TOWNSHIP OF CHEST
CLEARFIELD COUNTY
17-209

LIQUID FUELS TAX FUND
EXAMINATION REPORT

FOR THE TWO YEARS ENDED
DECEMBER 31, 2010

Released March 2013

Commonwealth of Pennsylvania

Eugene A. DePasquale - Auditor General

Department of the Auditor General

COUNCIL 90
AFSCME
UNION LABEL

TOWNSHIP OF CHEST
CLEARFIELD COUNTY
17-209

LIQUID FUELS TAX FUND
EXAMINATION REPORT

FOR THE TWO YEARS ENDED
DECEMBER 31, 2010

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TOWNSHIP OF CHEST
CLEARFIELD COUNTY
LIQUID FUELS TAX FUND
BACKGROUND
FOR THE TWO YEARS ENDED
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.

EUGENE DEPASQUALE

AUDITOR GENERAL

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EUGENE A. DEPASQUALE
AUDITOR GENERAL

Independent Auditor's Report

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

We examined the accompanying Forms MS-965 With Adjustments for the Liquid Fuels Tax Fund of the Township of Chest, Clearfield County, for the two years ended 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 Chest, Clearfield County's Forms MS-965 for the two years ended 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.

As discussed in Finding No. 1, the township expended $41,221.04 during 2009 and $1,029.80 during 2010 from its Liquid Fuels Tax Fund for the purchase of a truck that was not properly bid. Additionally, as discussed in Finding No. 2, the township expended $2,418.92 during 2009 from its Liquid Fuels Tax Fund for the hauling of material. However, the business that hauled the material was owned by a supervisor's son. Furthermore, as discussed in Finding No. 3, the township expended $209.30 during 2009 for blacktop waste and $1,374.00 during 2010 for vehicle insurance, which are nonpermissible expenditures, from the Liquid Fuels Tax Fund.

In our opinion, except for the matters discussed in the preceding paragraph, the Forms MS-965 With Adjustments present, in all material respects, the information required by the Pennsylvania Department of Transportation for the Liquid Fuels Tax Fund of the Township of Chest, Clearfield County, for the two years ended 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.

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 Chest, Clearfield 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 Chest, Clearfield County's Forms MS-965 that is more than inconsequential will not be prevented or detected by the Township of Chest, Clearfield County's internal control.

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 Chest, Clearfield County's internal control.

Our consideration of internal control over reporting on the Forms MS-965 was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any significant deficiencies or material weaknesses, as defined above, in internal control over reporting on the Forms MS-965.

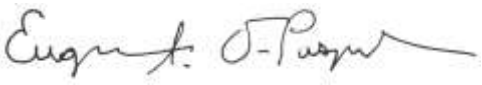
The results of our tests disclosed the following instances of noncompliance that are required to be reported under *Government Auditing Standards*:

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

- Related Party Transactions.

- Nonpermissible Expenditures.

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



January 3, 2012

EUGENE A. DEPASQUALE
Auditor General

EUGENE DEPASQUALE

AUDITOR GENERAL

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

Expenditure Summary	Reported	Adjustments	Adjusted Amount
Major equipment purchases	$ 41,221.04	$ -	$ 41,221.04
Minor equipment purchases	-	-	-
Computer/Computer related training	-	-	-
Agility projects	-	-	-
Cleaning streets and gutters	-	-	-
Winter maintenance services	9,898.42	-	9,898.42
Traffic control devices	-	-	-
Street lighting	-	-	-
Storm sewers and drains	-	-	-
Repairs of tools and machinery	2,639.41	-	2,639.41
Maintenance and repair of roads and bridges	6,165.32	-	6,165.32
Highway construction and rebuilding projects	-	-	-
Miscellaneous	-	-	-
Total (To Section 2, Line 5)	$ 59,924.19	$ -	$ 59,924.19

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

TOWNSHIP OF CHEST
CLEARFIELD COUNTY
LIQUID FUELS TAX FUND
2009 FORM MS-965 – SECTION 2
WITH ADJUSTMENTS

Fund Balance	Reported	Adjustments (Note 4)	Adjusted Amount
1. Balance, January 1, 2009	$ 37,920.19	$ 309.00	$ 38,229.19
Receipts:			
2. State allocation	46,152.31	-	46,152.31
2a. Turnback allocation	-	-	-
2b. Interest on investments (Note 3)	361.96	10.73	372.69
2c. Miscellaneous	-	-	-
3. Total receipts	46,514.27	10.73	46,525.00
4. Total funds available	84,434.46	319.73	84,754.19
5. Expenditures (Section 1)	59,924.19	-	59,924.19
6. Balance, December 31, 2009	$ 24,510.27	$ 319.73	$ 24,830.00

