GENERAL

COUNCIL 90
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EUGENE A. DEPASQUALE
AUDITOR GENERAL

Independent Auditor's Report

The Honorable Barry J. Schoch, P.E.
Secretary
Department of Transportation
Harrisburg, PA 17120

We examined the accompanying Forms MS-965 With Adjustments for the Liquid Fuels Tax Fund of the Township of Liberty, McKean County, for the period January 1, 2010 to December 31, 2012. The municipality's management is responsible for the Forms MS-965. Our responsibility is to express an opinion on the Forms MS-965 With Adjustments based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States. An examination includes examining, on a test basis, evidence supporting the Township of Liberty, McKean County's Forms MS-965 for the period January 1, 2010 to December 31, 2012 and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

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

As described in Note 4, the adjustments included on the Forms MS-965 With Adjustments are made by the Department of the Auditor General.

As discussed in Finding No. 2, the township expended $32,982.22 in 2011 from its Liquid Fuels Tax Fund for purchases of asphalt without advertising for bids. Additionally, as discussed in Finding No. 3, during 2011 the township expended $4,200.00 for equipment rental, $9,800.00 for concrete, and $6,073.41 for anti-skid. However, the township failed to maintain documentation for price quotations.

In our opinion, except for the matters discussed in the preceding paragraph, the Forms MS-965 With Adjustments present, in all material respects, the information required by the Pennsylvania Department of Transportation for the Liquid Fuels Tax Fund of the Township of Liberty, McKean County, for the period January 1, 2010 to December 31, 2012, in conformity with the criteria set forth in Note 1.

In accordance with *Government Auditing Standards*, we are required to report findings of significant deficiencies in internal control, violations of provisions of contracts or grant agreements, and abuse that are material to the Forms MS-965 and any fraud and illegal acts that are more than inconsequential that come to our attention during our examination. We are also required to obtain the views of management on those matters. We performed our examination to express an opinion on whether the Forms MS-965 are presented in accordance with the criteria described above and not for the purpose of expressing an opinion on the internal control over reporting on the Forms MS-965 or on compliance and other matters; accordingly, we express no such opinions.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Township of Liberty, McKean County's ability to initiate, authorize, record, process, or report data reliably in accordance with the applicable criteria such that there is more than a remote likelihood that a misstatement of the Township of Liberty, McKean County's Forms MS-965 that is more than inconsequential will not be prevented or detected by the Township of Liberty, McKean County's internal control. We consider the deficiency described in the finding below to be a significant deficiency in internal control over reporting on the Forms MS-965:

- Electronic Imaging Of Canceled Checks From The Bank Did Not Include The Back Of The Checks - Recurring.

A material weakness is a significant deficiency or combination of significant deficiencies that results in more than a remote likelihood that a material misstatement of the Forms MS-965 will not be prevented or detected by the Township of Liberty, McKean County's internal control. Our consideration of the internal control over reporting on the Forms MS-965 would not necessarily disclose all matters in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We consider the significant deficiency described above to be a material weakness.

The results of our tests disclosed the following instances of noncompliance that are required to be reported under *Government Auditing Standards*:

- Purchases Over $10,000.00 In Noncompliance With Advertising And Bidding Requirements.

- Documentation For Price Quotations Was Not Available For Examination.

- Liquid Fuels Money Loaned To General Fund - Recurring.

This report is intended solely for the information and use of the Pennsylvania Department of Transportation and the management of the Township of Liberty, McKean County, and is not intended to be and should not be used by anyone other than these specified parties.

May 16, 2013

EUGENE A. DEPASQUALE
Auditor General

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TOWNSHIP OF LIBERTY
MCKEAN COUNTY
LIQUID FUELS TAX FUND
BACKGROUND
FOR THE PERIOD
JANUARY 1, 2010 TO DECEMBER 31, 2012

Background

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

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

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

The Department of Transportation has been given the regulatory authority for the administration of these funds. To qualify for its annual allocation, each municipality shall submit the following documents and information to the Department of Transportation:

1. Evidence that the treasurer is bonded in accordance with the law, or that its treasurer is a bank requiring no bond by January 31 of each year.

