

TOWNSHIP OF PINE
ARMSTRONG COUNTY
03-218

LIQUID FUELS TAX FUND
EXAMINATION REPORT

FOR THE THREE YEARS ENDED
DECEMBER 31, 2007

CONTENTS

| | <u>Page</u> |
|---|-------------|
| Background..... | 1 |
| Independent Auditor's Report | 3 |
| Financial Section: | |
| 2005 Form MS-965 With Adjustments | 7 |
| 2006 Form MS-965 With Adjustments | 10 |
| 2007 Form MS-965 With Adjustments | 13 |
| Notes To Forms MS-965 With Adjustments..... | 16 |
| Findings And Recommendations: | |
| Finding No. 1 - Inadequate Internal Controls Over Fuel Purchases And Usage | 21 |
| Finding No. 2 - Documentation For Price Quotations Was Not Available For Examination | 24 |
| Finding No. 3 - Late Receipt Of Allocations | 26 |
| Comments | 27 |
| Summary Of Exit Conference..... | 29 |
| Report Distribution | 31 |

TOWNSHIP OF PINE
ARMSTRONG COUNTY
LIQUID FUELS TAX FUND
BACKGROUND
FOR THE THREE YEARS ENDED
DECEMBER 31, 2007

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.

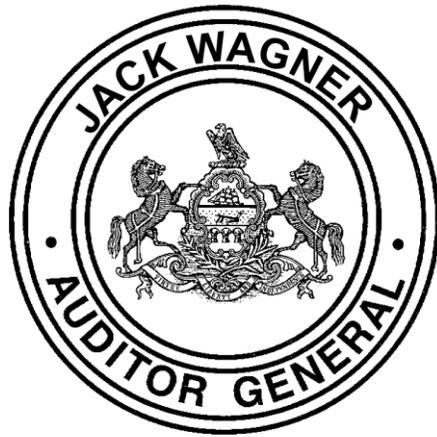
The Vehicle Code, Title 75 P.S. § 9511, provides municipalities with annual maintenance payments to be received from the Motor License Fund for functionally local highways that were transferred to a municipality from the Commonwealth of Pennsylvania.

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.



Independent Auditor's Report

The Honorable Allen D. Biehler, 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 Township of Pine, Armstrong County, for the three years ended December 31, 2007. 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 Township of Pine, Armstrong County's Forms MS-965 for the three years ended December 31, 2007 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 discussed in Finding No. 1, the municipality expended \$5,275.10 from its Liquid Fuels Tax Fund for the purchase of fuel in bulk quantities. However, records for the dispensation of these fuel purchases were not maintained. Of that amount, \$3,477.81 was expended for gasoline for vehicles that were not used for liquid fuels related work. Furthermore, \$313.84 of the \$5,275.10 was for a duplicate payment of an invoice. Additionally, as discussed in Finding No. 2, the municipality expended \$5,375.00 for the replacement of road drainage pipes. This amount consists of \$3,225.00 from the General Fund and \$2,150.00 from the Liquid Fuels Tax Fund. However, documentation for price quotations was not available for examination.

Independent Auditor's Report (Continued)

As discussed in Comment No. 1, during our 2001-2002 audit period the municipality expended \$24,154.50 for road work without advertising for bids and \$4,700.40 for nonpermissible expenditures. The Department of Transportation required the municipality to reimburse \$11,516.76 to its Liquid Fuels Tax Fund as a result of these findings. As of December 31, 2007, \$2,879.19 was due to the municipality's Liquid Fuels Tax Fund. Additionally, as discussed in Comment No. 2, during our 2003-2004 audit period the municipality transferred \$6,500.00 from its Liquid Fuels Tax Fund to its General Fund without maintaining documentation to support transfers. As of December 31, 2007, \$4,333.00 is due to the municipality's Liquid Fuels Tax Fund as a result of these expenditures.

In our opinion, except for the matters discussed in the preceding paragraphs, the Forms MS-965 With Adjustments present, in all material respects, the information required by the Pennsylvania Department of Transportation for the Liquid Fuels Tax Fund of the Township of Pine, Armstrong County, for the three years ended December 31, 2007, 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 Pine, Armstrong County's ability to initiate, authorize, record, process, or report data reliably in accordance with the applicable criteria such that there is more than a remote likelihood that a misstatement of the Township of Pine, Armstrong County's Forms MS-965 that is more than inconsequential will not be prevented or detected by the Township of Pine, Armstrong County's internal control. We consider the deficiency described in the finding below to be a significant deficiency in internal control over reporting on the Forms MS-965:

Independent Auditor's Report (Continued)

- Inadequate Internal Controls Over Fuel Purchases And Usage.

