

ATTESTATION ENGAGEMENT

Township of Liberty
Adams County, Pennsylvania
01-213
Liquid Fuels Tax Fund
For the Period
January 1, 2013 to December 31, 2014

November 2015



Commonwealth of Pennsylvania
Department of the Auditor General
Eugene A. DePasquale • Auditor General



Commonwealth of Pennsylvania
Department of the Auditor General
Harrisburg, PA 17120-0018
Facebook: Pennsylvania Auditor General
Twitter: @PAAuditorGen
www.PaAuditor.gov

EUGENE A. DEPASQUALE
AUDITOR GENERAL

Independent Auditor's Report

The Honorable Leslie Richards
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, Adams County, for the period January 1, 2013 to December 31, 2014. 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, Adams County's Forms MS-965 for the period January 1, 2013 to December 31, 2014 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.

Independent Auditor's Report (Continued)

As discussed in Finding No. 1, the township expended \$18,242.32 during 2013 from its Liquid Fuels Tax Fund toward the purchase of a used backhoe under the COSTARS Contract. However, used equipment is not eligible to be purchased from the contract. Furthermore, as discussed in Finding No. 2, the township over expended its 2013 equipment purchase tally by \$4,927.94.

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, Adams County, for the period January 1, 2013 to December 31, 2014, in conformity with the criteria set forth in Note 1.

In accordance with *Government Auditing Standards*, we are required to report all deficiencies that are considered to be significant deficiencies or material weaknesses in internal control; fraud and noncompliance with provisions of laws or regulations that have a material effect on the Forms MS-965; and any other instances that warrant the attention of those charged with governance; noncompliance with provisions of contracts or grant agreements, and abuse that has a material effect on the Forms MS-965. We are also required to obtain and report the views of responsible officials concerning the findings, conclusions, and recommendations, as well as any planned corrective actions. We performed our examination to express an opinion on whether the Forms MS-965 are presented in accordance with the criteria described above and not for the purpose of expressing an opinion on internal control over reporting on the Forms MS-965 or on compliance and other matters; accordingly, we express no such opinions.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Forms MS-965 will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over reporting on the Forms MS-965 was for the limited purpose of expressing an opinion on whether the Forms MS-965 are presented in accordance with the criteria described above and would not necessarily identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our engagement we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Independent Auditor's Report (Continued)

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

- Purchase Of Used Equipment From The COSTARS Contract - Recurring.
- Over Expended Equipment Purchase Tally.

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

- Late Receipt Of Allocations.

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

We appreciate the courtesy extended by the Township of Liberty, Adams County, to us during the course of our examination. If you have any questions, please feel free to contact Michael B. Kashishian, CPA, CGAP, CFE, Director, Bureau of County Audits, at 717-787-1363.



Eugene A. DePasquale
Auditor General

October 7, 2015

CONTENTS

	<u>Page</u>
Background	1
Financial Section:	
2013 Form MS-965 With Adjustments	2
2014 Form MS-965 With Adjustments	5
Notes To Forms MS-965 With Adjustments.....	8
Findings And Recommendations:	
Finding No. 1 - Purchase Of Used Equipment From The COSTARS Contract - Recurring	13
Finding No. 2 - Over Expended Equipment Purchase Tally	15
Finding No. 3 - Late Receipt Of Allocations	17
Summary Of Prior Examination Recommendations.....	19
Summary Of Exit Conference.....	20
Report Distribution	21

TOWNSHIP OF LIBERTY
ADAMS COUNTY
LIQUID FUELS TAX FUND
BACKGROUND
FOR THE PERIOD
JANUARY 1, 2013 TO DECEMBER 31, 2014

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
ADAMS COUNTY
LIQUID FUELS TAX FUND
2013 FORM MS-965 – SECTION 1
WITH ADJUSTMENTS

<u>Expenditure Summary</u>	<u>Reported</u>	<u>Adjustments</u>	<u>Adjusted Amount</u>
Major equipment purchases	\$ 18,242.32	\$ -	\$ 18,242.32
Minor equipment purchases	-	-	-
Computer/Computer related training	-	-	-
Agility projects	-	-	-
Cleaning streets and gutters	-	-	-
Winter maintenance services	3,918.35	-	3,918.35
Traffic control devices	-	-	-
Street lighting	-	-	-
Storm sewers and drains	-	-	-
Repairs of tools and machinery	-	-	-
Maintenance and repair of roads and bridges	-	-	-
Highway construction and rebuilding projects	23,595.91	-	23,595.91
Miscellaneous	-	-	-
	<hr/>	<hr/>	<hr/>
Total (To Section 2, Line 5)	<u>\$ 45,756.58</u>	<u>\$ -</u>	<u>\$ 45,756.58</u>

