



**TOWNSHIP OF EAST FALLOWFIELD
CHESTER COUNTY
15-207**

**LIQUID FUELS TAX FUND
EXAMINATION REPORT**

**FOR THE PERIOD
JANUARY 1, 2011 TO DECEMBER 31, 2012**

COMMONWEALTH OF PENNSYLVANIA

EUGENE A. DEPASQUALE - AUDITOR GENERAL

DEPARTMENT OF THE AUDITOR GENERAL





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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 East Fallowfield, Chester County, for the period January 1, 2011 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 East Fallowfield, Chester County's Forms MS-965 for the period January 1, 2011 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 Finding No. 1, the adjustments included on the Forms MS-965 With Adjustments are made by the Department of the Auditor General.

Independent Auditor's Report (Continued)

As discussed in Finding No. 2, the township expended \$18,456.22 during 2011 from its Liquid Fuels Tax Fund for multiple purchases of diesel fuel without advertising for bids. Additionally, as discussed in Finding No. 3, the township expended \$3,493.00 and \$300.00 in excess of the approved amount for road project Nos. 11-15207-01 and 12-15207-01, respectively. On April 27, 2012, the municipality reimbursed \$909.60 to its Liquid Fuels Tax Fund, leaving \$2,883.40 due the Liquid Fuels Tax Fund.

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 East Fallowfield, Chester County, for the period January 1, 2011 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 East Fallowfield, Chester 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 East Fallowfield, Chester County's Forms MS-965 that is more than inconsequential will not be prevented or detected by the Township of East Fallowfield, Chester 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:

- Failure To Properly Prepare Forms MS-965.

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 East Fallowfield, Chester County's internal control.

Independent Auditor's Report (Continued)

Our consideration of internal control over reporting on the Forms MS-965 was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or 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.
- Liquid Fuels Money Overexpended On Projects.

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

- Late Receipt Of Allocations - Recurring.

We are concerned in light of the municipality's failure to correct a previously reported finding regarding late receipt of allocations. During our current examination, we noted that the municipality failed to properly prepare Forms MS-965, made purchase over \$10,000.00 without advertising for bids, expended Liquid Fuels Tax Fund money in excess of the approved amounts on road projects, and received its allocation late. The municipality should strive to implement the recommendations and corrective actions noted in this report.

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



December 5, 2013

EUGENE A. DEPASQUALE
Auditor General

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TOWNSHIP OF EAST FALLOWFIELD
CHESTER COUNTY
LIQUID FUELS TAX FUND
BACKGROUND
FOR THE PERIOD
JANUARY 1, 2011 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 EAST FALLOWFIELD
CHESTER COUNTY
LIQUID FUELS TAX FUND
2011 FORM MS-965 – SECTION 1
WITH ADJUSTMENTS

<u>Expenditure Summary</u>	<u>Reported</u>	<u>Adjustments (Finding No. 1)</u>	<u>Adjusted Amount</u>
Major equipment purchases	\$ 136,639.71	\$ (100,854.83)	\$ 35,784.88
Minor equipment purchases	769.36	-	769.36
Computer/Computer related training	-	-	-
Agility projects	-	-	-
Cleaning streets and gutters	810.00	-	810.00
Winter maintenance services	41,797.84	-	41,797.84
Traffic control devices	2,860.67	-	2,860.67
Street lighting	1,161.42	-	1,161.42
Storm sewers and drains	-	-	-
Repairs of tools and machinery	41,003.89	-	41,003.89
Maintenance and repair of roads and bridges	46,694.51	163.89	46,858.40
Highway construction and rebuilding projects	53,893.00	-	53,893.00
Miscellaneous (Note 5)	196,206.74	(89,100.40)	107,106.34
 Total (To Section 2, Line 5)	 <u>\$ 521,837.14</u>	 <u>\$ (189,791.34)</u>	 <u>\$ 332,045.80</u>

