

TOWNSHIP OF EAST FALLOWFIELD
CHESTER COUNTY

15-207

LIQUID FUELS TAX FUND
EXAMINATION REPORT

FOR THE THREE YEARS ENDED
DECEMBER 31, 2010

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 - Duplicate Payment Of Invoices	23
Finding No. 2 - Turnback Allocations Deposited Into The General Fund	25
Finding No. 3 - Nonpermissible Expenditures	26
Finding No. 4 - Late Receipt Of Allocation	28
Summary Of Exit Conference.....	30
Report Distribution	31

TOWNSHIP OF EAST FALLOWFIELD
CHESTER COUNTY
LIQUID FUELS TAX FUND
BACKGROUND
FOR THE THREE 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.

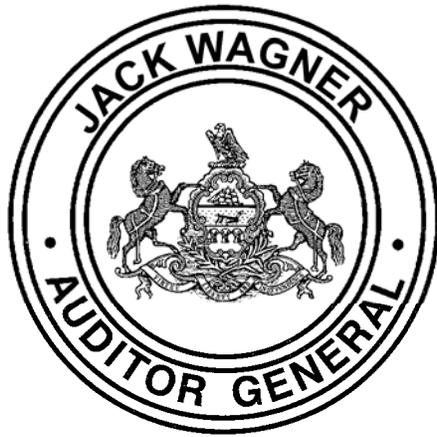
The Vehicle Code, Title 75 P.S. § 9511, provides municipalities with annual maintenance payments to be received from the Motor License Fund for functionally local highways that were transferred to a municipality from the Commonwealth of Pennsylvania.

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.





**Department of the Auditor General
Commonwealth of Pennsylvania
Harrisburg, Pennsylvania 17120-0018**

**JACK WAGNER
AUDITOR GENERAL**

Independent Auditor's Report

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

We examined the accompanying Forms MS-965 With Adjustments for the Liquid Fuels Tax Fund of the Township of East Fallowfield, Chester County, for the three 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 East Fallowfield, Chester County's Forms MS-965 for the three 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.

Independent Auditor's Report (Continued)

As discussed in Finding No. 1, the township paid invoices totaling \$6,910.17 from its Liquid Fuels Tax Fund twice. Of that amount, \$4,125.00 was reimbursed by the vendor during our examination period. Additionally as discussed in Finding No. 2, the township deposited the 2009 and 2010 annual turnback allocations of \$29,480.00 each into its General Fund on April 28, 2009 and April 9, 2010, respectively. The municipality transferred \$29,480.00 from its General Fund to its Liquid Fuels Tax Fund on May 7, 2010. The municipality further transferred \$29,480.00 from its General Fund to its Liquid Fuels Tax Fund on April 1, 2011, which was subsequent to our examination period. Furthermore, as discussed in Finding No. 3, the township expended \$5,721.79 for general legal fees during 2008, \$4,095.96 for insurance premiums during 2009, and \$24.00 for insurance premiums during 2010, which are nonpermissible expenditures.

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

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 East Fallowfield, Chester County's ability to initiate, authorize, record, process, or report data reliably in accordance with the applicable criteria such that there is more than a remote likelihood that a misstatement of the Township of East Fallowfield, Chester County's Forms MS-965 that is more than inconsequential will not be prevented or detected by the Township of East Fallowfield, Chester County's internal control. We consider the deficiency described in the finding below to be a significant deficiency in internal control over reporting on the Forms MS-965:

- Duplicate Payment Of Invoices.

A material weakness is a significant deficiency or combination of significant deficiencies that results in more than a remote likelihood that a material misstatement of the Forms MS-965 will not be prevented or detected by the Township of East Fallowfield, Chester County's internal control. 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. However, we consider the significant deficiency described above to be a material weakness.

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

- Turnback Allocations Deposited Into The General Fund.
- Nonpermissible 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 the deposit of the turnback allocation into the General Fund. During our current examination period the municipality made duplicate payments on invoices, deposited turnback allocations into the General Fund, made nonpermissible expenditures, and received an allocation late. The municipality should strive to implement the corrective actions and recommendations noted in this report.

