



**TOWNSHIP OF CLARA  
POTTER COUNTY  
52-204**

**LIQUID FUELS TAX FUND  
EXAMINATION REPORT**

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

**COMMONWEALTH OF PENNSYLVANIA**

**EUGENE A. DEPASQUALE - AUDITOR GENERAL**

**DEPARTMENT OF THE AUDITOR GENERAL**





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

**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 Clara, Potter County, for the period January 1, 2010 to December 31, 2012. The municipality's management is responsible for the Forms MS-965. Our responsibility is to express an opinion on the Forms MS-965 With Adjustments based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States. An examination includes examining, on a test basis, evidence supporting the Township of Clara, Potter County's Forms MS-965 for the period January 1, 2010 to December 31, 2011 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 the Finding and Recommendations section of this report, the township expended \$9,820.85 during 2010 and \$11,225.78 during 2011 from the Liquid Fuels Tax Fund for the purchase of stone. Although the township advertised for bids for the stone purchases, it only listed the winning bids in the supervisors' meeting minutes during 2010 and 2011 and failed to maintain any of the accepted or rejected bids. Additionally, the township purchased a used backhoe during 2011 for \$39,500.00. This purchase was financed and a payment of \$10,875.15 was made from the Liquid Fuels Tax Fund during 2012. The township held a special meeting to open bids for a backhoe. However, the township did not maintain minutes for that meeting and only the accepted bid was maintained by the township.

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 Clara, Potter County, for the period January 1, 2010 to December 31, 2012, in conformity with the criteria set forth in Note 1.

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Township of Clara, Potter 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 Clara, Potter County's Forms MS-965 that is more than inconsequential will not be prevented or detected by the Township of Clara, Potter 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 Maintain Bid Documentation.

Independent Auditor's Report (Continued)

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 Clara, Potter 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 no instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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



**EUGENE A. DEPASQUALE**  
Auditor General

July 1, 2013

## CONTENTS

	<u>Page</u>
Background .....	1
Financial Section:	
2010 Form MS-965 With Adjustments .....	2
2011 Form MS-965 With Adjustments .....	5
2012 Form MS-965 With Adjustments .....	8
Notes To Forms MS-965 With Adjustments .....	11
Finding And Recommendations:	
Finding - Failure To Maintain Bid Documentation .....	16
Comment .....	20
Summary Of Exit Conference .....	21
Report Distribution .....	22

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

Background

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

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

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

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

1. Evidence that the treasurer is bonded in accordance with the law, or that its treasurer is a bank requiring no bond by January 31 of each year.
2. A report indicating the manner in which its liquid fuels tax allocation was expended in the previous year (Form MS-965) by January 31 of each year.
3. A report of elected and appointed officials by January 31 of each year.
4. A Survey of Financial Condition by March 15 of each year.

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

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

<u>Expenditure Summary</u>	<u>Reported</u>	<u>Adjustments</u>	<u>Adjusted Amount</u>
Major equipment purchases	\$ 11,198.05	\$ -	\$ 11,198.05
Minor equipment purchases	-	-	-
Computer/Computer related training	-	-	-
Agility projects	-	-	-
Cleaning streets and gutters	-	-	-
Winter maintenance services	14,479.32	-	14,479.32
Traffic control devices	-	-	-
Street lighting	-	-	-
Storm sewers and drains	-	-	-
Repairs of tools and machinery	6,479.42	-	6,479.42
Maintenance and repair of roads and bridges	23,912.84	-	23,912.84
Highway construction and rebuilding projects	-	-	-
Miscellaneous	-	-	-
 Total (To Section 2, Line 5)	 <u>\$ 56,069.63</u>	 <u>\$ -</u>	 <u>\$ 56,069.63</u>

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

TOWNSHIP OF CLARA  
POTTER COUNTY  
LIQUID FUELS TAX FUND  
2010 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, 2010	\$ 18,086.78	\$ -	\$ 18,086.78
Receipts:			
2. State allocation	24,278.20	-	24,278.20
2a. Turnback allocation	30,360.00	-	30,360.00
2b. Interest on investments (Note 3)	19.79	-	19.79
2c. Miscellaneous	-	-	-
3. Total receipts	<u>54,657.99</u>	<u>-</u>	<u>54,657.99</u>
4. Total funds available	<u>72,744.77</u>	<u>-</u>	<u>72,744.77</u>
5. Expenditures (Section 1)	<u>56,069.63</u>	<u>-</u>	<u>56,069.63</u>
6. Balance, December 31, 2010	<u><u>\$ 16,675.14</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 16,675.14</u></u>