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

TOWNSHIP OF CHEST
CLEARFIELD COUNTY
LIQUID FUELS TAX FUND
2009 FORM MS-965 – SECTION 3
WITH ADJUSTMENTS

Equipment Balance	Reported	Adjustments	Adjusted Amount
1. Prior year equipment balance	$ 36,954.81	$ -	$ 36,954.81
2. Add: Current year equipment allocation (20% of Lines 2 + 2a, Section 2)	9,230.46	-	9,230.46
3. PENNDOT approved adjustments	-	-	-
4. Total funds available for equipment acquisition	46,185.27	-	46,185.27
5. Less: Major equipment expenditures	41,221.04	-	41,221.04
6. Remainder	4,964.23	-	4,964.23
7. Equipment balance available for subsequent year (Lesser of Line 6 or Section 2 balance, but not less than zero)	$ 4,964.23	$ -	$ 4,964.23

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

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

Expenditure Summary	Reported	Adjustments	Adjusted Amount
Major equipment purchases	$ 1,029.80	$ -	$ 1,029.80
Minor equipment purchases	-	-	-
Computer/Computer related training	-	-	-
Agility projects	-	-	-
Cleaning streets and gutters	-	-	-
Winter maintenance services	10,721.87	-	10,721.87
Traffic control devices	-	-	-
Street lighting	-	-	-
Storm sewers and drains	-	-	-
Repairs of tools and machinery	4,938.84	-	4,938.84
Maintenance and repair of roads and bridges	21,186.97	-	21,186.97
Highway construction and rebuilding projects	-	-	-
Miscellaneous (Note 6)	975.00	-	975.00
Total (To Section 2, Line 5)	$ 38,852.48	$ -	$ 38,852.48

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

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

Fund Balance	Reported	Adjustments (Note 4)	Adjusted Amount
1. Balance, January 1, 2010	$ 24,819.21	$ 10.79	$ 24,830.00
Receipts:			
2. State allocation	44,300.41	-	44,300.41
2a. Turnback allocation	-	-	-
2b. Interest on investments (Note 3)	110.54	-	110.54
2c. Miscellaneous (Note 5)	4,550.57	-	4,550.57
3. Total receipts	48,961.52	-	48,961.52
4. Total funds available	73,780.73	10.79	73,791.52
5. Expenditures (Section 1)	38,852.48	-	38,852.48
6. Balance, December 31, 2010	$ 34,928.25	$ 10.79	$ 34,939.04

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

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

Equipment Balance	Reported	Adjustments	Adjusted Amount
1. Prior year equipment balance	$ 4,964.23	$ -	$ 4,964.23
2. Add: Current year equipment allocation (20% of Lines 2 + 2a, Section 2)	8,860.08	-	8,860.08
3. PENNDOT approved adjustments	-	-	-
4. Total funds available for equipment acquisition	13,824.31	-	13,824.31
5. Less: Major equipment expenditures	1,029.80	-	1,029.80
6. Remainder	12,794.51	-	12,794.51
7. Equipment balance available for subsequent year (Lesser of Line 6 or Section 2 balance, but not less than zero)	$ 12,794.51	$ -	$ 12,794.51

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

TOWNSHIP OF CHEST
CLEARFIELD COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE TWO YEARS ENDED
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.

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.

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.

2. Deposits (Continued)

Fund Balance

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

Cash	$34,939.04

3. Interest On Investments

Our examination disclosed that the municipality deposited idle liquid fuels tax money in an interest-bearing account which earned $372.69 during 2009, and $110.54 during 2010, thus providing additional funds for road maintenance and repairs.

4. Adjustments

2009 - Section 2

An adjustment of $309.00 was made to "Balance, January 1, 2009" because of prior report adjustments that were not carried forward in the fund balance.

An adjustment of $10.73 was made to "Interest on investments" because interest earnings were understated.

2010 - Section 2

An adjustment of $10.79 was made to "Balance, January 1, 2010" because an incorrect fund balance was carried forward.

5. Miscellaneous Receipts

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

Source	Description	2010
Central Tax Bureau	Deposit in error (Note 6)	$ 975.00
General Fund	Reimbursement (Comment)	3,355.77
Local business	Sale of scrap metal	219.80
Total		$4,550.57

6. Deposit In Error

On March 26, 2010, the township deposited wage tax money that was received from the Central Tax Bureau into the Liquid Fuels Tax Fund in error. On April 14, 2010, the municipality transferred $975.00 from its Liquid Fuels Tax Fund to its General Fund.