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

July 15, 2011

JACK WAGNER
Auditor General

TOWNSHIP OF EAST FALLOWFIELD
 CHESTER COUNTY
 LIQUID FUELS TAX FUND
 2008 FORM MS-965 – SECTION 1
 WITH ADJUSTMENTS

<u>Expenditure Summary</u>	<u>Reported</u>	<u>Adjustments</u>	<u>Adjusted Amount</u>
Major equipment purchases	\$ -	\$ -	\$ -
Minor equipment purchases	1,744.62	-	1,744.62
Computer/Computer related training	-	-	-
Agility projects	-	-	-
Cleaning streets and gutters	-	-	-
Winter maintenance services	7,283.78	-	7,283.78
Traffic control devices	455.06	-	455.06
Street lighting	805.26	-	805.26
Storm sewers and drains	44,255.00	-	44,255.00
Repairs of tools and machinery	-	-	-
Maintenance and repair of roads and bridges	57,615.50	(4,002.53)	53,612.97
Highway construction and rebuilding projects	-	-	-
Miscellaneous (Note 6)	5,811.79	4,002.53	9,814.32
	<u>5,811.79</u>	<u>4,002.53</u>	<u>9,814.32</u>
Total (To Section 2, Line 5)	<u>\$ 117,971.01</u>	<u>\$ -</u>	<u>\$ 117,971.01</u>

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

TOWNSHIP OF EAST FALLOWFIELD
 CHESTER COUNTY
 LIQUID FUELS TAX FUND
 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	\$ 181,395.97	\$ -	\$ 181,395.97
Receipts:			
2. State allocation	166,568.62	-	166,568.62
2a. Turnback allocation	29,480.00	-	29,480.00
2b. Interest on investments (Note 3)	3,785.30	-	3,785.30
2c. Miscellaneous	-	-	-
3. Total receipts	<u>199,833.92</u>	<u>-</u>	<u>199,833.92</u>
4. Total funds available	<u>381,229.89</u>	<u>-</u>	<u>381,229.89</u>
5. Expenditures (Section 1)	<u>117,971.01</u>	<u>-</u>	<u>117,971.01</u>
6. Balance, December 31, 2008	<u><u>\$ 263,258.88</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 263,258.88</u></u>

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

TOWNSHIP OF EAST FALLOWFIELD
 CHESTER COUNTY
 LIQUID FUELS TAX FUND
 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	\$ 57,117.63	\$ -	\$ 57,117.63
2. Add: Current year equipment allocation (20% of Lines 2 + 2a, Section 2)	39,209.72	-	39,209.72
3. PENNDOT approved adjustments	<u>-</u>	<u>-</u>	<u>-</u>
4. Total funds available for equipment acquisition	96,327.35	-	96,327.35
5. Less: Major equipment expenditures	<u>-</u>	<u>-</u>	<u>-</u>
6. Remainder	<u>96,327.35</u>	<u>-</u>	<u>96,327.35</u>
7. Equipment balance available for subsequent year (Lesser of Line 6 or Section 2 balance, but not less than zero)	<u>\$ 96,327.35</u>	<u>\$ -</u>	<u>\$ 96,327.35</u>

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

TOWNSHIP OF EAST FALLOWFIELD
 CHESTER COUNTY
 LIQUID FUELS TAX FUND
 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	\$ 22,079.89	\$ -	\$ 22,079.89
Minor equipment purchases	8,033.49	16.00	8,049.49
Computer/Computer related training	-	-	-
Agility projects	-	-	-
Cleaning streets and gutters	-	-	-
Winter maintenance services	38,980.07	-	38,980.07
Traffic control devices	6,035.46	-	6,035.46
Street lighting	804.95	-	804.95
Storm sewers and drains	-	-	-
Repairs of tools and machinery	13,885.54	(650.46)	13,235.08
Maintenance and repair of roads and bridges	17,580.68	-	17,580.68
Highway construction and rebuilding projects	108,823.91	-	108,823.91
Miscellaneous (Note 6)	4,111.96	(16.00)	4,095.96
	<u>4,111.96</u>	<u>(16.00)</u>	<u>4,095.96</u>
Total (To Section 2, Line 5)	<u>\$ 220,335.95</u>	<u>\$ (650.46)</u>	<u>\$ 219,685.49</u>