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

TOWNSHIP OF LIBERTY
ADAMS COUNTY
LIQUID FUELS TAX FUND
2013 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, 2013	\$ 13,077.43	\$ -	\$ 13,077.43
Receipts:			
2. State allocation	52,931.80	-	52,931.80
2a. Turnback allocation	-	-	-
2b. Interest on investments (Note 3)	2.16	-	2.16
2c. Miscellaneous	-	-	-
3. Total receipts	<u>52,933.96</u>	<u>-</u>	<u>52,933.96</u>
4. Total funds available	<u>66,011.39</u>	<u>-</u>	<u>66,011.39</u>
5. Expenditures (Section 1)	<u>45,756.58</u>	<u>-</u>	<u>45,756.58</u>
6. Balance, December 31, 2013	<u><u>\$ 20,254.81</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 20,254.81</u></u>

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

TOWNSHIP OF LIBERTY
ADAMS COUNTY
LIQUID FUELS TAX FUND
2013 FORM MS-965 – SECTION 3
WITH ADJUSTMENTS

<u>Equipment Balance</u>	<u>Reported</u>	<u>Adjustments</u>	<u>Adjusted Amount</u>
1. Prior year equipment balance	\$ 2,728.02	\$ -	\$ 2,728.02
2. Add: Current year equipment allocation (20% of Lines 2 + 2a, Section 2)	10,586.36	-	10,586.36
3. PENNDOT approved adjustments	<u>-</u>	<u>-</u>	<u>-</u>
4. Total funds available for equipment acquisition	13,314.38	-	13,314.38
5. Less: Major equipment expenditures	<u>18,242.32</u>	<u>-</u>	<u>18,242.32</u>
6. Remainder	<u>(4,927.94)</u>	<u>-</u>	<u>(4,927.94)</u>
7. Equipment balance available for subsequent year (Lesser of Line 6 or Section 2 balance, but not less than zero)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

TOWNSHIP OF LIBERTY
ADAMS COUNTY
LIQUID FUELS TAX FUND
2014 FORM MS-965 – SECTION 1
WITH ADJUSTMENTS

<u>Expenditure Summary</u>	<u>Reported</u>	<u>Adjustments</u>	<u>Adjusted Amount</u>
Major equipment purchases	\$ -	\$ -	\$ -
Minor equipment purchases	3,539.43	-	3,539.43
Computer/Computer related training	-	-	-
Agility projects	-	-	-
Cleaning streets and gutters	-	-	-
Winter maintenance services	12,572.18	-	12,572.18
Traffic control devices	7,032.35	-	7,032.35
Street lighting	-	-	-
Storm sewers and drains	-	-	-
Repairs of tools and machinery	6,160.90	-	6,160.90
Maintenance and repair of roads and bridges	28,155.29	-	28,155.29
Highway construction and rebuilding projects	23,595.91	-	23,595.91
Miscellaneous	-	-	-
 Total (To Section 2, Line 5)	 <u>\$ 81,056.06</u>	 <u>\$ -</u>	 <u>\$ 81,056.06</u>

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

TOWNSHIP OF LIBERTY
ADAMS COUNTY
LIQUID FUELS TAX FUND
2014 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, 2014	\$ 20,254.81	\$ -	\$ 20,254.81
Receipts:			
2. State allocation	57,012.39	-	57,012.39
2a. Turnback allocation	-	-	-
2b. Interest on investments (Note 3)	6.69	-	6.69
2c. Miscellaneous (Summary of prior examination recommendations)	18,121.16	-	18,121.16
3. Total receipts	75,140.24	-	75,140.24
4. Total funds available	95,395.05	-	95,395.05
5. Expenditures (Section 1)	81,056.06	-	81,056.06
6. Balance, December 31, 2014	<u>\$ 14,338.99</u>	<u>\$ -</u>	<u>\$ 14,338.99</u>

