



TOWNSHIP OF PINE
ARMSTRONG COUNTY
03-218

LIQUID FUELS TAX FUND
EXAMINATION REPORT

FOR THE PERIOD
JANUARY 1, 2008 TO DECEMBER 31, 2010

Released *May 3, 2013*

COMMONWEALTH OF PENNSYLVANIA

EUGENE A. DEPASQUALE - AUDITOR GENERAL

DEPARTMENT OF THE AUDITOR GENERAL



TOWNSHIP OF PINE
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03-218

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CONTENTS

	<u>Page</u>
Background	1
Independent Auditor's Report	3
Financial Section:	
2008 Form MS-965 With Adjustments	7
2009 Form MS-965 With Adjustments	10
2010 Form MS-965 With Adjustments	13
Notes To Forms MS-965 With Adjustments.....	16
Findings And Recommendations:	
Finding No. 1 - Inadequate Internal Controls Over Fuel Purchases And Usage.....	23
Finding No. 2 - Purchase Over \$10,000.00 In Noncompliance With Advertising And Bidding Requirements And Retroactive Expenditures.....	25
Finding No. 3 - Late Receipt Of Allocation	27
Comments	29
Summary Of Exit Conference.....	32
Report Distribution	33

TOWNSHIP OF PINE
ARMSTRONG COUNTY
LIQUID FUELS TAX FUND
BACKGROUND
FOR THE PERIOD
JANUARY 1, 2008 TO DECEMBER 31, 2010

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.





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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 Pine, Armstrong County, for the period January 1, 2008 to December 31, 2010. 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 Pine, Armstrong County's Forms MS-965 for the period January 1, 2008 to December 31, 2010 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 municipality expended \$297.18 from its Liquid Fuels Tax Fund during 2008 for gasoline that was used in vehicles that are not used for Liquid Fuels related purposes. Additionally, the municipality did not maintain invoices to support fuel purchases of \$370.32 made on January 23, 2008 and \$560.21 made on April 5, 2009. Furthermore, the municipality expended \$707.37 for the same fuel invoices on April 5, 2009 and May 10, 2009. Included in the \$707.37 was \$560.21 for which the municipality did not maintain invoices. Also, as discussed in Finding No. 2, the municipality expended \$15,829.38 during 2009 for the purchase of limestone without advertising for bids. Of that amount, \$5,025.89 was paid from the Liquid Fuels Tax Fund. In addition, this invoice was dated May 1, 2008 and was not paid until February 4, 2009, which makes this expenditure retroactive.

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 Pine, Armstrong County, for the period January 1, 2008 to December 31, 2010, 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.

Independent Auditor's Report (Continued)

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 Pine, Armstrong 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 Pine, Armstrong County's Forms MS-965 that is more than inconsequential will not be prevented or detected by the Township of Pine, Armstrong 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:

- Inadequate Internal Controls Over Fuel Purchases And Usage.

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 Pine, Armstrong 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 instance of noncompliance that is required to be reported under *Government Auditing Standards*:

- Purchase Over \$10,000.00 In Noncompliance With Advertising And Bidding Requirements And Retroactive Expenditures.

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

- Late Receipt Of Allocation.

Independent Auditor's Report (Continued)

We are concerned in light of the municipality's failure to correct a previously reported finding regarding inadequate controls over fuel purchases and usage. During the current examination period the municipality had inadequate internal controls over fuel purchases and usage, made purchases over \$10,000.00 in noncompliance with advertising and bidding requirements and retroactive expenditures, and received its 2008 Liquid Fuels Tax Fund 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 Pine, Armstrong County, and is not intended to be and should not be used by anyone other than these specified parties.