2. A report indicating the manner in which its liquid fuels tax allocation was expended in the previous year (Form MS-965) by January 31 of each year.

3. A report of elected and appointed officials by January 31 of each year.

4. A Survey of Financial Condition by March 15 of each year.

Department of Transportation *Publication 9* contains the policies and procedures that govern the use of Liquid Fuels Tax Fund money. However, if there is a difference between *Publication 9* and any legislation, the legislation shall govern.

TOWNSHIP OF LIBERTY
MCKEAN COUNTY
LIQUID FUELS TAX FUND
2010 FORM MS-965 – SECTION 1
WITH ADJUSTMENTS

Expenditure Summary	Reported	Adjustments (Note 4)	Adjusted Amount
Major equipment purchases	$ -	$ -	$ -
Minor equipment purchases	-	-	-
Computer/Computer related training	-	-	-
Agility projects	-	-	-
Cleaning streets and gutters	-	-	-
Winter maintenance services	6,476.52	-	6,476.52
Traffic control devices	-	-	-
Street lighting	-	-	-
Storm sewers and drains	-	-	-
Repairs of tools and machinery	-	-	-
Maintenance and repair of roads and bridges	103,983.53	500.00	104,483.53
Highway construction and rebuilding projects	-	-	-
Miscellaneous (Bank service charges)	32.00	12.00	44.00
Total (To Section 2, Line 5)	$ 110,492.05	$ 512.00	$ 111,004.05

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

TOWNSHIP OF LIBERTY
MCKEAN COUNTY
LIQUID FUELS TAX FUND
2010 FORM MS-965 – SECTION 2
WITH ADJUSTMENTS

Fund Balance	Reported	Adjustments (Note 4)	Adjusted Amount
1. Balance, January 1, 2010	$ 49.52	$ 511.88	$ 561.40
Receipts:			
2. State allocation	119,167.00	-	119,167.00
2a. Turnback allocation	29,600.00	-	29,600.00
2b. Interest on investments (Note 3)	172.73	-	172.73
2c. Miscellaneous	-	-	-
3. Total receipts	148,939.73	-	148,939.73
4. Total funds available	148,989.25	511.88	149,501.13
5. Expenditures (Section 1)	110,492.05	512.00	111,004.05
6. Balance, December 31, 2010	$ 38,497.20	$ (.12)	$ 38,497.08

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

TOWNSHIP OF LIBERTY
MCKEAN COUNTY
LIQUID FUELS TAX FUND
2010 FORM MS-965 – SECTION 3
WITH ADJUSTMENTS

Equipment Balance	Reported	Adjustments (Note 4)	Adjusted Amount
1. Prior year equipment balance	$ 95.35	$ 466.05	$ 561.40
2. Add: Current year equipment allocation (20% of Lines 2 + 2a, Section 2)	29,753.40	-	29,753.40
3. PENNDOT approved adjustments	-	-	-
4. Total funds available for equipment acquisition	29,848.75	466.05	30,314.80
5. Less: Major equipment expenditures	-	-	-
6. Remainder	29,848.75	466.05	30,314.80
7. Equipment balance available for subsequent year (Lesser of Line 6 or Section 2 balance, but not less than zero)	$ 29,848.75	$ 466.05	$ 30,314.80

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

TOWNSHIP OF LIBERTY
MCKEAN COUNTY
LIQUID FUELS TAX FUND
2011 FORM MS-965 – SECTION 1
WITH ADJUSTMENTS

Expenditure Summary	Reported	Adjustments (Note 4)	Adjusted Amount
Major equipment purchases	$ -	$ -	$ -
Minor equipment purchases	-	-	-
Computer/Computer related training	-	-	-
Agility projects	-	-	-
Cleaning streets and gutters	-	-	-
Winter maintenance services	16,071.48	(4,830.17)	11,241.31
Traffic control devices	-	-	-
Street lighting	-	-	-
Storm sewers and drains	-	-	-
Repairs of tools and machinery	21,460.21	-	21,460.21
Maintenance and repair of roads and bridges	137,833.40	-	137,833.40
Highway construction and rebuilding projects	-	-	-
Miscellaneous (Note 6)	40,992.69	-	40,992.69
Total (To Section 2, Line 5)	$ 216,357.78	$ (4,830.17)	$ 211,527.61