A material weakness is a significant deficiency or combination of significant deficiencies that results in more than a remote likelihood that a material misstatement of the Forms MS-965 will not be prevented or detected by the Township of Pine, Armstrong County's internal control. Our consideration of the internal control over reporting on the Forms MS-965 would not necessarily disclose all matters in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described above is a material weakness.

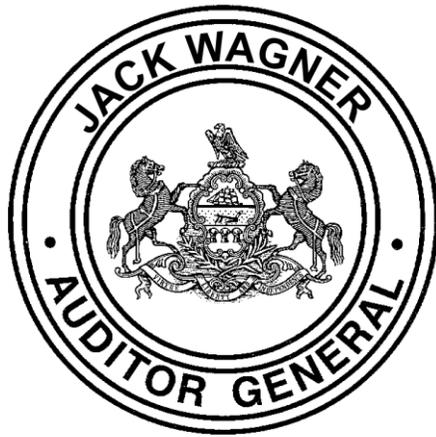
The results of our tests disclosed the following instances of noncompliance that are required to be reported under *Government Auditing Standards*:

- Documentation For Price Quotations Not Available For Examination.
- Late Receipt Of Allocations.

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

August 19, 2008

JACK WAGNER
Auditor General



TOWNSHIP OF PINE
 ARMSTRONG COUNTY
 LIQUID FUELS TAX FUND
 2005 FORM MS-965 – SECTION 1
 WITH ADJUSTMENTS

| <u>Expenditure Summary</u> | <u>Reported</u> | <u>Adjustments</u> | <u>Adjusted Amount</u> |
|---|---------------------|--------------------|----------------------------|
| Major equipment purchases | \$ 3,186.00 | \$ - | \$ 3,186.00 |
| Minor equipment purchases | 1,477.40 | - | 1,477.40 |
| Agility projects | - | - | - |
| Cleaning streets and gutters | - | - | - |
| Winter maintenance services | - | - | - |
| Traffic control devices | - | - | - |
| Street lighting | - | - | - |
| Storm sewers and drains | - | - | - |
| Repairs of tools and machinery | - | - | - |
| Maintenance and repair of roads and bridges | 12,472.64 | - | 12,472.64 |
| Highway construction and rebuilding projects | - | - | - |
| Miscellaneous | - | - | - |
| | <hr/> | <hr/> | <hr/> |
| Total (To Section 2, Line 5) | <u>\$ 17,136.04</u> | <u>\$ -</u> | <u>\$ 17,136.04</u> |

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

TOWNSHIP OF PINE
 ARMSTRONG COUNTY
 LIQUID FUELS TAX FUND
 2005 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, 2005 | \$ 16,900.05 | \$ - | \$ 16,900.05 |
| Receipts: | | | |
| 2. State allocation | 17,880.70 | - | 17,880.70 |
| 2a. Turnback allocation | - | - | - |
| 2b. Interest on investments (Note 3) | 943.23 | - | 943.23 |
| 2c. Miscellaneous (Note 4) | 2,879.19 | - | 2,879.19 |
| 3. Total receipts | <u>21,703.12</u> | <u>-</u> | <u>21,703.12</u> |
| 4. Total funds available | <u>38,603.17</u> | <u>-</u> | <u>38,603.17</u> |
| 5. Expenditures (Section 1) | <u>17,136.04</u> | <u>-</u> | <u>17,136.04</u> |
| 6. Balance, December 31, 2005 | <u><u>\$ 21,467.13</u></u> | <u><u>\$ -</u></u> | <u><u>\$ 21,467.13</u></u> |

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

TOWNSHIP OF PINE
 ARMSTRONG COUNTY
 LIQUID FUELS TAX FUND
 2005 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 | \$ 16,900.05 | \$ - | \$ 16,900.05 |
| 2. Add: Current year equipment allocation (20% of Lines 2 + 2a, Section 2) | 3,576.14 | - | 3,576.14 |
| 3. PENNDOT approved adjustments | - | - | - |
| 4. Total funds available for equipment acquisition | 20,476.19 | - | 20,476.19 |
| 5. Less: Major equipment expenditures | 3,186.00 | - | 3,186.00 |
| 6. Remainder | <u>17,290.19</u> | <u>-</u> | <u>17,290.19</u> |
| 7. Equipment balance available for subsequent year (Lesser of Line 6 or Section 2 balance, but not less than zero) | <u>\$ 17,290.19</u> | <u>\$ -</u> | <u>\$ 17,290.19</u> |