October 18, 2011

EUGENE A. DEPASQUALE
Auditor General

TOWNSHIP OF PINE
 ARMSTRONG COUNTY
 LIQUID FUELS TAX FUND
 2008 FORM MS-965 – SECTION 1
 WITH ADJUSTMENTS

<u>Expenditure Summary</u>	<u>Reported</u>	<u>Adjustments (Note 4)</u>	<u>Adjusted Amount</u>
Major equipment purchases	\$ 2,548.80	\$ -	\$ 2,548.80
Minor equipment purchases	638.70	(638.70)	-
Computer/Computer related training	-	638.70	638.70
Agility projects	-	-	-
Cleaning streets and gutters	-	-	-
Winter maintenance services	649.90	-	649.90
Traffic control devices	-	-	-
Street lighting	559.13	-	559.13
Storm sewers and drains	-	-	-
Repairs of tools and machinery	905.07	-	905.07
Maintenance and repair of roads and bridges	2,302.03	-	2,302.03
Highway construction and rebuilding projects	-	-	-
Miscellaneous	-	-	-
 Total (To Section 2, Line 5)	 <u>\$ 7,603.63</u>	 <u>\$ -</u>	 <u>\$ 7,603.63</u>

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

TOWNSHIP OF PINE
 ARMSTRONG COUNTY
 LIQUID FUELS TAX FUND
 2008 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, 2008	\$ 13,081.45	\$ -	\$ 13,081.45
Receipts:			
2. State allocation	21,766.16	-	21,766.16
2a. Turnback allocation	-	-	-
2b. Interest on investments (Note 3)	636.33	-	636.33
2c. Miscellaneous (Note 5)	5,994.19	-	5,994.19
3. Total receipts	<u>28,396.68</u>	<u>-</u>	<u>28,396.68</u>
4. Total funds available	<u>41,478.13</u>	<u>-</u>	<u>41,478.13</u>
5. Expenditures (Section 1)	<u>7,603.63</u>	<u>-</u>	<u>7,603.63</u>
6. Balance, December 31, 2008	<u>\$ 33,874.50</u>	<u>\$ -</u>	<u>\$ 33,874.50</u>

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

TOWNSHIP OF PINE
 ARMSTRONG COUNTY
 LIQUID FUELS TAX FUND
 2008 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	\$ 13,081.45	\$ -	\$ 13,081.45
2. Add: Current year equipment allocation (20% of Lines 2 + 2a, Section 2)	4,353.23	-	4,353.23
3. PENNDOT approved adjustments	-	-	-
4. Total funds available for equipment acquisition	17,434.68	-	17,434.68
5. Less: Major equipment expenditures	2,548.80	-	2,548.80
6. Remainder	<u>14,885.88</u>	<u>-</u>	<u>14,885.88</u>
7. Equipment balance available for subsequent year (Lesser of Line 6 or Section 2 balance, but not less than zero)	<u>\$ 14,885.88</u>	<u>\$ -</u>	<u>\$ 14,885.88</u>

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

TOWNSHIP OF PINE
 ARMSTRONG COUNTY
 LIQUID FUELS TAX FUND
 2009 FORM MS-965 – SECTION 1
 WITH ADJUSTMENTS

<u>Expenditure Summary</u>	<u>Reported</u>	<u>Adjustments (Note 4)</u>	<u>Adjusted Amount</u>
Major equipment purchases	\$ 3,398.40	\$ -	\$ 3,398.40
Minor equipment purchases	7,119.29	(7,119.29)	-
Computer/Computer related training	675.55	-	675.55
Agility projects	-	-	-
Cleaning streets and gutters	-	-	-
Winter maintenance services	1,947.81	2,066.06	4,013.87
Traffic control devices	-	-	-
Street lighting	-	-	-
Storm sewers and drains	9,195.77	(7,091.95)	2,103.82
Repairs of tools and machinery	-	7,119.29	7,119.29
Maintenance and repair of roads and bridges	4,013.83	5,025.89	9,039.72
Highway construction and rebuilding projects	-	-	-
Miscellaneous	-	-	-
	<hr/>	<hr/>	<hr/>
Total (To Section 2, Line 5)	<u>\$ 26,350.65</u>	<u>\$ -</u>	<u>\$ 26,350.65</u>