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

TOWNSHIP OF LIBERTY
MCKEAN COUNTY
LIQUID FUELS TAX FUND
2011 FORM MS-965 – SECTION 2
WITH ADJUSTMENTS

Fund Balance	Reported	Adjustments (Note 4)	Adjusted Amount
1. Balance, January 1, 2011	$ 43,327.25	$ (4,830.17)	$ 38,497.08
Receipts:			
2. State allocation	121,927.48	-	121,927.48
2a. Turnback allocation	29,600.00	-	29,600.00
2b. Interest on investments (Note 3)	78.15	-	78.15
2c. Miscellaneous (Note 5)	40,692.36	-	40,692.36
3. Total receipts	192,297.99	-	192,297.99
4. Total funds available	235,625.24	(4,830.17)	230,795.07
5. Expenditures (Section 1)	216,357.78	(4,830.17)	211,527.61
6. Balance, December 31, 2011	$ 19,267.46	$ -	$ 19,267.46

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

TOWNSHIP OF LIBERTY
MCKEAN COUNTY
LIQUID FUELS TAX FUND
2011 FORM MS-965 – SECTION 3
WITH ADJUSTMENTS

Equipment Balance	Reported	Adjustments	Adjusted Amount
1. Prior year equipment balance	$ 30,314.80	$ -	$ 30,314.80
2. Add: Current year equipment allocation (20% of Lines 2 + 2a, Section 2)	30,305.50	-	30,305.50
3. PENNDOT approved adjustments	-	-	-
4. Total funds available for equipment acquisition	60,620.30	-	60,620.30
5. Less: Major equipment expenditures	-	-	-
6. Remainder	60,620.30	-	60,620.30
7. Equipment balance available for subsequent year (Lesser of Line 6 or Section 2 balance, but not less than zero)	$ 19,267.46	$ -	$ 19,267.46

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

TOWNSHIP OF LIBERTY
MCKEAN COUNTY
LIQUID FUELS TAX FUND
2012 FORM MS-965 – SECTION 1
WITH ADJUSTMENTS

Expenditure Summary	Reported	Adjustments (Note 4)	Adjusted Amount
Major equipment purchases	$ -	$ -	$ -
Minor equipment purchases	-	-	-
Computer/Computer related training	-	-	-
Agility projects	-	-	-
Cleaning streets and gutters	-	-	-
Winter maintenance services	3,976.29	-	3,976.29
Traffic control devices	-	-	-
Street lighting	-	-	-
Storm sewers and drains	-	-	-
Repairs of tools and machinery	1,000.00	-	1,000.00
Maintenance and repair of roads and bridges	101,403.76	-	101,403.76
Highway construction and rebuilding projects	-	-	-
Miscellaneous (Bank service charges)	-	24.00	24.00
Total (To Section 2, Line 5)	$ 106,380.05	$ 24.00	$ 106,404.05

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

TOWNSHIP OF LIBERTY
MCKEAN COUNTY
LIQUID FUELS TAX FUND
2012 FORM MS-965 – SECTION 2
WITH ADJUSTMENTS

Fund Balance	Reported	Adjustments (Note 4)	Adjusted Amount
1. Balance, January 1, 2012	$ 19,267.46	$ -	$ 19,267.46
Receipts:			
2. State allocation	122,044.75	-	122,044.75
2a. Turnback allocation	29,600.00	-	29,600.00
2b. Interest on investments (Note 3)	-	84.94	84.94
2c. Miscellaneous	60.94	(60.94)	-
3. Total receipts	151,705.69	24.00	151,729.69
4. Total funds available	170,973.15	24.00	170,997.15
5. Expenditures (Section 1)	106,380.05	24.00	106,404.05
6. Balance, December 31, 2012	$ 64,593.10	$ -	$ 64,593.10