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



TOWNSHIP OF CLARA  
POTTER 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	\$ 15,332.77	\$ -	\$ 15,332.77
2. Add: Current year equipment allocation (20% of Lines 2 + 2a, Section 2)	10,927.64	-	10,927.64
3. PENNDOT approved adjustments	-	-	-
4. Total funds available for equipment acquisition	26,260.41	-	26,260.41
5. Less: Major equipment expenditures	11,198.05	-	11,198.05
6. Remainder	<u>15,062.36</u>	<u>-</u>	<u>15,062.36</u>
7. Equipment balance available for subsequent year (Lesser of Line 6 or Section 2 balance, but not less than zero)	<u>\$ 15,062.36</u>	<u>\$ -</u>	<u>\$ 15,062.36</u>

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

TOWNSHIP OF CLARA  
POTTER COUNTY  
LIQUID FUELS TAX FUND  
2011 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	\$ 11,198.05	\$ -	\$ 11,198.05
Minor equipment purchases	-	-	-
Computer/Computer related training	-	-	-
Agility projects	-	-	-
Cleaning streets and gutters	-	-	-
Winter maintenance services	15,253.49	-	15,253.49
Traffic control devices	-	-	-
Street lighting	-	-	-
Storm sewers and drains	-	-	-
Repairs of tools and machinery	9,028.50	-	9,028.50
Maintenance and repair of roads and bridges	25,566.58	-	25,566.58
Highway construction and rebuilding projects	-	-	-
Miscellaneous	30,000.00	(30,000.00)	-
 Total (To Section 2, Line 5)	 <u>\$ 91,046.62</u>	 <u>\$ (30,000.00)</u>	 <u>\$ 61,046.62</u>

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

TOWNSHIP OF CLARA  
POTTER COUNTY  
LIQUID FUELS TAX FUND  
2011 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, 2011	\$ 16,675.14	\$ -	\$ 16,675.14
Receipts:			
2. State allocation	24,893.63	-	24,893.63
2a. Turnback allocation	30,360.00	-	30,360.00
2b. Interest on investments (Note 3)	15.01	-	15.01
2c. Miscellaneous	30,000.00	(30,000.00)	-
3. Total receipts	<u>85,268.64</u>	<u>(30,000.00)</u>	<u>55,268.64</u>
4. Total funds available	<u>101,943.78</u>	<u>(30,000.00)</u>	<u>71,943.78</u>
5. Expenditures (Section 1)	<u>91,046.62</u>	<u>(30,000.00)</u>	<u>61,046.62</u>
6. Balance, December 31, 2011	<u><u>\$ 10,897.16</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 10,897.16</u></u>

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

TOWNSHIP OF CLARA  
POTTER COUNTY  
LIQUID FUELS TAX FUND  
2011 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	\$ 15,062.36	\$ -	\$ 15,062.36
2. Add: Current year equipment allocation (20% of Lines 2 + 2a, Section 2)	11,050.73	-	11,050.73
3. PENNDOT approved adjustments	-	-	-
4. Total funds available for equipment acquisition	26,113.09	-	26,113.09
5. Less: Major equipment expenditures	11,198.05	-	11,198.05
6. Remainder	<u>14,915.04</u>	<u>-</u>	<u>14,915.04</u>
7. Equipment balance available for subsequent year (Lesser of Line 6 or Section 2 balance, but not less than zero)	<u>\$ 10,897.16</u>	<u>\$ -</u>	<u>\$ 10,897.16</u>

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

TOWNSHIP OF CLARA  
POTTER COUNTY  
LIQUID FUELS TAX FUND  
2012 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	\$ 10,875.15	\$ -	\$ 10,875.15
Minor equipment purchases	-	-	-
Computer/Computer related training	-	-	-
Agility projects	-	-	-
Cleaning streets and gutters	-	-	-
Winter maintenance services	8,360.66	-	8,360.66
Traffic control devices	-	-	-
Street lighting	-	-	-
Storm sewers and drains	-	-	-
Repairs of tools and machinery	9,188.90	(86.60)	9,102.30
Maintenance and repair of roads and bridges	31,460.73	-	31,460.73
Highway construction and rebuilding projects	-	-	-
Miscellaneous	100.00	(100.00)	-
 Total (To Section 2, Line 5)	 <u>\$ 59,985.44</u>	 <u>\$ (186.60)</u>	 <u>\$ 59,798.84</u>