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

TOWNSHIP OF PINE
 ARMSTRONG COUNTY
 LIQUID FUELS TAX FUND
 2009 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, 2009	\$ 33,874.50	\$ -	\$ 33,874.50
Receipts:			
2. State allocation	20,945.49	-	20,945.49
2a. Turnback allocation	-	-	-
2b. Interest on investments (Note 3)	800.73	-	800.73
2c. Miscellaneous (Note 5)	<u>1,155.24</u>	<u>-</u>	<u>1,155.24</u>
3. Total receipts	<u>22,901.46</u>	<u>-</u>	<u>22,901.46</u>
4. Total funds available	<u>56,775.96</u>	<u>-</u>	<u>56,775.96</u>
5. Expenditures (Section 1)	<u>26,350.65</u>	<u>-</u>	<u>26,350.65</u>
6. Balance, December 31, 2009	<u>\$ 30,425.31</u>	<u>\$ -</u>	<u>\$ 30,425.31</u>

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

TOWNSHIP OF PINE
 ARMSTRONG COUNTY
 LIQUID FUELS TAX FUND
 2009 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	\$ 14,885.88	\$ -	\$ 14,885.88
2. Add: Current year equipment allocation (20% of Lines 2 + 2a, Section 2)	4,189.10	-	4,189.10
3. PENNDOT approved adjustments	-	-	-
4. Total funds available for equipment acquisition	19,074.98	-	19,074.98
5. Less: Major equipment expenditures	3,398.40	-	3,398.40
6. Remainder	<u>15,676.58</u>	<u>-</u>	<u>15,676.58</u>
7. Equipment balance available for subsequent year (Lesser of Line 6 or Section 2 balance, but not less than zero)	<u>\$ 15,676.58</u>	<u>\$ -</u>	<u>\$ 15,676.58</u>

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

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

<u>Expenditure Summary</u>	<u>Reported</u>	<u>Adjustments (Note 4)</u>	<u>Adjusted Amount</u>
Major equipment purchases	\$ -	\$ -	\$ -
Minor equipment purchases	5,600.98	(5,600.98)	-
Computer/Computer related training	618.89	299.00	917.89
Agility projects	-	-	-
Cleaning streets and gutters	-	-	-
Winter maintenance services	-	3,373.74	3,373.74
Traffic control devices	-	-	-
Street lighting	-	-	-
Storm sewers and drains	-	-	-
Repairs of tools and machinery	-	1,728.60	1,728.60
Maintenance and repair of roads and bridges	2,122.34	498.64	2,620.98
Highway construction and rebuilding projects	-	-	-
Miscellaneous	-	-	-
 Total (To Section 2, Line 5)	 <u>\$ 8,342.21</u>	 <u>\$ 299.00</u>	 <u>\$ 8,641.21</u>

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

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

<u>Fund Balance</u>	<u>Reported</u>	<u>Adjustments (Note 4)</u>	<u>Adjusted Amount</u>
1. Balance, January 1, 2010	\$ 29,412.00	\$ 1,013.31	\$ 30,425.31
Receipts:			
2. State allocation	20,113.77	-	20,113.77
2a. Turnback allocation	-	-	-
2b. Interest on investments (Note 3)	511.59	267.56	779.15
2c. Miscellaneous (Note 5)	<u>1,023.79</u>	<u>-</u>	<u>1,023.79</u>
3. Total receipts	<u>21,649.15</u>	<u>267.56</u>	<u>21,916.71</u>
4. Total funds available	<u>51,061.15</u>	<u>1,280.87</u>	<u>52,342.02</u>
5. Expenditures (Section 1)	<u>8,342.21</u>	<u>299.00</u>	<u>8,641.21</u>
6. Balance, December 31, 2010	<u>\$ 42,718.94</u>	<u>\$ 981.87</u>	<u>\$ 43,700.81</u>

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

TOWNSHIP OF PINE
 ARMSTRONG COUNTY
 LIQUID FUELS TAX FUND
 2010 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	\$ 15,676.58	\$ -	\$ 15,676.58
2. Add: Current year equipment allocation (20% of Lines 2 + 2a, Section 2)	4,022.75	-	4,022.75
3. PENNDOT approved adjustments	-	-	-
4. Total funds available for equipment acquisition	19,699.33	-	19,699.33
5. Less: Major equipment expenditures	-	-	-
6. Remainder	<u>19,699.33</u>	<u>-</u>	<u>19,699.33</u>
7. Equipment balance available for subsequent year (Lesser of Line 6 or Section 2 balance, but not less than zero)	<u>\$ 19,699.33</u>	<u>\$ -</u>	<u>\$ 19,699.33</u>

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

TOWNSHIP OF PINE
ARMSTRONG COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE PERIOD
JANUARY 1, 2008 TO DECEMBER 31, 2010

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.
- Minor equipment purchases are purchases of road machinery and road equipment that cost \$4,000.00 or less.
- 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 balance that the municipality may carry forward for the purchase of equipment to the subsequent year.