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

TOWNSHIP OF EAST FALLOWFIELD
 CHESTER COUNTY
 LIQUID FUELS TAX FUND
 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	\$ 263,258.88	\$ -	\$ 263,258.88
Receipts:			
2. State allocation	-	-	-
2a. Turnback allocation	-	-	-
2b. Interest on investments (Note 3)	718.75	-	718.75
2c. Miscellaneous (Note 5)	8,592.53	-	8,592.53
3. Total receipts	<u>9,311.28</u>	<u>-</u>	<u>9,311.28</u>
4. Total funds available	<u>272,570.16</u>	<u>-</u>	<u>272,570.16</u>
5. Expenditures (Section 1)	<u>220,335.95</u>	<u>(650.46)</u>	<u>219,685.49</u>
6. Balance, December 31, 2009	<u><u>\$ 52,234.21</u></u>	<u><u>\$ 650.46</u></u>	<u><u>\$ 52,884.67</u></u>

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

TOWNSHIP OF EAST FALLOWFIELD
 CHESTER COUNTY
 LIQUID FUELS TAX FUND
 2009 FORM MS-965 – SECTION 3
 WITH ADJUSTMENTS

<u>Equipment Balance</u>	<u>Reported</u>	<u>Adjustments (Note 4)</u>	<u>Adjusted Amount</u>
1. Prior year equipment balance	\$ 96,327.35	\$ -	\$ 96,327.35
2. Add: Current year equipment allocation (20% of Lines 2 + 2a, Section 2)	-	-	-
3. PENNDOT approved adjustments	-	4,500.00	4,500.00
4. Total funds available for equipment acquisition	96,327.35	-	100,827.35
5. Less: Major equipment expenditures	22,079.89	-	22,079.89
6. Remainder	<u>74,247.46</u>	<u>4,500.00</u>	<u>78,747.46</u>
7. Equipment balance available for subsequent year (Lesser of Line 6 or Section 2 balance, but not less than zero)	<u>\$ 52,234.21</u>	<u>\$ 650.46</u>	<u>\$ 52,884.67</u>

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

TOWNSHIP OF EAST FALLOWFIELD
 CHESTER COUNTY
 LIQUID FUELS TAX FUND
 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	\$ 8,695.00	\$ -	\$ 8,695.00
Minor equipment purchases	-	-	-
Computer/Computer related training	-	-	-
Agility projects	-	-	-
Cleaning streets and gutters	-	-	-
Winter maintenance services	30,016.16	-	30,016.16
Traffic control devices	6,353.23	-	6,353.23
Street lighting	1,017.83	-	1,017.83
Storm sewers and drains	443.03	-	443.03
Repairs of tools and machinery	31,719.67	(2,853.56)	28,866.11
Maintenance and repair of roads and bridges	31,345.80	-	31,345.80
Highway construction and rebuilding projects	-	-	-
Miscellaneous (Note 6)	42,467.14	2,817.64	45,284.78
	<u>42,467.14</u>	<u>2,817.64</u>	<u>45,284.78</u>
Total (To Section 2, Line 5)	<u>\$ 152,057.86</u>	<u>\$ (35.92)</u>	<u>\$ 152,021.94</u>

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

TOWNSHIP OF EAST FALLOWFIELD
 CHESTER COUNTY
 LIQUID FUELS TAX FUND
 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	\$ 52,234.21	\$ 650.46	\$ 52,884.67
Receipts:			
2. State allocation	154,013.10	160,052.84	314,065.94
2a. Turnback allocation	29,480.00	-	29,480.00
2b. Interest on investments (Note 3)	606.93	-	606.93
2c. Miscellaneous (Note 5)	202,608.89	(160,052.84)	42,556.05
3. Total receipts	<u>386,708.92</u>	<u>-</u>	<u>386,708.92</u>
4. Total funds available	<u>438,943.13</u>	<u>650.46</u>	<u>439,593.59</u>
5. Expenditures (Section 1)	<u>152,057.86</u>	<u>(35.92)</u>	<u>152,021.94</u>
6. Balance, December 31, 2010	<u><u>\$ 286,885.27</u></u>	<u><u>\$ 686.38</u></u>	<u><u>\$ 287,571.65</u></u>