7. Bank Loan

On October 21, 2009, the municipality purchased a new truck for $58,221.04. The municipality made a down payment of $41,221.04 from the Liquid Fuels Tax Fund. The remaining $17,000.00 was borrowed from Northwest Savings Bank for three years at an interest rate of 5.63 percent. Principal and interest payments of $514.90 are due monthly. As discussed in Finding No. 1, the municipality did not advertise for bids for this purchase. Therefore, it is not eligible to be paid from the Liquid Fuels Tax Fund.

During the current examination period the municipality paid principal of $882.06 and interest of $147.74 from the Liquid Fuels Tax Fund (Finding No. 1). These amounts and the down payment are reflected in major equipment purchases on the 2009 and 2010 Forms MS-965 - Section 1. Additionally, the municipality paid principal of $5,386.48 and interest of $792.32 from the General Fund. The outstanding balance of the loan as of December 31, 2010 was $10,731.46, plus interest.

EUGENE DEPASQUALE

AUDITOR GENERAL

Finding No. 1 - Purchase Over $10,000.00 In Noncompliance With Advertising And Bidding Requirements

Our examination disclosed that on June 11, 2009 the township supervisors voted to advertise for sealed bids for a new truck. At the July 9, 2009 meeting, the township received one sealed bid from a vendor for $61,645.00, one advertisement from another vendor for a truck costing $66,878.00, and one quote from another vendor for $58,221.04. At the August 13, 2009 meeting, the township voted to purchase the truck from the vendor that submitted the quote for $58,221.04. Because it was not a sealed bid this purchase was not made in compliance with *The Second Class Township Code*. During 2009 the municipality made a down payment of $41,221.04 from its Liquid Fuels Tax Fund for this purchase. The remaining $17,000.00 was borrowed from Northwest Savings Bank (Note 7). Principal of $882.06 and interest of $147.74 were also paid from the Liquid Fuels Tax Fund during 2010.

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.

Additionally, *The Second Class Township Code*, 53 P.S. § 68102(e), (also found at § 3102(e) of *The Second Class Township Code* as published by the Local Government Commission), states:

> The award of contracts shall only be made by public announcement at the meeting at which bids are opened by the board of supervisors, or received from the individual or committee appointed by the board of supervisors to open and read bids, or at a subsequent meeting of the board of supervisors, the time and place of which shall be publicly announced when bids are received. If for any reason one or both of the meetings are not held, the same business may be transacted at a subsequent meeting if at least five days' notice of the meeting is published in the same newspaper as the notice of bids. Bidders shall be notified and other interested parties, upon request, shall be notified of the date, time, and location of the opening of bids and may be present when the bids are opened.

Because two of the bids were not sealed and therefore could not be opened, the township did not comply with *The Second Class Township Code*.

Finding No. 1 - Purchase Over $10,000.00 In Noncompliance With Advertising And Bidding Requirements (Continued)

We reviewed a letter from the Department of Transportation dated March 3, 2011, reducing the amount required to be reimbursed to the Liquid Fuels Tax Fund by $20,283.99. As a result, the township will be required to reimburse $21,966.85 to its Liquid Fuels Tax Fund.

Recommendations

We recommend that the township reimburse $21,966.85 to its Liquid Fuels Tax Fund as directed by the Department of Transportation's letter dated March 3, 2011.

We further recommend that, in the future, the township comply with *The Second Class Township Code* as noted in this finding.

Management's Response

The township officials stated:

We are in agreement.

Auditor's Conclusion

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

Finding No. 2 - Related Party Transactions

Our examination disclosed that the township expended $2,418.92 during 2009 from the Liquid Fuels Tax Fund for the hauling of material. However, the business that hauled the material was owned by a supervisor's son. Due to the supervisor's son's financial interest in the company and the lack of an open and public award process, these contracts appear to violate *The Second Class Township Code* and The Public Official and Employee Ethics Act. Therefore, they should not have been entered into by the township.

The Second Class Township Code, 53 P.S. § 68102(i), as amended, states, in part:

> No township official, either elected or appointed, or township employe who knows, or who by the exercise of reasonable diligence could know, shall be interested to any appreciable degree, either directly or indirectly, in any contract for the sale or furnishing of any supplies or materials for the use of the township or for any work to be done for such township involving the expenditure by the township of more than five hundred dollars ($500.00) in any year unless the contract is awarded through the public bid process. This limitation does not apply if the officer or appointee of the township is an employe of the person, firm or corporations to which the money is to be paid in a capacity with no possible influence on the transaction and the officer cannot possibly be benefited thereby, either financially or otherwise. If a supervisor is within this exception, the supervisor shall so inform the board of supervisors and refrain from voting on the payments and shall in no manner participate in the contract. . . .