TOWNSHIP OF PINE
ARMSTRONG COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE PERIOD
JANUARY 1, 2008 TO DECEMBER 31, 2010

1. Criteria (Continued)

Section 3 (Continued)

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 PINE
ARMSTRONG COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE PERIOD
JANUARY 1, 2008 TO DECEMBER 31, 2010

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, 2010. 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 PINE
 ARMSTRONG COUNTY
 LIQUID FUELS TAX FUND
 NOTES TO FORMS MS-965 WITH ADJUSTMENTS
 FOR THE PERIOD
 JANUARY 1, 2008 TO DECEMBER 31, 2010

2. Deposits (Continued)

Fund Balance

The fund balance as of December 31, 2010 consists of the following:

Cash	\$29,412.00
Certificate of deposit	<u>14,288.81</u>
Total	<u><u>\$43,700.81</u></u>

3. Interest On Investments

Our examination disclosed that the municipality deposited idle liquid fuels tax money in an interest-bearing account and certificates of deposit which earned \$636.33 during 2008, \$800.73 during 2009, and \$779.15 during 2010, thus providing additional funds for road maintenance and repairs.

4. Adjustments

2008 - Section 1

Adjustments were made to “Minor equipment purchases” and “Computer/Computer related training” because expenditures of \$638.70 were misclassified.

2009 - Section 1

Adjustments were made to “Minor equipment purchases” and “Repairs of tools and machinery” because expenditures of \$7,119.29 were misclassified.

Adjustments were made to “Winter maintenance services,” “Storm sewers and drains,” and “Maintenance and repair of roads and bridges” because expenditures of \$7,091.95 were misclassified.

TOWNSHIP OF PINE
 ARMSTRONG COUNTY
 LIQUID FUELS TAX FUND
 NOTES TO FORMS MS-965 WITH ADJUSTMENTS
 FOR THE PERIOD
 JANUARY 1, 2008 TO DECEMBER 31, 2010

4. Adjustments (Continued)

2010 - Section 1

Adjustments were made to “Minor equipment purchases,” “Winter maintenance services,” “Repairs of tools and machinery,” and “Maintenance and repair of roads and bridges” because expenditures of \$5,600.98 were misclassified.

An adjustment of \$299.00 was made to “Computer/Computer related training” because these expenditures were understated.

2010 - Section 2

An adjustment of \$1,013.31 was made to “Balance, January 1, 2010” because an incorrect fund balance was reported.

An adjustment of \$267.56 was made to “Interest on investments” because interest earned was understated.

5. Miscellaneous Receipts

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

Source	Description	2008	2009	2010
Commonwealth of Pennsylvania General Fund	Winter maintenance agreement Reimbursement (Comment No. 1)	\$ 948.00	\$ 998.82	\$1,023.79
General Fund	Reimbursement (Comment No. 2)	2,879.19	-	-
Financial institution	Refund (Note 6)	-	156.42	-
Totals		<u>\$5,994.19</u>	<u>\$1,155.24</u>	<u>\$1,023.79</u>

TOWNSHIP OF PINE
ARMSTRONG COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE PERIOD
JANUARY 1, 2008 TO DECEMBER 31, 2010

6. Bank Loan

On August 2, 2002, the municipality borrowed \$40,000.00 from Elderton State Bank to purchase a dump truck. The term of the loan was for ten years at an interest rate of 5 percent. Principal and interest payments of \$424.80 are due monthly. Prior years' principal and interest payments from the Liquid Fuels Tax Fund were \$8,571.50 and \$1,623.70, respectively. Additionally, the municipality paid principal of \$22,681.36 and interest of \$4,283.28 from the General Fund.