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

TOWNSHIP OF EAST FALLOWFIELD
 CHESTER COUNTY
 LIQUID FUELS TAX FUND
 2011 FORM MS-965 – SECTION 2
 WITH ADJUSTMENTS

<u>Fund Balance</u>	<u>Reported</u>	<u>Adjustments (Finding No. 1)</u>	<u>Adjusted Amount</u>
1. Balance, January 1, 2011	\$ 287,571.65	\$ -	\$ 287,571.65
Receipts:			
2. State allocation	161,063.43	-	161,063.43
2a. Turnback allocation	29,480.00	29,480.00	58,960.00
2b. Interest on investments (Note 3)	477.44	-	477.44
2c. Miscellaneous (Note 4)	331,611.09	(219,271.34)	112,339.75
3. Total receipts	<u>522,631.96</u>	<u>(189,791.34)</u>	<u>332,840.62</u>
4. Total funds available	<u>810,203.61</u>	<u>(189,791.34)</u>	<u>620,412.27</u>
5. Expenditures (Section 1)	<u>521,837.14</u>	<u>(189,791.34)</u>	<u>332,045.80</u>
6. Balance, December 31, 2011	<u>\$ 288,366.47</u>	<u>\$ -</u>	<u>\$ 288,366.47</u>

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

TOWNSHIP OF EAST FALLOWFIELD
 CHESTER COUNTY
 LIQUID FUELS TAX FUND
 2011 FORM MS-965 – SECTION 3
 WITH ADJUSTMENTS

<u>Equipment Balance</u>	<u>Reported</u>	<u>Adjustments (Finding No. 1)</u>	<u>Adjusted Amount</u>
1. Prior year equipment balance	\$ 112,898.85	\$ -	\$ 112,898.85
2. Add: Current year equipment allocation (20% of Lines 2 + 2a, Section 2)	38,108.69	5,895.99	44,004.68
3. PENNDOT approved adjustments	-	-	-
4. Total funds available for equipment acquisition	151,007.54	5,895.99	156,903.53
5. Less: Major equipment expenditures	136,639.71	(100,854.83)	35,784.88
6. Remainder	<u>14,367.83</u>	<u>106,750.82</u>	<u>121,118.65</u>
7. Equipment balance available for subsequent year (Lesser of Line 6 or Section 2 balance, but not less than zero)	<u>\$ 14,367.83</u>	<u>\$ 106,750.82</u>	<u>\$ 121,118.65</u>

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

TOWNSHIP OF EAST FALLOWFIELD
 CHESTER COUNTY
 LIQUID FUELS TAX FUND
 2012 FORM MS-965 – SECTION 1
 WITH ADJUSTMENTS

<u>Expenditure Summary</u>	<u>Reported</u>	<u>Adjustments (Finding No. 1)</u>	<u>Adjusted Amount</u>
Major equipment purchases	\$ 45,193.88	\$ (9,409.00)	\$ 35,784.88
Minor equipment purchases	492.99	9,409.00	9,901.99
Computer/Computer related training	-	-	-
Agility projects	-	-	-
Cleaning streets and gutters	11,586.17	-	11,586.17
Winter maintenance services	14,077.87	-	14,077.87
Traffic control devices	2,970.87	-	2,970.87
Street lighting	1,147.85	-	1,147.85
Storm sewers and drains	6,721.51	-	6,721.51
Repairs of tools and machinery	41,296.00	-	41,296.00
Maintenance and repair of roads and bridges	62,157.59	-	62,157.59
Highway construction and rebuilding projects	160,682.14	-	160,682.14
Miscellaneous	-	-	-
	<hr/>	<hr/>	<hr/>
Total (To Section 2, Line 5)	<u>\$ 346,326.87</u>	<u>\$ -</u>	<u>\$ 346,326.87</u>

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

TOWNSHIP OF EAST FALLOWFIELD
 CHESTER COUNTY
 LIQUID FUELS TAX FUND
 2012 FORM MS-965 – SECTION 2
 WITH ADJUSTMENTS

<u>Fund Balance</u>	<u>Reported</u>	<u>Adjustments</u>	<u>Adjusted Amount</u>
1. Balance, January 1, 2012	\$ 288,366.47	\$ -	\$ 288,366.47
Receipts:			
2. State allocation	193,809.49	-	193,809.49
2a. Turnback allocation	29,480.00	-	29,480.00
2b. Interest on investments (Note 3)	327.32	-	327.32
2c. Miscellaneous (Note 4)	13,536.52	-	13,536.52
3. Total receipts	<u>237,153.33</u>	<u>-</u>	<u>237,153.33</u>
4. Total funds available	<u>525,519.80</u>	<u>-</u>	<u>525,519.80</u>
5. Expenditures (Section 1)	<u>346,326.87</u>	<u>-</u>	<u>346,326.87</u>
6. Balance, December 31, 2012	<u><u>\$ 179,192.93</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 179,192.93</u></u>