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

TOWNSHIP OF EAST FALLOWFIELD
 CHESTER COUNTY
 LIQUID FUELS TAX FUND
 2010 FORM MS-965 – SECTION 3
 WITH ADJUSTMENTS

<u>Equipment Balance</u>	<u>Reported</u>	<u>Adjustments (Note 4)</u>	<u>Adjusted Amount</u>
1. Prior year equipment balance	\$ 52,234.21	\$ 650.46	\$ 52,884.67
2. Add: Current year equipment allocation (20% of Lines 2 + 2a, Section 2)	36,698.62	32,010.56	68,709.18
3. PENNDOT approved adjustments	<u>-</u>	<u>-</u>	<u>-</u>
4. Total funds available for equipment acquisition	88,932.83	32,661.02	121,593.85
5. Less: Major equipment expenditures	<u>8,695.00</u>	<u>-</u>	<u>8,695.00</u>
6. Remainder	<u><u>80,237.83</u></u>	<u><u>32,661.02</u></u>	<u><u>112,898.85</u></u>
7. Equipment balance available for subsequent year (Lesser of Line 6 or Section 2 balance, but not less than zero)	<u><u>\$ 80,237.83</u></u>	<u><u>\$ 32,661.02</u></u>	<u><u>\$ 112,898.85</u></u>

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

TOWNSHIP OF EAST FALLOWFIELD
CHESTER COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE THREE 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.

TOWNSHIP OF EAST FALLOWFIELD
CHESTER COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE THREE YEARS ENDED
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 EAST FALLOWFIELD
CHESTER COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE THREE YEARS ENDED
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 EAST FALLOWFIELD
CHESTER COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE THREE YEARS ENDED
DECEMBER 31, 2010

2. Deposits (Continued)

Fund Balance

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

Cash	\$287,571.65
------	--------------

3. Interest On Investments

Our examination disclosed that the municipality deposited idle liquid fuels tax money in an interest-bearing account which earned \$3,785.30 during 2008, \$718.75 during 2009, and \$606.93 during 2010, thus providing additional funds for road maintenance and repairs.

4. Adjustments

2008 - Section 1

Adjustments were made to “Maintenance and repair of roads and bridges” and “Miscellaneous” because expenditures of \$4,002.53 were misclassified.

2009 - Section 1

Adjustments were made to “Minor equipment purchases” and “Miscellaneous” because expenditures of \$16.00 were misclassified.

An adjustment of \$(650.46) was made to “Repairs of tools and machinery” because check No. 3713 was voided but was included as an expenditure.

2009 - Section 3

An adjustment of \$4,500.00 was made to “PENNDOT approved adjustments” because the proceeds from the sale of equipment were not reported.

TOWNSHIP OF EAST FALLOWFIELD
CHESTER COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE THREE YEARS ENDED
DECEMBER 31, 2010

4. Adjustments (Continued)

2010 - Section 1

An adjustment of \$(2,853.56) was made to “Repairs of tools and machinery” because miscellaneous expenditures of \$2,817.64 were misclassified and check No. 3911 for \$35.92 was voided but was included as an expenditure.

An adjustment of \$2,817.64 was made to “Miscellaneous” because these expenditures were misclassified as repairs of tools and machinery.

2010 - Section 2

An adjustment of \$650.46 was made to “Balance, January 1, 2010” to reflect the adjustment made to the fund balance in 2009 - Section 2.

Adjustments were made to “State allocation” and “Miscellaneous” because receipts of \$160,052.84 were misclassified.

2010 - Section 3

An adjustment of \$650.46 was made to “Prior year equipment balance” to reflect the adjustment made to the equipment balance in 2009 - Section 3.

An adjustment of \$32,010.56 was made to “Current year equipment allocation” because the 2009 Liquid Fuels Tax Fund allocation of \$160,052.84 was misclassified and was therefore not used in the calculation of this figure.