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

TOWNSHIP OF LIBERTY
MCKEAN COUNTY
LIQUID FUELS TAX FUND
2012 FORM MS-965 – SECTION 3
WITH ADJUSTMENTS

Equipment Balance	Reported	Adjustments (Note 4)	Adjusted Amount
1. Prior year equipment balance	$ 60,620.30	$ (41,352.84)	$ 19,267.46
2. Add: Current year equipment allocation (20% of Lines 2 + 2a, Section 2)	30,328.95	-	30,328.95
3. PENNDOT approved adjustments	-	-	-
4. Total funds available for equipment acquisition	90,949.25	(41,352.84)	49,596.41
5. Less: Major equipment expenditures	-	-	-
6. Remainder	90,949.25	(41,352.84)	49,596.41
7. Equipment balance available for subsequent year (Lesser of Line 6 or Section 2 balance, but not less than zero)	$ 64,593.10	$ (14,996.69)	$ 49,596.41

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

TOWNSHIP OF LIBERTY
MCKEAN COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE PERIOD
JANUARY 1, 2010 TO DECEMBER 31, 2012

1. Criteria

Section 1

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

- Major equipment purchases are purchases of road machinery and road equipment that cost in excess of $4,000.00 prior to 2012 and in excess of $10,000.00 during 2012 and subsequent years.

- Minor equipment purchases are purchases of road machinery and road equipment that cost $4,000.00 or less prior to 2012 and $10,000.00 or less during 2012 and subsequent years.

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

Section 2

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

- The state allocation is generally received from the Department of Transportation during the first week in April of each year. The amount the municipality receives is based half on its population and half on its road mileage.

- The turnback allocation is generally received from the Department of Transportation during the first week in April of each year. A municipality receives a yearly turnback allocation based on road mileage for all roads that were transferred to the municipality from the Commonwealth of Pennsylvania through the Highway Transfer Program.

- Expenditures include the total transferred from Section 1.

Section 3

This section of Form MS-965 With Adjustments determines if the municipality expended Liquid Fuels Tax Fund money in excess of the permissible amount for equipment and the

1. Criteria (Continued)

Section 3 (Continued)

balance that the municipality may carry forward for the purchase of equipment to the subsequent year.

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

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

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

Basis Of Presentation

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

Basis Of Accounting

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

1. Criteria (Continued)

General Fixed Assets

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

2. Deposits

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

- Deposits in savings accounts or time deposits, other than certificates of deposit or share accounts of institutions having their principal place of business in the Commonwealth of Pennsylvania and insured by the Federal Deposit Insurance Corporation (FDIC) or other like insurance. For any amount above the insured maximum, the depository shall pledge approved collateral.

- Certificates of deposit purchased from institutions insured by the FDIC or other like insurance to the extent that such accounts are so insured. For any amounts in excess of the insured maximum, such deposits shall be collateralized by a pledge or assignment of assets. Certificates of deposit may not exceed 20 percent of a bank's total capital surplus or 20 percent of a savings and loan's or savings bank's assets minus liabilities.

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

There were no deposits exposed to custodial credit risk as of December 31, 2012. Custodial credit risk, as defined by GASB No. 40, includes deposits that are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the municipality's name.

2. Deposits (Continued)

Fund Balance

The fund balance as of December 31, 2012 consists of the following:

Cash	$64,593.10

3. Interest On Investments

Our examination disclosed that the municipality deposited idle liquid fuels tax money in an interest-bearing account which earned $172.73 during 2010, $78.15 during 2011, and $84.94 during 2012, thus providing additional funds for road maintenance and repairs.

4. Adjustments

2010 - Section 1

An adjustment of $500.00 was made to "Maintenance and repair of roads and bridges" because check No. 4045 was not reported.

An adjustment of $12.00 was made to "Miscellaneous" expenditures because bank service charges were not reported.