During the current examination period the municipality paid principal of \$5,769.40 and interest of \$177.80 from the Liquid Fuels Tax Fund. These amounts are reflected in major equipment purchases on the 2008 and 2009 Forms MS-965 - Section 1. Additionally, the municipality paid principal of \$3,134.16 and interest of \$226.24 from the General Fund. We also noted that the municipality paid the financial institution \$156.42 in excess of the principal amount borrowed. On December 7, 2009, the municipality deposited \$156.42 into its Liquid Fuels Tax Fund which was received from the financial institution for a refund of the overpayment of principal. The loan was paid-in-full on August 20, 2009.



TOWNSHIP OF PINE
ARMSTRONG COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2008 TO DECEMBER 31, 2010

Finding No. 1 - Inadequate Internal Controls Over Fuel Purchases And Usage

Our examination disclosed that the municipality expended \$297.18 from its Liquid Fuels Tax Fund during 2008 for gasoline that was used in vehicles that are not used for Liquid Fuels related purposes. Additionally, on January 23, 2008, the municipality expended \$370.32 for diesel fuel without maintaining an invoice to support the expenditure.

On April 5, 2009, the municipality expended \$707.37 for the purchase of fuel. The municipality expended \$707.37 for these same fuel purchases on May 10, 2009. Additionally, the municipality did not maintain an invoice to support \$560.21 of the fuel purchases of \$707.37.

The Liquid Fuels Tax Municipal Allocation Law, 72 P.S. § 2615.4, provides, in part, that monies herein allocated may be used only for construction, reconstruction, maintenance, and repairs of such public roads or streets, including bridges, culverts and drainage structures, for which they are legally responsible. Also permitted are expenditures involving acquisition, maintenance, repairs and operation of street signs, traffic signs, traffic signal control systems, road equipment, and snow fences.

The Department of Transportation has been statutorily authorized to promulgate regulations concerning the administration of Liquid Fuels Tax Fund money and has determined that certain items, including the purchase of fuel not used for liquid fuels purposes, are outside the scope of permissible expenditures.

Additionally, without adequate documentation, we could not determine if the expenditures for which invoices were not maintained were permissible according to the Liquid Fuels Tax Municipal Allocation Law and the Department of Transportation's Regulations.

Although the money for the duplicate payment of an invoice should be reimbursed to the Liquid Fuels Tax Fund, the primary concern is the inadequate internal controls which enabled the duplicate payment of \$707.37 to remain undetected.

Furthermore, good internal controls ensure that all invoices are reviewed timely to avoid duplicate payments. The failure to follow this procedure increases the possibility that duplicate payments can be made on vendor invoices.

The failure to follow the Liquid Fuels Tax Municipal Allocation Law and the Department of Transportation's Regulations, the failure to maintain invoices to support expenditures, and the duplicate payment of invoices could result in the municipality having to reimburse \$1,374.87 to its Liquid Fuels Tax Fund.

A similar finding was also written in our prior report.

TOWNSHIP OF PINE
ARMSTRONG COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2008 TO DECEMBER 31, 2010

Finding No. 1 - Inadequate Internal Controls Over Fuel Purchases And Usage (Continued)

Recommendations

We recommend that the municipality reimburse \$1,374.87 to its Liquid Fuels Tax Fund upon official notification by the Department of Transportation.

We again recommend that, in the future, the municipality comply with the Liquid Fuels Tax Municipal Allocation Law and the Department of Transportation's Regulations as noted in this finding, and establish and implement internal controls to ensure vendor invoices are reviewed timely to avoid duplicate payments.

We also further recommend that the municipality ensure good internal control over expenditures by maintaining adequate documentation to support all expenditures.

Management's Response

The secretary/treasurer stated:

There was fraud by previous supervisors which I have submitted to Kittanning State Police.

Auditor's Conclusion:

Two former township supervisors were charged with the unauthorized purchases of gasoline between 2004 and 2007. These purchases occurred prior to our examination period. During our next examination we will determine if the municipality complied with our recommendations.