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

TOWNSHIP OF LIBERTY
ADAMS COUNTY
LIQUID FUELS TAX FUND
2014 FORM MS-965 – SECTION 3
WITH ADJUSTMENTS

<u>Equipment Balance</u>	<u>Reported</u>	<u>Adjustments (Note 4)</u>	<u>Adjusted Amount</u>
1. Prior year equipment balance	\$ (4,927.94)	\$ 4,927.94	\$ -
2. Add: Current year equipment allocation (20% of Lines 2 + 2a, Section 2)	11,402.48	-	11,402.48
3. PENNDOT approved adjustments	-	-	-
4. Total funds available for equipment acquisition	6,474.54	4,927.94	11,402.48
5. Less: Major equipment expenditures	-	-	-
6. Remainder	<u>6,474.54</u>	<u>4,927.94</u>	<u>11,402.48</u>
7. Equipment balance available for subsequent year (Lesser of Line 6 or Section 2 balance, but not less than zero)	<u>\$ 6,474.54</u>	<u>\$ 4,927.94</u>	<u>\$ 11,402.48</u>

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

TOWNSHIP OF LIBERTY
ADAMS COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE PERIOD
JANUARY 1, 2013 TO DECEMBER 31, 2014

1. Criteria

Section 1

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

- Major equipment purchases are purchases of road machinery and road equipment with varying yearly costs in excess of the amounts indicated below:

Prior To 2012	2012	2013	2014
\$4,000.00	\$10,000.00	\$10,200.00	\$10,300.00

- Minor equipment purchases are purchases of road machinery and road equipment with varying yearly costs, or less, than the amounts indicated below:

Prior To 2012	2012	2013	2014
\$4,000.00	\$10,000.00	\$10,200.00	\$10,300.00

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

Section 2

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

- The state allocation is 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.

TOWNSHIP OF LIBERTY
ADAMS COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE PERIOD
JANUARY 1, 2013 TO DECEMBER 31, 2014

1. Criteria (Continued)

Section 2 (Continued)

- 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 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.

TOWNSHIP OF LIBERTY
ADAMS COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE PERIOD
JANUARY 1, 2013 TO DECEMBER 31, 2014

1. Criteria (Continued)

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.

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 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.

TOWNSHIP OF LIBERTY
ADAMS COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE PERIOD
JANUARY 1, 2013 TO DECEMBER 31, 2014

2. Deposits (Continued)

There were no deposits exposed to custodial credit risk as of December 31, 2014. 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.

Fund Balance

The fund balance as of December 31, 2014 consists of the following:

Cash	\$14,338.99
------	-------------

3. Interest On Investments

Our examination disclosed that the municipality deposited idle liquid fuels tax money in an interest-bearing account which earned \$2.16 during 2013, and \$6.69 during 2014, thus providing additional funds for road maintenance and repairs.

4. Adjustments

2014 - Section 3

An adjustment of \$4,927.94 was made to "Prior year equipment balance" because an incorrect equipment balance was carried forward.

5. Bank Loan

On November 23, 2005, the municipality borrowed \$200,000.00 from the Pennsylvania Infrastructure Bank for the rehabilitation, resurfacing, and safety improvements to Steelman Marker and Bullfrog Roads in Liberty Township. The term of the loan was for ten years at an interest rate of 3.125 percent. Principal and interest payments of \$23,595.91 are due annually. Prior years' principal and interest payments from the Liquid Fuels Tax Fund were \$133,416.39 and interest of \$31,754.98, respectively.

TOWNSHIP OF LIBERTY
ADAMS COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE PERIOD
JANUARY 1, 2013 TO DECEMBER 31, 2014

5. Bank Loan (Continued)

During the current examination period the municipality paid principal of \$43,702.69 and interest of \$3,489.13 from the Liquid Fuels Tax Fund. These amounts are reflected in highway construction and rebuilding projects on the 2013 and 2014 Forms MS-965 - Section 1. The outstanding balance of the loan as of December 31, 2014 was \$22,880.92, plus interest.

6. Lease Purchase Agreement

On February 22, 2011, the municipality entered into a lease-purchase agreement with John Deere Credit Corporation to purchase a 2007 John Deere backhoe/loader for \$49,880.00. The municipality made down payments of \$9,000.00 from the Liquid Fuels Tax Fund and \$1,000.00 from the General Fund, leaving a balance of \$39,880.00 to be financed. The agreement was for a term of five years at an interest rate of 4.55 percent. Principal and interest payments of \$9,121.16 are due annually. Liquid Fuels Tax Fund money is not eligible to be used for this purchase because the backhoe/loader was used equipment which is not eligible for purchase through a COSTARS contract (see Finding No. 1). Prior years' principal and interest payments from the Liquid Fuels Tax Fund were \$7,268.30 and interest of \$1,852.86, respectively.