2010 - Section 2

An adjustment of $511.88 was made to "Balance, January 1, 2010" because an incorrect fund balance was reported.

2010 - Section 3

An adjustment of $466.05 was made to "Prior year equipment balance" because of prior report adjustments that were not carried forward in the equipment balance.

4. Adjustments (Continued)

2011 - Section 1

An adjustment of $(4,830.17) was made to "Winter maintenance services" because check Nos. 4131 for $113.46, 4133 for $989.74, 4134 for $1,272.53, 4135 for $1,209.45, and 4136 for $1,244.99, were issued in 2010, but were incorrectly reported as expenditures in 2011.

2011 - Section 2

An adjustment of $(4,830.17) was made to "Balance, January 1, 2011" because an incorrect fund balance was reported.

2012 - Section 1

An adjustment of $24.00 was made to "Miscellaneous" expenditures because bank service charges were not reported.

2012 - Section 2

An adjustment of $84.94 was made to "Interest on investments" because interest earnings were not reported.

An adjustment of $(60.94) was made to "Miscellaneous" because there were no miscellaneous receipts.

2012 - Section 3

An adjustment of $(41,352.84) was made to "Prior year equipment balance" because an incorrect equipment balance was carried forward.

5. Miscellaneous Receipts

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

Source	Description	2011
General Fund	Reimbursement (Finding No. 2)	$20,692.36
General Fund	Reimbursement (Finding No. 4)	20,000.00
Total		$40,692.36

6. Miscellaneous Expenditures

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

Payee	Description	2011
General Fund	Loan (Finding No. 4)	$20,000.00
General Fund	Reimbursement for salt/sand	20,958.69
Financial institution	Bank service charges	34.00
Total		$40,992.69

Finding No. 1 - Electronic Imaging Of Canceled Checks From The Bank Did Not Include The Back Of The Checks - Recurring

In our prior report for the period ending December 31, 2009, we cited the municipality for failing to obtain images of the backs of the canceled checks from its financial institution. However, our current examination again disclosed that the imaging of canceled checks from the bank for the Liquid Fuels Tax Fund account was not acceptable because the bank provides only an image of the front side of the canceled checks. For us to properly complete our examination testing, we have to examine the front and the back of the canceled checks.

Good internal controls and the Commonwealth of Pennsylvania Management Directive 210.11, dated June 16, 1997, require that imaging systems comply with the provisions of the Internal Revenue Service (IRS) procedures for record keeping with electronic imaging. To be acceptable, the documents provided by the system must meet IRS procedures governing size, content, format, and pattern. Those procedures require that all images produced by the imaging system exhibit a high degree of legibility and readability when displayed on paper. Legibility includes the ability to identify all letters and numerals positively and quickly. Readability includes the ability to recognize a group of letters or numerals as words or completed numbers. Imaged documents must include the front and back of a document in which both the front and back are used.

Further, good internal controls ensure that by having a municipal official review the front and back of the canceled checks, any errors or misappropriations can be detected on a timely basis.

Without this control, the potential exists for errors or misappropriations to go undetected for long periods of time.

The municipality obtained and provided us with copies of the backs of the canceled checks requested for examination.

This condition existed because the municipality did not comply with our prior examination recommendation to obtain the images of the front and back of canceled checks in accordance with Directive 210.11.

Finding No. 1 - Electronic Imaging Of Canceled Checks From The Bank Did Not Include The Back Of The Checks - Recurring (Continued)

Recommendations

We strongly recommend that the municipal officials obtain images of the front and back of canceled checks in accordance with Directive 210.11. Additionally, municipal officials should review the front and back of each canceled check for any errors or misappropriations.

Management's Response

The secretary/treasurer stated:

> The bank will start sending both sides of checks.