TOWNSHIP OF EAST FALLOWFIELD
 CHESTER COUNTY
 LIQUID FUELS TAX FUND
 NOTES TO FORMS MS-965 WITH ADJUSTMENTS
 FOR THE THREE YEARS ENDED
 DECEMBER 31, 2010

5. Miscellaneous Receipts

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

<u>Source</u>	<u>Description</u>	<u>2009</u>	<u>2010</u>
Vendor	Reimbursement (Finding No. 2)	\$4,092.53	\$ 32.47
Vendor	Sale of equipment	4,500.00	-
Commonwealth of Pennsylvania	Refund of overpayment	-	80.44
Commonwealth of Pennsylvania	Deposits in error (Note 7)	-	42,443.14
Total		<u>\$8,592.53</u>	<u>\$42,556.05</u>

6. Miscellaneous Expenditures

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

<u>Payee</u>	<u>Description</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Vendors	Duplicate payments (Finding No. 1)	\$4,092.53	\$ -	\$ 2,817.64
Vendor	Legal fees (Finding No. 3)	5,721.79	-	-
Insurance company	Insurance premium (Finding No. 3)	-	4,095.96	24.00
General Fund	Correction of deposits in error (Note 7)	-	-	42,443.14
Totals		<u>\$9,814.32</u>	<u>\$4,095.96</u>	<u>\$45,284.78</u>

TOWNSHIP OF EAST FALLOWFIELD
CHESTER COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE THREE YEARS ENDED
DECEMBER 31, 2010

7. Deposits In Error

On June 25, 2010, the Commonwealth of Pennsylvania electronically deposited \$18,438.12 into its Liquid Fuels Tax Fund in error. On July 21, 2010 the municipality transferred this amount from its Liquid Fuels Tax Fund to its General Fund to correct the deposit in error.

On September 20, 2010, the Commonwealth of Pennsylvania electronically deposited \$24,005.02 into its Liquid Fuels Tax Fund in error. On October 4, 2010 the municipality transferred this amount from its Liquid Fuels Tax Fund to its General Fund to correct the deposit in error.

TOWNSHIP OF EAST FALLOWFIELD
 CHESTER COUNTY
 LIQUID FUELS TAX FUND
 FINDINGS AND RECOMMENDATIONS
 FOR THE THREE YEARS ENDED
 DECEMBER 31, 2010

Finding No. 1 - Duplicate Payment Of Invoices

Our examination disclosed that the municipality paid the following invoices twice:

<u>Invoice Number</u>	<u>First Check No.</u>	<u>First Date Paid</u>	<u>Second Check No.</u>	<u>Second Date Paid</u>	<u>Invoice Amount</u>
3617384	3625	11/06/08	3635	11/06/08	\$1,051.38
3617385	3626	11/06/08	3634	11/06/08	1,454.14
3617447	3629	11/06/08	3633	11/06/08	1,587.01
Various	3832	11/18/09	3859	01/14/10	2,785.17
105243	3889	03/03/10	3907	03/18/10	32.47
Total					<u>\$6,910.17</u>

Although this money should be reimbursed to the Liquid Fuels Tax Fund, the primary concern is the inadequate internal controls which enabled the duplicate payments of \$6,910.17 to remain undetected for long periods of time.

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 and go undetected for long periods of time.

On September 16, 2009 and May 7, 2010 the vendor reimbursed \$4,092.53 and 32.47, respectively, to the municipality who deposited the money into its Liquid Fuels Tax Fund.

Recommendations

We recommend that the municipality reimburse \$2,785.17 to its Liquid Fuels Tax Fund upon official notification by the Department of Transportation. We also recommend that the municipal officials contact the vendor as soon as possible to obtain reimbursement.

We further recommend that the municipality establish and implement internal controls to ensure vendor invoices are reviewed timely to avoid duplicate payments.

TOWNSHIP OF EAST FALLOWFIELD
CHESTER COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE THREE YEARS ENDED
DECEMBER 31, 2010

Finding No. 1 - Duplicate Payment Of Invoices (Continued)

Management's Response

The township manager/treasurer stated:

We have instituted a policy of reviewing invoices and their payments on a monthly basis.

Auditor's Conclusion

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

TOWNSHIP OF EAST FALLOWFIELD
CHESTER COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE THREE YEARS ENDED
DECEMBER 31, 2010

Finding No. 2 - Turnback Allocations Deposited Into The General Fund

Our examination disclosed that the municipality deposited the 2009 and 2010 annual turnback allocations of \$29,480.00 each into the General Fund on April 28, 2009 and April 9, 2010, respectively. These turnback allocations were made to the municipality in accordance with the *Vehicle Code*, 75 Pa. C.S.A. § 9511(4), which requires that “Annual maintenance payments . . . shall be deposited into the municipality’s liquid fuels tax account. . . .”