TOWNSHIP OF PINE
ARMSTRONG COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2008 TO DECEMBER 31, 2010

Finding No. 2 - Purchase Over \$10,000.00 In Noncompliance With Advertising And Bidding Requirements And Retroactive Expenditures

Our examination disclosed that the municipality expended \$15,829.38 during 2009 for the purchase of limestone without advertising for bids. Of that amount, \$5,025.89 was paid from the Liquid Fuels Tax Fund. In addition, this invoice was dated May 1, 2008 and was not paid until February 4, 2009, which makes the expenditure retroactive.

The above expenditure 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 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 expenditure was 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 . . .

Furthermore the Department of Transportation's *Publication 9* contains the policies and procedures for the administration of the Liquid Fuels Tax Fund. *Publication 9*, Chapter Two, Section 2.7.2, states:

Examples of what Liquid Fuels Tax Fund monies may not be expended for are:

8. Repayments of prior year's expenditures.
17. Retroactive expenditures or repayment of other funds for prior period expenditures.

TOWNSHIP OF PINE
ARMSTRONG COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2008 TO DECEMBER 31, 2010

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

Because this expenditure was incurred on May 1, 2008, and was not paid until February 4, 2009, the expenditure incurred was not paid in a reasonable period of time. Therefore, the municipality did not comply with the Department of Transportation's *Publication 9*.

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 \$5,025.89 to its Liquid Fuels Tax Fund.

Recommendations

We recommend that the township reimburse \$5,025.89 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* as noted in this finding.

Management's Response

The secretary/treasurer stated:

This was caused by a former supervisor who inadequately performed his job duties. At last month's meeting I explained proper bidding procedures and physically handed each supervisor a bid memo quote booklet with proper bidding procedures inside of them. I also explained to contact Penn DOT if unsure of how to proceed with regards to roadwork

Auditor's Conclusion

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

TOWNSHIP OF PINE
ARMSTRONG COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2008 TO DECEMBER 31, 2010

Finding No. 3 - Late Receipt Of Allocation

Our examination disclosed that the 2008 Liquid Fuels Tax Fund allocation of \$21,766.16, which should have been distributed from the Department of Transportation to the municipality during the first week of April of that year, was not received until October 2, 2008, 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 2008 allocation for six months. Furthermore, had the allocation been received timely, money may have been available for investment purposes, potentially earning interest income which could have been used for road maintenance and repairs.

A similar finding was also written in our prior report. However, the municipality received its 2009 and 2010 Liquid Fuels Tax Fund allocations on time.

TOWNSHIP OF PINE
ARMSTRONG COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2008 TO DECEMBER 31, 2010

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

Recommendation

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

Management's Response

The municipal officials stated:

I apologize; I had a medical emergency.

TOWNSHIP OF PINE
 ARMSTRONG COUNTY
 LIQUID FUELS TAX FUND
 COMMENTS
 FOR THE PERIOD
 JANUARY 1, 2008 TO DECEMBER 31, 2010

Comment No. 1 - Summary Of 2001-2002 Audit Recommendations

In our 2001-2002 report we recommended that the Department of Transportation review our audit finding to determine if the municipality should reimburse \$28,854.90 to its Liquid Fuels Tax Fund. This amount consists of \$24,154.50 road work without advertising for bids and \$4,700.40 for nonpermissible expenditures.

During our 2003-2004 examination we reviewed a letter from the Department of Transportation dated April 7, 2005 that informed the municipality that reimbursement of \$11,516.76 would be required. This amount consisted of \$7,246.35 of the \$24,154.50 and \$4,270.41 of the \$4,700.40. The Department of Transportation approved a payment plan for the municipality to reimburse its Liquid Fuels Tax Fund as follows:

Due Date	Amount	Date Reimbursement
06/30/05	\$ 2,879.19	04/30/05
06/30/06	2,879.19	06/05/06
06/30/07	2,879.19	05/06/07
06/30/08	2,879.19	06/10/08
Total	\$11,516.76	

The payment plan was paid-in-full on June 10, 2008.