Auditor's Conclusion

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

TOWNSHIP OF LIBERTY
MCKEAN COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2010 TO DECEMBER 31, 2012

Finding No. 2 - Purchases Over $10,000.00 In Noncompliance With Advertising And Bidding Requirements

Our examination disclosed that the township expended $32,982.22 during 2011 for asphalt without advertising for bids. These expenditures were as follows:

Asphalt:

Invoice Number	Invoice Date	Check Number	Check Date	Amount
526066	03/25/11	4166	04/06/11	$ 177.24
526044	03/25/11	4173	04/14/11	212.52
526759	04/07/11	4173	04/14/11	334.32
527593	04/25/11	4179	04/29/11	600.80
527921	04/29/11	4183	04/29/11	205.60
528384	05/06/11	4183	05/12/11	344.80
530054	05/20/11	4203	06/07/11	865.60
531603	06/08/11	4210	06/05/11	1,692.00
532659	06/10/11	4213	06/23/11	1,160.80
531675	06/10/11	4213	06/23/11	1,580.80
532632	06/17/11	4223	06/30/11	373.60
533724	07/08/11	4229	07/15/11	314.30
535096	07/22/11	4251	08/09/11	135.30
27347	07/23/11	4246	08/09/11	115.71
536387	08/05/11	4257	08/25/11	311.03
536629	08/12/11	4257	08/25/11	182.33
537153	08/19/11	4268	09/09/11	631.14
538456	08/26/11	4268	09/09/11	364.65
538483	08/26/11	4268	09/09/11	2,819.43
92715	08/20/11	4269	09/19/11	1,120.70
92932	09/03/11	4284	09/22/11	1,378.28
539860	09/16/11	4285	09/22/11	1,994.48
540155	09/23/11	4292	10/07/11	3,876.20
541616	09/30/11	4292	10/07/11	5,017.66
542046	10/07/11	4304	10/14/11	1,268.62
542059	10/07/11	4304	10/14/11	1,788.96
28341	10/01/11	4316	11/10/11	672.51
543264	10/14/11	4324	11/18/11	964.57
93785	10/15/11	4325	11/18/11	554.50
543893	10/21/11	4324	11/18/11	613.50
28650	11/05/11	4326	11/18/11	761.25
548755	12/23/11	4342	12/29/11	549.02
Asphalt Total				$32,982.22

Finding No. 2 - Purchases Over $10,000.00 In Noncompliance With Advertising And Bidding Requirements (Continued)

The above expenditures were not made in compliance with the advertising, bidding, and contract requirements of *The Second Class Township Code*, 53 P.S. § 68102(a), (also found at § 3102(a) of *The Second Class Township Code* as published by the Local Government Commission), which requires that purchases over $10,000.00 must be advertised, bid, and awarded by contract. *The Second Class Township Code*, 53 P.S. § 68104(a), (also found at § 3104(a) of *The Second Class Township Code* as published by the Local Government Commission) further states that advertising, bidding and contract requirements should not be evaded through piecemeal purchases.

In addition, the above expenditures were not made in compliance with the Department of Transportation's *Publication 9*, Appendix D, Section 449.7(d), which states, in part:

> Each municipality shall make an annual estimate of its requirements of road construction and maintenance materials, and shall advertise for bids on all items and groups of like items ordinarily supplied by a single supplier . . . which are estimated to exceed $10,000 for the year . . . . If the cost during the year of an unadvertised item or group of like items ordinarily supplied by a single supplier exceeds $10,000 . . . the entire cost shall be ineligible for payment from the Liquid Fuels Tax Fund unless it can be shown to the satisfaction of the Secretary [of the Department of Transportation] that it was reasonably believed that the cost of the year's requirements of that item or group of like items would not exceed $10,000 . . .

On December 23, 2011, the township reimbursed $20,692.36 to the Liquid Fuels Tax Fund.

The failure to comply with *The Second Class Township Code* and the Department of Transportation's *Publication 9* could result in the township having to reimburse $12,289.86 to its Liquid Fuels Tax Fund.

Recommendations

We recommend that the township reimburse $12,289.86 to its Liquid Fuels Tax Fund upon official notification by the Department of Transportation.

We further recommend that, in the future, the township comply with *The Second Class Township Code* and the Department of Transportation's *Publication 9*. The threshold for advertising and bidding increased to $18,500.00 for 2012 and subsequent years.