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

TOWNSHIP OF EAST FALLOWFIELD
 CHESTER COUNTY
 LIQUID FUELS TAX FUND
 2012 FORM MS-965 – SECTION 3
 WITH ADJUSTMENTS

<u>Equipment Balance</u>	<u>Reported</u>	<u>Adjustments (Finding No. 1)</u>	<u>Adjusted Amount</u>
1. Prior year equipment balance	\$ 14,367.83	\$ 106,750.82	\$ 121,118.65
2. Add: Current year equipment allocation (20% of Lines 2 + 2a, Section 2)	44,657.90	-	44,657.90
3. PENNDOT approved adjustments	-	-	-
4. Total funds available for equipment acquisition	59,025.73	106,750.82	165,776.55
5. Less: Major equipment expenditures	45,193.88	(9,409.00)	35,784.88
6. Remainder	<u>13,831.85</u>	<u>116,159.82</u>	<u>129,991.67</u>
7. Equipment balance available for subsequent year (Lesser of Line 6 or Section 2 balance, but not less than zero)	<u>\$ 13,831.85</u>	<u>\$ 116,159.82</u>	<u>\$ 129,991.67</u>

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

TOWNSHIP OF EAST FALLOWFIELD
CHESTER COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE PERIOD
JANUARY 1, 2011 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.

TOWNSHIP OF EAST FALLOWFIELD
CHESTER COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE PERIOD
JANUARY 1, 2011 TO DECEMBER 31, 2012

1. Criteria (Continued)

Section 3

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

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

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

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

Basis Of Presentation

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

Basis Of Accounting

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

TOWNSHIP OF EAST FALLOWFIELD
CHESTER COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE PERIOD
JANUARY 1, 2011 TO DECEMBER 31, 2012

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.

TOWNSHIP OF EAST FALLOWFIELD
 CHESTER COUNTY
 LIQUID FUELS TAX FUND
 NOTES TO FORMS MS-965 WITH ADJUSTMENTS
 FOR THE PERIOD
 JANUARY 1, 2011 TO DECEMBER 31, 2012

2. Deposits (Continued)

Fund Balance

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

Cash	<u>\$179,192.93</u>
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3. Interest On Investments

Our examination disclosed that the municipality deposited idle liquid fuels tax money in interest-bearing accounts which earned \$477.44 during 2011, and \$327.32 during 2012, thus providing additional funds for road maintenance and repairs.

4. Miscellaneous Receipts

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

Source	Description	2011	2012
Vendors	Refund for materials	\$ 3,061.03	\$ -
General Fund	Correction of transfer in error (Note 6)	100,854.83	-
Insurance company	Reimbursement for damages	2,222.38	-
General Fund	Deposit in error (Note 7)	6,201.51	-
General Fund	Reimbursement (Comment)	-	12,626.92
General Fund	Reimbursement (Finding No. 3)	-	909.60
Totals		<u>\$112,339.75</u>	<u>\$13,536.52</u>

TOWNSHIP OF EAST FALLOWFIELD
 CHESTER COUNTY
 LIQUID FUELS TAX FUND
 NOTES TO FORMS MS-965 WITH ADJUSTMENTS
 FOR THE PERIOD
 JANUARY 1, 2011 TO DECEMBER 31, 2012

5. Miscellaneous Expenditures

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

Payee	Description	2011
General Fund	Transfer in error (Note 6)	\$100,854.83
General Fund	Correction of deposit in error (Note 7)	6,201.51
Financial institution	Bank service charges	50.00
Total		\$107,106.34

6. Transfer In Error

On January 31, 2011 the municipality transferred \$100,854.83 from its Liquid Fuels Tax Fund to its General Fund in error. On February 16, 2011 the municipality transferred this amount from its General Fund to its Liquid Fuels Tax Fund to correct the transfer in error.