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

TOWNSHIP OF CLARA  
POTTER 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	\$ 10,897.16	\$ -	\$ 10,897.16
Receipts:			
2. State allocation	25,901.11	-	25,901.11
2a. Turnback allocation	30,360.00	-	30,360.00
2b. Interest on investments (Note 3)	21.84	-	21.84
2c. Miscellaneous	-	-	-
3. Total receipts	<u>56,282.95</u>	<u>-</u>	<u>56,282.95</u>
4. Total funds available	<u>67,180.11</u>	<u>-</u>	<u>67,180.11</u>
5. Expenditures (Section 1)	<u>59,985.44</u>	<u>(186.60)</u>	<u>59,798.84</u>
6. Balance, December 31, 2012	<u><u>\$ 7,194.67</u></u>	<u><u>\$ 186.60</u></u>	<u><u>\$ 7,381.27</u></u>

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

TOWNSHIP OF CLARA  
POTTER COUNTY  
LIQUID FUELS TAX FUND  
2012 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	\$ 10,897.16	\$ -	\$ 10,897.16
2. Add: Current year equipment allocation (20% of Lines 2 + 2a, Section 2)	11,252.22	-	11,252.22
3. PENNDOT approved adjustments	-	-	-
4. Total funds available for equipment acquisition	22,149.38	-	22,149.38
5. Less: Major equipment expenditures	10,875.15	-	10,875.15
6. Remainder	<u>11,274.23</u>	<u>-</u>	<u>11,274.23</u>
7. Equipment balance available for subsequent year (Lesser of Line 6 or Section 2 balance, but not less than zero)	<u>\$ 7,194.67</u>	<u>\$ 186.60</u>	<u>\$ 7,381.27</u>

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

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

1. Criteria

Section 1

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

- Major equipment purchases are purchases of road machinery and road equipment that cost in excess of \$4,000.00 prior to 2012 and in excess of \$10,000.00 during 2012 and subsequent years.
- Minor equipment purchases are purchases of road machinery and road equipment that cost \$4,000.00 or less prior to 2012 and \$10,000.00 or less during 2012 and subsequent years.
- Agility projects are exchanges of services with the Department of Transportation.

Section 2

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

- The state allocation is generally received from the Department of Transportation during the first week in April of each year. The amount the municipality receives is based half on its population and half on its road mileage.
- The turnback allocation is generally received from the Department of Transportation during the first week in April of each year. A municipality receives a yearly turnback allocation based on road mileage for all roads that were transferred to the municipality from the Commonwealth of Pennsylvania through the Highway Transfer Program.
- Expenditures include the total transferred from Section 1.



TOWNSHIP OF CLARA  
POTTER COUNTY  
LIQUID FUELS TAX FUND  
NOTES TO FORMS MS-965 WITH ADJUSTMENTS  
FOR THE PERIOD  
JANUARY 1, 2010 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 CLARA  
POTTER COUNTY  
LIQUID FUELS TAX FUND  
NOTES TO FORMS MS-965 WITH ADJUSTMENTS  
FOR THE PERIOD  
JANUARY 1, 2010 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 financial institutions. 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 CLARA  
POTTER COUNTY  
LIQUID FUELS TAX FUND  
NOTES TO FORMS MS-965 WITH ADJUSTMENTS  
FOR THE PERIOD  
JANUARY 1, 2010 TO DECEMBER 31, 2012

2. Deposits (Continued)

Fund Balance

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

Cash	\$7,381.27
------	------------

3. Interest On Investments

Our examination disclosed that the municipality deposited idle liquid fuels tax money in interest-bearing accounts which earned \$19.79 during 2010, \$15.01 during 2011, and \$21.84 during 2012, thus providing additional funds for road maintenance and repairs.

4. Adjustments

2011 - Section 1

An adjustment of \$(30,000.00) was made to "Miscellaneous" because the opening of a new account was incorrectly reported as an expenditure.

2011 - Section 2

An adjustment of \$(30,000.00) was made to "Miscellaneous" because the opening of new account was incorrectly reported as a receipt.