Finding No. 2 - Purchases Over $10,000.00 In Noncompliance With Advertising And Bidding Requirements (Continued)

Management's Response

The secretary/treasurer stated:

> We did not realize that they were going to do any work.

Auditor's Conclusion

The township expended $32,982.22 during 2011 for asphalt. *The Second Class Township Code* and the Department of Transportation's *Publication 9* required purchases in excess of $10,000.00 during 2011 to be advertised and bid. During our next examination we will determine if the township complied with our recommendations.

Finding No. 3 - Documentation For Price Quotations Was Not Available For Examination

Our examination disclosed that during 2011 the township expended $4,200.00 for equipment rental, $9,800.00 for concrete, and $6,073.41 for anti-skid from the Liquid Fuels Tax Fund. The township was required to obtain three written or telephonic price quotations for these expenditures. However, documentation for price quotations was not available for examination. The purchases were as follows:

Invoice Number	Invoice Date	Check Number	Check Date	Amount	Total
Equipment Rental:					
3846	03/28/11	4165	04/06/11	$ 800.00	
3851	05/20/11	4193	05/27/11	1,150.00	
3860	06/09/11	4209	06/15/11	1,125.00	
3866	07/21/11	4245	07/29/11	1,125.00	
Total					$ 4,200.00
Concrete:					
2011-45	08/03/11	4250	08/09/11	$9,800.00	9,800.00
Anti Skid:					
91142	05/14/11	4196	05/27/11	$1,074.74	
91351	05/28/11	4211	06/15/11	1,270.36	
91471	06/04/11	4211	06/15/11	491.09	
92114	07/16/11	4237	07/26/11	2,096.97	
93221	09/17/11	4237	10/07/11	1,140.25	
Total					6,073.41
					$20,073.41

The above expenditures were not made in compliance with the contract requirements of *The Second Class Township Code*, 53 P.S. § 68102(b), (also found at § 3102(b) of *The Second Class Township Code* as published by the Local Government Commission), which states, in part:

> Written or telephonic price quotations from at least three qualified and responsible contractors shall be requested for all contracts that exceed four thousand dollars

Finding No. 3 - Documentation For Price Quotations Was Not Available For Examination (Continued)

> ($4,000.00) but are less than the amount [in excess of $10,000.00] requiring advertisement and competitive bidding or, in lieu of price quotations, a memorandum shall be kept on file showing that fewer than three qualified contractors exist in the market area within which it is practicable to obtain quotations. A written record of telephonic price quotations shall be made and shall contain at least the date of the quotation, the name of the contractor and the contractor's representative, the construction, reconstruction, repair, maintenance or work which was the subject of the quotation and the price. Written price quotations, written records of telephonic price quotations and memoranda shall be retained for a period of three years.

In addition, the above expenditures were not made in compliance with the Department of Transportation's *Publication 9*, Appendix D, Section 449.7(d), which states, in part:

> ...For material estimates between $4,000 and $10,000, three telephone price quotes shall be obtained prior to the selection of a supplier. In lieu of the price quotations, a memorandum shall be kept on file showing that fewer than three qualified contractors service the market area within which it is practicable to obtain quotations. If the cost during the year of an unadvertised item or group of like items ordinarily supplied by a single supplier exceeds $10,000 or if the cost was between $4,000 and $10,000 and three price quotes were not obtained, the entire cost shall be ineligible for payment from the Liquid Fuels Tax Fund unless it can be shown to the satisfaction of the Secretary [of the Department of Transportation] that it was reasonably believed that the cost of the year's requirements of that item or group of like items would not exceed $10,000 or be between $4,000 and $10,000 as specified above.

The failure to comply with *The Second Class Township Code* and the Department of Transportation's *Publication 9* could result in the township having to reimburse $20,073.41 to its Liquid Fuels Tax Fund.

Recommendations

We recommend that the township reimburse $20,073.41 to its Liquid Fuels Tax Fund upon official notification by the Department of Transportation.