The risk that Liquid Fuels Tax Fund money may be used for unauthorized purposes increases when liquid fuels money is commingled with other funds.

The municipality transferred \$29,480.00 from its General Fund to its Liquid Fuels Tax Fund on May 7, 2010. The municipality further transferred \$29,480.00 from its General Fund to its Liquid Fuels Tax Fund on April 1, 2011, which was subsequent to our examination period.

A similar finding was also written in our prior report.

Recommendation

We again recommend that, in the future, the municipality deposit all liquid fuels tax money promptly into the Liquid Fuels Tax Fund.

Management’s Response

The township manager/treasurer stated:

To rectify these situations, the Township has enrolled in the Pennsylvania electronic transfer program so that Liquid Fuels payments are deposited in a timely manner to the Liquid Fuels accounts.

Auditor’s Conclusion

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

TOWNSHIP OF EAST FALLOWFIELD
CHESTER COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE THREE YEARS ENDED
DECEMBER 31, 2010

Finding No. 3 - Nonpermissible Expenditures

Our examination disclosed that the municipality expended \$5,721.79 for general legal fees during 2008, \$4,095.96 for insurance premiums during 2009, and \$24.00 for insurance premiums during 2010 from its Liquid Fuels Tax Fund. However, these expenditures are nonpermissible. The insurance premiums would have been permissible had the Liquid Fuels Tax Fund been named the beneficiary of the policy.

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 legal fees not pertaining to Liquid Fuels matters and insurance premiums where the Liquid Fuels Tax Fund is not a named insured on the policy, 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 \$9,841.75 to its Liquid Fuels Tax Fund.

Recommendations

We recommend that the municipality reimburse \$9,841.75 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.

TOWNSHIP OF EAST FALLOWFIELD
CHESTER COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE THREE YEARS ENDED
DECEMBER 31, 2010

Finding No. 3 - Nonpermissible Expenditures (Continued)

Management's Response

The township manager/treasurer stated:

The two items in question will not be recurring. In 2008, a legal invoice was charged to Liquid Fuels in error. The other payment involved insurance expense and we will ask our insurance carrier to name the Liquid Fuels Trust as a named insured on the equipment policy.

Auditor's Conclusion

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

TOWNSHIP OF EAST FALLOWFIELD
CHESTER COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE THREE YEARS ENDED
DECEMBER 31, 2010

Finding No. 4 - Late Receipt Of Allocation

Our examination disclosed that the 2009 Liquid Fuels Tax Fund allocation of \$160,052.84, 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 January 22, 2010, 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 allocation for more than 10 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.

Due to severe winter weather, on March 1, 2010, the governor released Liquid Fuels Tax Fund allocations to all municipalities except those with blocks imposed by the Department of Revenue or the Department of Labor and Industry. Therefore, we were unable to determine if the municipality filed the required forms timely during 2010.

TOWNSHIP OF EAST FALLOWFIELD
CHESTER COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE THREE YEARS ENDED
DECEMBER 31, 2010

Finding No. 4 - Late Receipt Of Allocation (Continued)

Recommendation

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

Management's Response

The municipal officials offered no formal response at this time.

TOWNSHIP OF EAST FALLOWFIELD
CHESTER COUNTY
LIQUID FUELS TAX FUND
SUMMARY OF EXIT CONFERENCE
FOR THE THREE YEARS ENDED
DECEMBER 31, 2010

An exit conference was held July 15, 2011. Those participating were:

TOWNSHIP OF EAST FALLOWFIELD

Ms. Jill Bukata, Township Manager/Treasurer

DEPARTMENT OF THE AUDITOR GENERAL

Mr. Fred Casella, Auditor

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

TOWNSHIP OF EAST FALLOWFIELD
CHESTER COUNTY
LIQUID FUELS TAX FUND
REPORT DISTRIBUTION
FOR THE THREE YEARS ENDED
DECEMBER 31, 2010

This report was initially distributed to:

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

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

The Honorable Chris Amentas

Chairman of the Board of Supervisors

Ms. Jill Bukata

Township Manager/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, 318 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.