7. Deposit In Error

On June 27, 2011 the municipality deposited \$6,201.51 into its Liquid Fuels Tax Fund in error. On September 19, 2011 the municipality transferred this amount from its Liquid Fuels Tax Fund to its General Fund to correct the deposit in error.

8. Bank Loan

On February 11, 2011 the municipality borrowed \$136,639.71 from First Niagara Leasing to purchase a 2011 Freightliner dump truck. The term of the loan was for four years at an interest rate of 3.19 percent. Principal and interest payments of \$35,784.88 are due annually.

During the current examination period the municipality paid principal of \$68,353.50 and interest of \$3,216.26 from the Liquid Fuels Tax Fund. These amounts are reflected in major equipment purchases on the 2011 and 2012 Forms MS-965 - Section 1. The outstanding balance of the loan as of December 31, 2012 was \$68,286.21, plus interest.

TOWNSHIP OF EAST FALLOWFIELD
CHESTER COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2011 TO DECEMBER 31, 2012

Finding No. 1 - Failure To Properly Prepare Forms MS-965

Our examination disclosed that there were numerous errors made in the preparation of the municipality's 2011 and 2012 Forms MS-965. These adjustments are as follows:

2011 - Section 1

- An adjustment of \$(100,854.83) was made to "Major equipment purchases" because miscellaneous expenditures were misclassified.
- An adjustment of \$163.89 was made to "Maintenance and repair of roads and bridges" because these expenditures were misclassified as miscellaneous.
- An adjustment of \$(89,100.40) was made to "Miscellaneous" because a transfer in error of \$100,854.83 was misclassified as major equipment purchases, transfers of \$189,791.34 between two liquid fuels tax fund accounts were incorrectly reported as expenditures, and expenditures of \$163.89 for maintenance and repair of roads and bridges were misclassified.

2011 - Section 2

- An adjustment of \$29,480.00 was made to "Turnback allocation" because this receipt was misclassified as miscellaneous.
- An adjustment of \$(219,271.34) was made to "Miscellaneous" because transfers of \$189,791.34 between two liquid fuels tax fund accounts were incorrectly reported as receipts and the turnback allocation of \$29,480.00 was misclassified.

2011 - Section 3

- An adjustment of \$5,895.99 was made to "Current year equipment allocation" because the 2010 turnback, which was received in 2011, was not included in the calculation of the current year equipment allocation.
- An adjustment of \$(100,854.83) was made to "Major equipment expenditures" to reflect the adjustment made to major equipment purchases in 2011 - Section 1.

TOWNSHIP OF EAST FALLOWFIELD
CHESTER COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2011 TO DECEMBER 31, 2012

Finding No. 1 - Failure To Properly Prepare Forms MS-965 (Continued)

2012 - Section 1

- Adjustments were made to “Major equipment purchases” and “Minor equipment purchases” because expenditures of \$9,409.00 were misclassified.

2012 - Section 3

- An adjustment of \$106,750.82 was made to “Prior year equipment balance” to reflect the adjustment made to the equipment balance in 2011 - Section 3.
- An adjustment of \$(9,409.00) was made to “Major equipment expenditures” to reflect the adjustment made to major equipment purchases in 2012 - Section 1.

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

Recommendation

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

Management’s Response

The treasurer stated:

I understand that mistakes made on the Forms MS-965 for 2011 and 2012 led to the finding that the Forms MS-965 were improperly prepared.