We further recommend that, in the future, the township comply with *The Second Class Township Code* and the Department of Transportation's *Publication 9*. The threshold for obtaining price quotations increased to purchases between $10,000.00 and $18,500.00 for 2012 and subsequent years.

Finding No. 3 - Documentation For Price Quotations Was Not Available For Examination (Continued)

Management's Response

The secretary/treasurer stated:

> We did not know we needed quotes.

Auditor's Conclusion

During 2011 *The Second Class Township Code* and the Department of Transportation's *Publication 9* required the township to obtain three written or telephonic price quotations for all purchases between $4,000.00 and $10,000.00. The township officials should become familiar with *The Second Class Township Code* and the Department of Transportation's *Publication 9*. During our next examination we will determine if the municipality complied with our recommendations.

Finding No. 4 - Liquid Fuels Money Loaned To General Fund - Recurring

In our prior report for the period ending December 31, 2009, we cited the municipality for loaning Liquid Fuels Tax Fund money to the General Fund. However, our current examination again disclosed that the municipality loaned $20,000.00 on January 14, 2011 from the Liquid Fuels Tax Fund to the General Fund. Further examination revealed that $20,000.00 was reimbursed to the Liquid Fuels Tax Fund on May 31, 2011.

Liquid Fuels Tax Fund money appropriated to the municipality in accordance with 72 P.S. § 2615.4 of the Liquid Fuels Tax Municipal Allocation Law can only be expended for purposes authorized by 72 P.S. § 2615.4. The authorized purposes described by 72 P.S. § 2615.4 do not include loaning money from the municipality's Liquid Fuels Tax Fund to the General Fund or any other fund.

If the liquid fuels tax money was maintained in the Liquid Fuels Tax Fund during the entire examination period, money may have been available for investment purposes, potentially earning additional interest which could have been used for road maintenance and repairs. Additionally, the risk that Liquid Fuels Tax Fund money may be used for unauthorized purposes increases when liquid fuels money is commingled with other funds.

This condition occurred because the municipality failed to comply with our prior examination recommendation to discontinue the practice of loaning Liquid Fuels Tax Fund money to other funds or accounts.

Recommendation

We strongly recommend that, in the future, the municipality discontinue the practice of loaning liquid fuels money to other funds or accounts.

Management's Response

The secretary/treasurer stated:

> The General Fund needed the money.

Auditor's Conclusion

This is a recurring finding. We strongly recommend that the municipality comply with our recommendation. The practice of loaning liquid fuels money to other funds or accounts is not permissible. During our next examination we will determine if the municipality complied with our recommendation.

TOWNSHIP OF LIBERTY
MCKEAN COUNTY
LIQUID FUELS TAX FUND
SUMMARY OF EXIT CONFERENCE
FOR THE PERIOD
JANUARY 1, 2010 TO DECEMBER 31, 2012

An exit conference was held May 16, 2013. Those participating were:

TOWNSHIP OF LIBERTY

Ms. Lucinda L. Speeth, Secretary/Treasurer

DEPARTMENT OF THE AUDITOR GENERAL

Mr. Christopher Heglen, Auditor

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

TOWNSHIP OF LIBERTY
MCKEAN COUNTY
LIQUID FUELS TAX FUND
REPORT DISTRIBUTION
FOR THE PERIOD
JANUARY 1, 2010 TO DECEMBER 31, 2012

This report was initially distributed to:

The Honorable Barry J. Schoch, P.E.
Secretary
Department of Transportation

Township of Liberty
McKean County
4859 Route 155
Port Allegany, PA 16743

The Honorable Gary Turner	Chairman of the Board of Supervisors
Ms. Lucinda L. Speeth	Secretary/Treasurer

This report is a matter of public record and is available online at http://www.auditorgen.state.pa.us. Media questions about the report can be directed to the Pennsylvania Department of the Auditor General, Office of Communications, 231 Finance Building, Harrisburg, PA 17120; via email to: news@auditorgen.state.pa.us.