This information is also published in § 3102(i) of *The Second Class Township Code* as published by the Local Government Commission.

The Public Official and Employee Ethics Act ("Ethics Act"), 65 P.S. 1103(f), states, in part:

Finding No. 2 - Related Party Transactions (Continued)

> No public official or public employee or his spouse or child or any business in which the person or his spouse or child is associated shall enter into any contract valued at $500 or more with the governmental body with which the public official or public employee is associated or any subcontract valued at $500 or more with any person who has been awarded a contract with the governmental body with which the public official or public employee is associated, unless the contract has been awarded through an open and public process, including prior public notice and subsequent public disclosure of all proposals considered and contracts awarded. In such a case, the public official or public employee shall not have any supervisory or overall responsibility for the implementation or administration of the contract.

Because these contracts violate *The Second Class Township Code* and the Ethics Act the township could be required by the Pennsylvania Department of Transportation to reimburse $2,418.92 to its Liquid Fuels Tax Fund.

Copies of this finding will be forwarded to the Pennsylvania Department of Transportation and the State Ethics Commission for their review and whatever action they may deem appropriate.

A similar finding was also written in our prior report. However, the township did not have any related party transactions during 2010.

Recommendations

We recommend that the township reimburse $2,418.92 to its Liquid Fuels Tax Fund upon official notification by the Department of Transportation.

We again recommend that, in the future, the township comply with *The Second Class Township Code* and the Ethics Act.

Management's Response

The township officials stated:

> We are in agreement.

Auditor's Conclusion

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

Finding No. 3 - Nonpermissible Expenditures

Our examination disclosed that the municipality expended $209.30 during 2009 for blacktop waste and $1,374.00 during 2010 for vehicle insurance from the Liquid Fuels Tax Fund, which are nonpermissible expenditures.

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 blacktop waste and vehicle insurance, are outside the scope of permissible expenditures.

The failure to follow the Liquid Fuels Tax Municipal Allocation Law and the Department of Transportation's Regulations as noted above could result in the municipality having to reimburse $1,583.30 to its Liquid Fuels Tax Fund.

Recommendations

We recommend that the municipality reimburse $1,583.30 to its Liquid Fuels Tax Fund upon official notification by the Department of Transportation.

We further recommend that, in the future, the municipality comply with the Liquid Fuels Tax Municipal Allocation Law and the Department of Transportation's Regulations regarding permissible expenditures.

Finding No. 3 - Nonpermissible Expenditures (Continued)

Management's Response

The municipal officials stated:

We are in agreement.

Auditor's Conclusion

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

TOWNSHIP OF CHEST
CLEARFIELD COUNTY
LIQUID FUELS TAX FUND
COMMENT
FOR THE TWO YEARS ENDED
DECEMBER 31, 2010

Comment - Summary Of Prior Examination Recommendation

In our prior report we recommended that the Department of Transportation review our examination finding to determine if the municipality should reimburse $3,355.77 to its Liquid Fuels Tax Fund for related party transactions. A similar finding was also written in our current report (Finding No. 2).

During our current examination we reviewed a letter dated March 12, 2010, from the Department of Transportation informing the municipality to reimburse $3,355.77 to its Liquid Fuels Tax Fund. We noted that the municipality reimbursed this amount to its Liquid Fuels Tax Fund on April 15, 2010.

TOWNSHIP OF CHEST
CLEARFIELD COUNTY
LIQUID FUELS TAX FUND
SUMMARY OF EXIT CONFERENCE
FOR THE TWO YEARS ENDED
DECEMBER 31, 2010

An exit conference was held January 3, 2012. Those participating were:

TOWNSHIP OF CHEST

Ms. Tanya M. Kunsman, 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 CHEST
CLEARFIELD COUNTY
LIQUID FUELS TAX FUND
REPORT DISTRIBUTION
FOR THE TWO YEARS ENDED
DECEMBER 31, 2010

This report was initially distributed to:

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

Mr. John J. Contino
Executive Director
Pennsylvania State Ethics Commission

Township of Chest
Clearfield County
2406 McPherron Road
LaJose, PA 15753

The Honorable Carl L. Michael	Chairman of the Board of Supervisors
Ms. Tanya M. Kunsman	Secretary/Treasurer

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