2012 - Section 1

An adjustment of \$(86.60) was made to "Repairs of tools and machinery" because check No. 1160 was voided but was included as an expenditure.

An adjustment of \$(100.00) was made to "Miscellaneous" because the opening of a new account was incorrectly reported as an expenditure.

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

5. Lease-Purchase Agreement

On May 16, 2007, the municipality entered into a lease-purchase agreement with Ford Motor Credit Company to purchase a truck for \$49,300.00. The agreement was for a term of four years at an interest rate of 6.80 percent. Principal and interest payments of \$11,198.05 are due annually. Prior years' principal and interest payments from the Liquid Fuels Tax Fund were \$28,997.57 and \$4,596.58, respectively.

During the current examination period the municipality paid principal of \$20,302.43 and interest of \$2,093.67 from the Liquid Fuels Tax Fund. These amounts are reflected in major equipment purchases on the 2010 and 2011 Forms MS-965 - Section 1. The agreement was paid-in-full on June 9, 2011.

6. Bank Loan

On May 24, 2011, the municipality purchased a backhoe for \$39,500.00. The municipality made a down payment of \$9,500.00 from the General Fund and borrowed the remaining \$30,000.00 from Northwest Savings Bank. The term of the loan was for three years at an interest rate of 4.25 percent. Principal and interest payments of \$10,875.15 are due annually. Because the township failed to maintain bid documentation, payments are not eligible to be made from the Liquid Fuels Tax Fund (see Finding).

During the current examination period the municipality paid principal of \$9,582.41 and interest of \$1,292.74 from the Liquid Fuels Tax Fund. These amounts are reflected in major equipment purchases on the 2012 Form MS-965 - Section 1. The outstanding balance of the loan as of December 31, 2012 was \$20,417.59, plus interest.

TOWNSHIP OF CLARA  
POTTER COUNTY  
LIQUID FUELS TAX FUND  
FINDING AND RECOMMENDATIONS  
FOR THE PERIOD  
JANUARY 1, 2010 TO DECEMBER 31, 2012

Finding - Failure To Maintain Bid Documentation

Our examination disclosed that the township expended \$9,820.85 during 2010 and \$11,225.78 during 2011 from the Liquid Fuels Tax Fund for the purchase of stone. Although the township advertised for bids for the stone purchases, it only listed the winning bids in the supervisors' meeting minutes during 2010 and 2011 and failed to maintain any of the accepted or rejected bids. Additionally, the township purchased a used backhoe during 2011 for \$39,500.00. This purchase was financed and a payment of \$10,875.15 was made from the Liquid Fuels Tax Fund during 2012. The township held a special meeting to open bids for a backhoe. However, the township did not maintain minutes for that meeting and only the accepted bid was maintained by the township. These expenditures were as follows:

<u>Invoice Number</u>	<u>Invoice Date</u>	<u>Check Number</u>	<u>Check Date</u>	<u>Amount</u>	<u>Totals</u>
<b>Stone</b>					
498397	02/04/10	1888	02/17/10	\$1,108.47	
498399	02/04/10	1888	02/17/10	1,093.39	
500055	03/25/10	1905	04/12/10	1,097.62	
502412	04/16/10	1912	05/04/10	1,266.02	
507631	05/28/10	1923	06/02/10	3,254.19	
059428	06/10/10	1932	07/13/10	639.94	
519994	11/05/10	1965	11/17/10	1,361.22	
2010 Total Stone					\$ 9,820.85
<b>Stone</b>					
060879	03/14/11	2004	03/30/11	843.05	
525960	03/25/11	2002	03/30/11	596.12	
526283	04/01/11	2010	04/07/11	588.94	
527478	04/25/11	2017	04/29/11	2,465.88	
528392	05/06/11	2023	05/19/11	1,412.28	
528745	05/06/11	2023	05/19/11	801.79	
529027	05/13/11	2023	05/19/11	259.88	
535897	07/29/11	1019	08/09/11	779.73	
536466	08/05/11	1019	08/09/11	501.64	
537451	08/19/11	1028	09/08/11	814.37	
539941	09/16/11	1034	09/27/11	1,378.09	
547940	12/02/11	1054	12/09/11	784.01	
2011 Total Stone					11,225.78
<b>Backhoe</b>					
None	05/14/12	1093	05/30/12		10,875.15
Three Year Total					<u>\$31,921.78</u>