During the current examination period the municipality paid principal of \$15,565.39 and interest of \$2,676.93 from the Liquid Fuels Tax Fund. These amounts are reflected in major equipment purchases on the 2013 Form MS-965 - Section 1. The outstanding balance of the lease-purchase agreement as of December 31, 2014 was \$17,046.31, plus interest.

TOWNSHIP OF LIBERTY
ADAMS COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2013 TO DECEMBER 31, 2014

Finding No. 1 - Purchase Of Used Equipment From The COSTARS Contract - Recurring

Our examination disclosed that on February 25, 2011, the municipality entered into a lease-purchase agreement to purchase a 2007 John Deere loader/backhoe for \$49,880.00. The township made loan payments of \$18,242.32 from the Liquid Fuels Tax Fund during 2013 (see Note 6). The backhoe/loader was purchased through a COSTARS contract. COSTARS is a program run by the Department of General Services that permits municipalities to purchase from state contracts. The backhoe/loader was four years old. However, only new and/or remanufactured equipment is eligible to be purchased from the COSTARS contracts. Therefore, the payments for the backhoe/loader were not eligible to be paid from the Liquid Fuels Tax Fund.

The above expenditure was not made in compliance with the contractor's terms and conditions of COSTARS section I.13 IFB.1 New Equipment (Nov 2006), which states:

Unless otherwise specified in this invitation for bids, all products offered by bidders must be new or remanufactured. A "New" product is one that will be used first by the commonwealth after it is manufactured or produced. A "remanufactured" product is one which: 1) has been rebuilt, using new or used products, to a condition which meets the original manufacturer's most recent specifications for the item: 2) does not, in the opinion of the issuing office, differ in appearance from a new item: and 3) has the same warranty as a new item. Unless otherwise specified in this invitation for bids, used or reconditioned products are not acceptable. The clause shall not be construed to prohibit bidders from offering products with recycled content, provided the product is new or remanufactured.

Because the municipality did not purchase a new product and also failed to advertise for bids, the above purchase was 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 bidding threshold increased to purchases over \$18,500.00 for 2012, \$18,900.00 for 2013, \$19,100.00 for 2014, and \$19,400.00 for 2015. *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 LIBERTY
ADAMS COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2013 TO DECEMBER 31, 2014

**Finding No. 1 - Purchase Of Used Equipment From The COSTARS Contract - Recurring
(Continued)**

The failure to comply with the terms and conditions of the COSTARS contract and *The Second Class Township Code* could result in the township having to reimburse \$18,242.32 to its Liquid Fuels Tax Fund.

A similar finding was also written in our prior report. However, the township did not make any payments on the loader/backhoe during 2014.

Recommendations

We recommend that the township reimburse \$18,242.32 to its Liquid Fuels Tax Fund upon official notification by the Department of Transportation.

We further recommend that, in the future, the township continues to comply with the terms and conditions of the COSTARS contract and *The Second Class Township Code* as noted in this finding.

Management's Response

The municipal officials stated:

We misunderstood the direction needed to take with a used vehicle with the COSTARS rules.

Auditor's Conclusion

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

TOWNSHIP OF LIBERTY
ADAMS COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2013 TO DECEMBER 31, 2014

Finding No. 2 - Over Expended Equipment Purchase Tally

Our examination disclosed that the municipality expended \$4,927.94 in excess of the amount available for the purchase of equipment during 2013. These purchases were as follows:

<u>2013</u>	<u>Actual</u>
1. Prior year equipment balance	\$ 2,728.02
2. Current year equipment allocation (20% of Lines 2 + 2A, Section 2)	10,586.36
3. PENNDOT approved adjustments	<u>-</u>
4. Total funds available for equipment acquisition	13,314.38
5. Less: Major equipment purchases	<u>18,242.32</u>
6. Amount Over Expended for equipment - 2013	<u><u>\$ (4,927.94)</u></u>

The Department of Transportation's, *Publication 9*, Appendix D, Section 449.11, 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, 20 percent of the current year's Liquid Fuels Tax Fund allocations, and any approved adjustments.