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

TOWNSHIP OF PINE
 ARMSTRONG COUNTY
 LIQUID FUELS TAX FUND
 2006 FORM MS-965 – SECTION 1
 WITH ADJUSTMENTS

| <u>Expenditure Summary</u> | <u>Reported</u> | <u>Adjustments</u> | <u>Adjusted Amount</u> |
|---|---------------------|--------------------|----------------------------|
| Major equipment purchases | \$ 3,610.80 | \$ - | \$ 3,610.80 |
| Minor equipment purchases | 10,563.04 | - | 10,563.04 |
| Agility projects | - | - | - |
| Cleaning streets and gutters | - | - | - |
| Winter maintenance services | 2,851.46 | - | 2,851.46 |
| Traffic control devices | - | - | - |
| Street lighting | - | - | - |
| Storm sewers and drains | 2,150.00 | - | 2,150.00 |
| Repairs of tools and machinery | - | - | - |
| Maintenance and repair of roads and bridges | 9,895.73 | - | 9,895.73 |
| Highway construction and rebuilding projects | - | - | - |
| Miscellaneous | - | - | - |
| | <u> </u> | <u> </u> | <u> </u> |
| Total (To Section 2, Line 5) | <u>\$ 29,071.03</u> | <u>\$ -</u> | <u>\$ 29,071.03</u> |

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

TOWNSHIP OF PINE
 ARMSTRONG COUNTY
 LIQUID FUELS TAX FUND
 2006 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, 2006 | \$ 21,467.13 | \$ - | \$ 21,467.13 |
| Receipts: | | | |
| 2. State allocation | 19,119.32 | - | 19,119.32 |
| 2a. Turnback allocation | - | - | - |
| 2b. Interest on investments (Note 3) | 627.72 | - | 627.72 |
| 2c. Miscellaneous (Note 4) | 2,879.19 | - | 2,879.19 |
| 3. Total receipts | <u>22,626.23</u> | <u>-</u> | <u>22,626.23</u> |
| 4. Total funds available | <u>44,093.36</u> | <u>-</u> | <u>44,093.36</u> |
| 5. Expenditures (Section 1) | <u>29,071.03</u> | <u>-</u> | <u>29,071.03</u> |
| 6. Balance, December 31, 2006 | <u>\$ 15,022.33</u> | <u>\$ -</u> | <u>\$ 15,022.33</u> |

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

TOWNSHIP OF PINE
 ARMSTRONG COUNTY
 LIQUID FUELS TAX FUND
 2006 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 | \$ 17,290.19 | \$ - | \$ 17,290.19 |
| 2. Add: Current year equipment allocation (20% of Lines 2 + 2a, Section 2) | 3,823.86 | - | 3,823.86 |
| 3. PENNDOT approved adjustments | - | - | - |
| 4. Total funds available for equipment acquisition | 21,114.05 | - | 21,114.05 |
| 5. Less: Major equipment expenditures | 3,610.80 | - | 3,610.80 |
| 6. Remainder | 17,503.25 | - | 17,503.25 |
| 7. Equipment balance available for subsequent year (Lesser of Line 6 or Section 2 balance, but not less than zero) | \$ 15,022.33 | \$ - | \$ 15,022.33 |

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

TOWNSHIP OF PINE
 ARMSTRONG COUNTY
 LIQUID FUELS TAX FUND
 2007 FORM MS-965 – SECTION 1
 WITH ADJUSTMENTS

| <u>Expenditure Summary</u> | <u>Reported</u> | <u>Adjustments</u> | <u>Adjusted Amount</u> |
|---|---------------------|--------------------|----------------------------|
| Major equipment purchases | \$ 3,398.40 | \$ - | \$ 3,398.40 |
| Minor equipment purchases | - | - | - |
| Agility projects | - | - | - |
| Cleaning streets and gutters | - | - | - |
| Winter maintenance services | 2,280.42 | - | 2,280.42 |
| Traffic control devices | - | - | - |
| Street lighting | - | - | - |
| Storm sewers and drains | 3,640.35 | - | 3,640.35 |
| Repairs of tools and machinery | 2,281.78 | - | 2,281.78 |
| Maintenance and repair of roads and bridges | 15,789.14 | - | 15,789.14 |
| Highway construction and rebuilding projects | - | - | - |
| Miscellaneous | - | - | - |
| | <u> </u> | <u> </u> | <u> </u> |
| Total (To Section 2, Line 5) | <u>\$ 27,390.09</u> | <u>\$ -</u> | <u>\$ 27,390.09</u> |