TOWNSHIP OF PINE
 ARMSTRONG COUNTY
 LIQUID FUELS TAX FUND
 COMMENTS
 FOR THE PERIOD
 JANUARY 1, 2008 TO DECEMBER 31, 2010

Comment No. 2 - Summary Of 2003-2004 Examination Recommendations

In our 2003-2004 report we recommended that the Department of Transportation review our examination finding to determine if the municipality should reimburse \$6,500.00 to its Liquid Fuels Tax Fund for failing to maintain documentation to support transfers.

During our 2005-2007 examination we reviewed a letter from the Department of Transportation dated January 19, 2007 that informed the municipality that reimbursement of \$6,500.00 would be required. The Department of Transportation approved a payment plan for the municipality to reimburse its Liquid Fuels Tax Fund as follows:

Due Date	Amount	Date Reimbursement
12/31/07	\$2,167.00	05/06/07
12/31/08	2,167.00	06/10/08
12/31/09	2,167.00	03/04/11
Total	\$6,501.00	

The payment plan was paid-in-full on March 4, 2011, which was subsequent to our examination. The municipality paid \$1.00 more than the required amount.

TOWNSHIP OF PINE
 ARMSTRONG COUNTY
 LIQUID FUELS TAX FUND
 COMMENTS
 FOR THE PERIOD
 JANUARY 1, 2008 TO DECEMBER 31, 2010

Comment No. 3 - Summary Of 2005-2007 Audit Recommendations

In our 2005-2007 report we recommended that the Department of Transportation review our examination findings to determine if the municipality should reimburse \$7,425.09 to its Liquid Fuels Tax Fund. This amount consists of \$5,275.09 for inadequate internal control over fuel purchases and usage and \$2,150.00 for a failure to maintain documentation for price quotations.

During our current examination we reviewed a letter from the Department of Transportation dated March 9, 2011 that informed the municipality that reimbursement of \$7,425.09 would be required. The Department of Transportation approved a payment plan for the municipality to reimburse its Liquid Fuels Tax Fund as follows:

<u>Due Date</u>	<u>Amount</u>	<u>Date Reimbursement</u>
12/31/11	\$2,475.03	Unpaid
12/31/12	2,475.03	Unpaid
12/31/13	<u>2,475.03</u>	Unpaid
Total	<u><u>\$7,425.09</u></u>	

In our prior report, we also recommended that:

- In the future, the township prepare detailed fuel usage reports to ensure good internal controls over fuel purchases and usage.
- In the future, the township comply with *The Second Class Township Code* and the Department of Transportation's *Publication 9* by maintaining documentation for price quotations for purchases between \$4,000.00 and \$10,000.00.

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

TOWNSHIP OF PINE
ARMSTRONG COUNTY
LIQUID FUELS TAX FUND
SUMMARY OF EXIT CONFERENCE
FOR THE PERIOD
JANUARY 1, 2008 TO DECEMBER 31, 2010

An exit conference was held October 18, 2011. Those participating were:

TOWNSHIP OF PINE

The Honorable Clyde M. Moore, Chairman of the Board of Supervisors

Miss Stephanie Ann Reedy, Secretary/Treasurer

DEPARTMENT OF THE AUDITOR GENERAL

Mr. James P. Adams, Auditor

Mrs. Debra L. Alsippi, Audit Supervisor

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

TOWNSHIP OF PINE
ARMSTRONG COUNTY
LIQUID FUELS TAX FUND
REPORT DISTRIBUTION
FOR THE PERIOD
JANUARY 1, 2008 TO DECEMBER 31, 2010

This report was initially distributed to:

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

Township of Pine
Armstrong County
P. O. Box 311
Templeton, PA 16259

The Honorable Clyde M. Moore

Chairman of the Board of Supervisors

Miss Stephanie Ann Reedy

Secretary/Treasurer

This report is a matter of public record. Copies of this report may be obtained from the Pennsylvania Department of the Auditor General, Office of Communications, 231 Finance Building, Harrisburg, PA 17120. To view this report online or to contact the Department of the Auditor General, please access our web site at www.auditorgen.state.pa.us.