The failure to follow *Publication 9* could result in the municipality having to reimburse \$4,927.94 to its Liquid Fuels Tax Fund.

Recommendations

We recommend that the municipality reimburse \$4,927.94 to its Liquid Fuels Tax Fund upon official notification by the Department of Transportation.

We further recommend that the municipality only expend up to the approved amount on equipment expenditures in accordance with the Department of Transportation's *Publication 9*.

TOWNSHIP OF LIBERTY
ADAMS COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2013 TO DECEMBER 31, 2014

Finding No. 2 - Over Expended Equipment Purchase Tally (Continued)

Management's Response

The municipal officials stated:

The equipment purchase tally was over expended based on understanding incorrectly the allowance.

Auditor's Conclusion

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

TOWNSHIP OF LIBERTY
ADAMS COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2013 TO DECEMBER 31, 2014

Finding No. 3 - Late Receipt Of Allocations

Our examination disclosed that the 2013 and 2014 Liquid Fuels Tax Fund allocations of \$52,931.80 and \$57,012.39, respectively, which should have been distributed from the Department of Transportation to the municipality during the first week of April in 2013 and the first week of March in 2014, were not received until September 3, 2013, and April 24, 2014, 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 2013 allocation for five months and the 2014 allocation for more than one month. 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.

TOWNSHIP OF LIBERTY
ADAMS COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2013 TO DECEMBER 31, 2014

Finding No. 3 - Late Receipt Of Allocations (Continued)

Recommendation

We recommend that, in the future, the municipality complies with the Department of Transportation's *Publication 9* to ensure that the allocations are received timely.

Management's Response

The municipal officials stated:

It's been corrected to not happen again.

Auditor's Conclusion

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

TOWNSHIP OF LIBERTY
ADAMS COUNTY
LIQUID FUELS TAX FUND
SUMMARY OF PRIOR EXAMINATION RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2013 TO DECEMBER 31, 2014

Summary Of Prior Examination Recommendations

In our prior report we recommended that the Department of Transportation review our examination finding to determine if the municipality should reimburse \$18,121.16 to its Liquid Fuels Tax Fund for the purchase of a used backhoe from the COSTARS contract.

During our current examination we reviewed a letter dated July 10, 2014, from the Department of Transportation informing the municipality to reimburse \$18,121.16 to its Liquid Fuels Tax Fund. We noted that the municipality reimbursed this amount to its Liquid Fuels Tax Fund on September 12, 2014.

In our prior report we also recommended that:

- The municipality deposit all allocations immediately upon receipt.
- The municipal officials should consider using the electronic transfer of funds offered by the Department of Transportation.
- The municipality continue to deposit liquid fuels tax money promptly into the Liquid Fuels Tax Fund.
- The municipality complies with the terms and conditions of the COSTARS contract and the advertising and bidding requirements of *The Second Class Township Code*.

During our current examination we noted that the municipality complied with our first three bulleted recommendations but did not comply with our fourth bulleted recommendation.

TOWNSHIP OF LIBERTY
ADAMS COUNTY
LIQUID FUELS TAX FUND
SUMMARY OF EXIT CONFERENCE
FOR THE PERIOD
JANUARY 1, 2013 TO DECEMBER 31, 2014

An exit conference was held September 17, 2015. Those participating were:

TOWNSHIP OF LIBERTY

Ms. LeeEsta L. Shaffer, Secretary/Treasurer

DEPARTMENT OF THE AUDITOR GENERAL

Mr. Ryan W. Shrauder, Auditor

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

TOWNSHIP OF LIBERTY
ADAMS COUNTY
LIQUID FUELS TAX FUND
REPORT DISTRIBUTION
FOR THE PERIOD
JANUARY 1, 2013 TO DECEMBER 31, 2014

This report was initially distributed to:

The Honorable Leslie Richards
Secretary
Department of Transportation

Township of Liberty
Adams County
39 Topper Road
Fairfield, PA 17320

The Honorable John Bostek

Chairman of the Board of Supervisors

Ms. LeeEsta L. Shaffer

Secretary/Treasurer

This report is a matter of public record and is available online at www.PaAuditor.gov. Media questions about the report can be directed to the Pennsylvania Department of the Auditor General, Office of Communications, 229 Finance Building, Harrisburg, PA 17120; via email to: news@PaAuditor.gov.