Auditor’s Conclusion

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

TOWNSHIP OF EAST FALLOWFIELD
 CHESTER COUNTY
 LIQUID FUELS TAX FUND
 FINDINGS AND RECOMMENDATIONS
 FOR THE PERIOD
 JANUARY 1, 2011 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 \$18,456.22 during 2011 from the Liquid Fuels Tax Fund for the purchase of diesel fuel without advertising for bids. These expenditures were as follows:

<u>Invoice Number</u>	<u>Invoice Date</u>	<u>Check Number</u>	<u>Check Date</u>	<u>Amount</u>
82183	01/24/11	4106	02/04/11	\$ 2,306.66
91916	02/02/11	4114	02/12/11	2,363.32
5259	02/16/11	4136	03/04/11	1,686.82
16859	03/02/11	5008	03/16/11	955.33
26422	03/17/11	5019	03/25/11	733.72
32355	04/04/11	5027	04/20/11	454.46
39641	04/18/11	5036	04/29/11	700.86
46616	05/02/11	5042	05/11/11	616.74
50188	05/16/11	5053	05/20/11	360.66
54762	05/31/11	5061	06/08/11	705.77
58506	06/13/11	5068	06/17/11	751.85
61429	06/22/11	5082	07/20/11	386.62
63447	07/07/11	5082	07/20/11	669.65
65752	07/21/11	5098	08/10/11	355.52
67825	08/04/11	5108	09/02/11	371.70
70017	08/18/11	5108	09/02/11	656.54
75752	09/01/11	5118	09/14/11	845.65
78605	09/19/11	5132	09/30/11	489.12
82299	09/30/11	5146	10/25/11	632.68
86090	10/14/11	5146	10/25/11	474.29
90396	10/28/11	5160	11/16/11	518.60
95991	11/10/11	5166	11/23/11	557.61
1857	11/25/11	5174	12/09/11	373.16
7834	12/08/11	5183	12/16/11	330.37
946	12/08/11	5183	12/16/11	158.52
2011 Total				<u>\$18,456.22</u>

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.

TOWNSHIP OF EAST FALLOWFIELD
CHESTER COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2011 TO DECEMBER 31, 2012

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

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 . . .

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 \$18,456.22 to its Liquid Fuels Tax Fund.

The township advertised for bids during 2012 when required.

Recommendations

We recommend that the township reimburse \$18,456.22 to its Liquid Fuels Tax Fund upon official notification by the Department of Transportation.

We further recommend that, in the future, the township continue to comply with *The Second Class Township Code* and the Department of Transportation's *Publication 9* as noted in this finding. The thresholds for advertising for bids increased to purchases over \$18,500 for 2012, \$18,900.00 for 2013, and \$19,100.00 for 2014.

TOWNSHIP OF EAST FALLOWFIELD
CHESTER COUNTY
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FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
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Finding No. 2 - Purchases Over \$10,000.00 In Noncompliance With Advertising And Bidding Requirements (Continued)

Management's Response

The treasurer stated:

I agree with the finding.

Auditor's Conclusion

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

TOWNSHIP OF EAST FALLOWFIELD
CHESTER COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2011 TO DECEMBER 31, 2012

Finding No. 3 - Liquid Fuels Money Overexpended On Projects

Our examination disclosed that the municipality expended \$53,893.00 during 2011 and \$160,982.14 during 2012 from its Liquid Fuels Tax Fund for construction project Nos. 11-15207-01 and 12-15207-01. However, the amount approved to be expended from the Liquid Fuels Tax Fund for both projects was \$50,400.00 and \$160,682.14, respectively. The differences of \$3,493.00 and \$300.00, respectively, should have been paid directly from the General Fund.

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

On April 27, 2012, the municipality reimbursed \$909.60 to the Liquid Fuels Tax Fund.

The failure to comply with the Department of Transportation's Regulations could result in the municipality having to reimburse \$2,883.40 to its Liquid Fuels Tax Fund.

Recommendations

We recommend that the municipality reimburse \$2,883.40 to its Liquid Fuels Tax Fund upon official notification by the Department of Transportation.

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

Management's Response

The municipal officials stated:

I agree with the finding.