TOWNSHIP OF CLARA  
POTTER COUNTY  
LIQUID FUELS TAX FUND  
FINDING AND RECOMMENDATIONS  
FOR THE PERIOD  
JANUARY 1, 2010 TO DECEMBER 31, 2012

Finding - Failure To Maintain Bid Documentation (Continued)

Because the township failed to maintain documentation for bids, we could not determine if the above expenditures for stone during 2010 were made in compliance with the contract requirements of *The Second Class Township Code*, 53 P.S. § 68102(b), (also found at § 3102(b) of *The Second Class Township Code* as published by the Local Government Commission), which states, in part:

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

Additionally, we were unable to determine if the stone purchased during 2011 and the backhoe payment made during 2012 were 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 CLARA  
POTTER COUNTY  
LIQUID FUELS TAX FUND  
FINDING AND RECOMMENDATIONS  
FOR THE PERIOD  
JANUARY 1, 2010 TO DECEMBER 31, 2012

Finding - Failure To Maintain Bid Documentation (Continued)

Furthermore, we were unable to determine if the above expenditures were 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. For material estimates between \$4,000 and \$10,000, three telephone price quotes shall be obtained prior to the selection of a supplier. In lieu of the price quotations, a memorandum shall be kept on file showing that fewer than three qualified contractors service the market area within which it is practicable to obtain quotations. . . . If the cost during the year of an unadvertised item or group of like items ordinarily supplied by a single supplier exceeds \$10,000, or if the cost was between \$4,000.00 and \$10,000.00 and three price quotations were not obtained, the entire cost shall be ineligible for payment from the Liquid Fuels Tax Fund unless it can be shown to the satisfaction of the Secretary [of the Department of Transportation] that it was reasonably believed that the cost of the year's requirements of that item or group of like items would not exceed \$10,000 or be between \$4,000.00 and \$10,000.00 as specified in this section.

Because the township failed to maintain documentation of bidding documents, we were unable to determine if the township complied with *The Second Class Township Code* and the Department of Transportation's *Publication 9*, which could result in the township having to reimburse \$31,921.78 to its Liquid Fuels Tax Fund.

The township was not required to advertise for bids or maintain price quotations for any purchases made during 2012.

Recommendations

We recommend that the township reimburse \$31,921.78 to its Liquid Fuels Tax Fund upon official notification by the Department of Transportation.

TOWNSHIP OF CLARA  
POTTER COUNTY  
LIQUID FUELS TAX FUND  
FINDING AND RECOMMENDATIONS  
FOR THE PERIOD  
JANUARY 1, 2010 TO DECEMBER 31, 2012

Finding - Failure To Maintain Bid Documentation (Continued)

Recommendations (Continued)

We further recommend that the municipality maintain bid documentation for all items that are bid including all accepted and rejected bids as well as entering all of the bids in the minutes of the township supervisors' meetings. It should be noted that for 2012 and subsequent years the threshold for obtaining price quotations increased to purchases between \$10,000.00 and \$18,500.00 and the bidding threshold increased to purchases over \$18,500.00.

Management's Response

The secretary/treasurer stated:

I did not know I was supposed to keep all bids that were submitted or all expired winning bids. I thought putting the winning bids in the minutes would suffice.

Auditor's Conclusion

Because the township failed to maintain documentation for bidding, we were unable to determine if the township complied with *The Second Class Township Code* and the Department of Transportation's *Publication 9*. The township should maintain all accepted and rejected bids when advertising for bids and also list them in the minutes. During our next examination we will determine if the municipality complied with our recommendations.



TOWNSHIP OF CLARA  
POTTER COUNTY  
LIQUID FUELS TAX FUND  
COMMENT  
FOR THE PERIOD  
JANUARY 1, 2010 TO DECEMBER 31, 2012

Comment - Summary Of Prior Examination Recommendation

In our prior report we recommended that the municipality file all required documents and information timely to receive its allocation during the first week in April.

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

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

An exit conference was held July 1, 2013. Those participating were:

TOWNSHIP OF CLARA

Mr. Charles Becker, Secretary/Treasurer

DEPARTMENT OF THE AUDITOR GENERAL

Mr. Christopher Heglen, Auditor

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

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

This report was initially distributed to:

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

Township of Clara  
Potter County  
P. O. Box 316  
Roulette, PA 16746

The Honorable Chris Williams

Chairman of the Board of Supervisors

Mr. Charles Becker

Secretary/Treasurer

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