Auditor's Conclusion

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

TOWNSHIP OF EAST FALLOWFIELD
CHESTER COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2011 TO DECEMBER 31, 2012

Finding No. 4 - Late Receipt Of Allocations - Recurring

We cited the municipality for receiving its allocation late in our prior report for the period ending December 31, 2010. However, our current examination disclosed that the 2011 and 2012 Liquid Fuels Tax Fund allocations of \$161,063.43 and \$193,809.49, respectively, which should have been distributed from the Department of Transportation to the municipality during the first week of April of each year, were not received until June 22, 2011, and June 16, 2012, respectively, because the municipality failed to comply with the Department of Transportation's *Publication 9*, Chapter Two, Section 2.4, which states:

To qualify for the annual liquid fuels tax allocation, a municipality shall:

- Submit annual reports (MS-965, Actual Use Report, MS-965P, Project and Miscellaneous Receipts, and MS-965S, Record of Checks).
- Make deposits and payments or expenditures in compliance with the Act 655. Failure to do so may result in not receiving allocations from PENNDOT until all discrepancies are resolved.
- Submit the Pennsylvania Department of Community and Economic Development's (DCED) Report of Elected and Appointed Officials by January 31st and the Survey of Financial Condition by March 15th.
- Ensure resolution of all Contractor Responsibility Program (CRP) holds and blocks imposed by the Department of Revenue and the Department of Labor and Industry.

Because the municipality failed to file documents and information timely as noted above, the municipality did not have use of the 2011 and 2012 allocations for more than two months. Furthermore, had the allocations been received timely, money may have been available for investment purposes, potentially earning interest income which could have been used for road maintenance and repairs.

This condition occurred because the municipality failed to comply with our prior recommendation to file documents and information timely so they receive their allocation during the first week in April.

TOWNSHIP OF EAST FALLOWFIELD
CHESTER COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2011 TO DECEMBER 31, 2012

Finding No. 4 - Late Receipt Of Allocations - Recurring (Continued)

Recommendation

We again recommend that, in the future, the municipality comply with the Department of Transportation's *Publication 9* to ensure that the allocations are received during the first week in April as outlined above.

Management's Response

The treasurer stated:

I agree with the finding.

Auditor's Conclusion

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

TOWNSHIP OF EAST FALLOWFIELD
CHESTER COUNTY
LIQUID FUELS TAX FUND
COMMENT
FOR THE PERIOD
JANUARY 1, 2011 TO DECEMBER 31, 2012

Comment - Summary Of Prior Examination Recommendations

In our prior report we recommended that the Department of Transportation review our examination findings to determine if the municipality should reimburse \$12,626.92 to its Liquid Fuels Tax Fund. This amount consists of \$2,785.17 for duplicate payment of invoices and \$9,841.75 for nonpermissible expenditures.

During our current examination we reviewed a letter dated March 1, 2012, from the Department of Transportation informing the municipality to reimburse \$12,626.92 to its Liquid Fuels Tax Fund. We noted that the municipality reimbursed this amount to its Liquid Fuels Tax Fund on April 2, 2012.

In our prior report we also recommended:

- That the municipality establish and implement internal controls to ensure that vendor invoices are reviewed timely to avoid duplicate payments.
- That the municipality deposit all liquid fuels tax money promptly into the Liquid Fuels Tax Fund.
- That the municipality comply with the Liquid Fuels Tax Municipal Allocation Law regarding permissible expenditures.

During our current examination we noted that the municipality complied with our recommendations.

TOWNSHIP OF EAST FALLOWFIELD
CHESTER COUNTY
LIQUID FUELS TAX FUND
SUMMARY OF EXIT CONFERENCE
FOR THE PERIOD
JANUARY 1, 2011 TO DECEMBER 31, 2012

An exit conference was held December 5, 2013. Those participating were:

TOWNSHIP OF EAST FALLOWFIELD

Ms. Rosemary Moore, Treasurer

DEPARTMENT OF THE AUDITOR GENERAL

Mr. Stephen P. Stoppie, Auditor

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

TOWNSHIP OF EAST FALLOWFIELD
CHESTER COUNTY
LIQUID FUELS TAX FUND
REPORT DISTRIBUTION
FOR THE PERIOD
JANUARY 1, 2011 TO DECEMBER 31, 2012

This report was initially distributed to:

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

Township of East Fallowfield
Chester County
2264 Strasburg Road
East Fallowfield, PA 19320

The Honorable Joseph Pomorski

Chairman of the Board of Supervisors

Ms. Rosemary Moore

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.