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

TOWNSHIP OF PINE
 ARMSTRONG COUNTY
 LIQUID FUELS TAX FUND
 2007 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, 2007 | \$ 15,022.33 | \$ - | \$ 15,022.33 |
| Receipts: | | | |
| 2. State allocation | 19,776.11 | - | 19,776.11 |
| 2a. Turnback allocation | - | - | - |
| 2b. Interest on investments (Note 3) | 626.91 | - | 626.91 |
| 2c. Miscellaneous (Note 4) | 5,046.19 | - | 5,046.19 |
| 3. Total receipts | <u>25,449.21</u> | <u>-</u> | <u>25,449.21</u> |
| 4. Total funds available | <u>40,471.54</u> | <u>-</u> | <u>40,471.54</u> |
| 5. Expenditures (Section 1) | <u>27,390.09</u> | <u>-</u> | <u>27,390.09</u> |
| 6. Balance, December 31, 2007 | <u><u>\$ 13,081.45</u></u> | <u><u>\$ -</u></u> | <u><u>\$ 13,081.45</u></u> |

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

TOWNSHIP OF PINE
 ARMSTRONG COUNTY
 LIQUID FUELS TAX FUND
 2007 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 | \$ 15,022.33 | \$ - | \$ 15,022.33 |
| 2. Add: Current year equipment allocation (20% of Lines 2 + 2a, Section 2) | 3,955.22 | - | 3,955.22 |
| 3. PENNDOT approved adjustments | <u>-</u> | <u>-</u> | <u>-</u> |
| 4. Total funds available for equipment acquisition | 18,977.55 | - | 18,977.55 |
| 5. Less: Major equipment expenditures | <u>3,398.40</u> | <u>-</u> | <u>3,398.40</u> |
| 6. Remainder | <u>15,579.15</u> | <u>-</u> | <u>15,579.15</u> |
| 7. Equipment balance available for subsequent year (Lesser of Line 6 or Section 2 balance, but not less than zero) | <u>\$ 13,081.45</u> | <u>\$ -</u> | <u>\$ 13,081.45</u> |

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

TOWNSHIP OF PINE
ARMSTRONG COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE THREE YEARS ENDED
DECEMBER 31, 2007

1. Criteria

Section 1

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

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

Section 2

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

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

Section 3

This section of Form MS-965 With Adjustments determines if the municipality expended Liquid Fuels Tax Fund money in excess of the permissible amount for equipment and the balance that the municipality may carry forward for the purchase of equipment to the subsequent year.

TOWNSHIP OF PINE
ARMSTRONG COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE THREE YEARS ENDED
DECEMBER 31, 2007

1. Criteria (Continued)

Section 3 (Continued)

Department of Transportation *Publication 9* requires that the amount expended for equipment purchases in a given year not exceed the sum of the equipment balance carried forward from the previous year and 20 percent of the current year's Liquid Fuels Tax Fund allocation and, if applicable, 20 percent of the turnback allocation plus other Department of Transportation approved adjustments.

If the municipality spent in excess of the amount listed on Line 4, the excess must be reimbursed to the Liquid Fuels Tax Fund.

The equipment balance to be carried forward for the subsequent year is the lesser of the amount on Line 6 or the ending fund balance on Line 6 of Section 2, but not less than zero.

Basis Of Presentation

The financial activities of the municipality are accounted for in separate funds. The Liquid Fuels Tax Fund is used to account for state aid revenues from the Pennsylvania Department of Transportation used primarily for building and improving local roads and bridges. The Forms MS-965 have been prepared in accordance with reporting requirements prescribed by the Pennsylvania Department of Transportation as a result of the Fuels Tax Act 655, dated 1956 and as amended, which does not constitute a complete presentation of the entity's assets, liabilities, expenses, and fund balance. Accordingly, the presentation of Forms MS-965 With Adjustments is restricted to the Liquid Fuels Tax Fund, which represents a segment of the entity.

Basis Of Accounting

The accompanying Forms MS-965 With Adjustments are prepared in accordance with reporting requirements prescribed by the Pennsylvania Department of Transportation. Under this method, revenues are recognized when received and expenditures are recorded when paid.

TOWNSHIP OF PINE
ARMSTRONG COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE THREE YEARS ENDED
DECEMBER 31, 2007

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, 2007. Custodial credit risk, as defined by GASB No. 40, includes deposits that are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the municipality's name.

TOWNSHIP OF PINE
 ARMSTRONG COUNTY
 LIQUID FUELS TAX FUND
 NOTES TO FORMS MS-965 WITH ADJUSTMENTS
 FOR THE THREE YEARS ENDED
 DECEMBER 31, 2007

2. Deposits (Continued)

Fund Balance

The fund balance as of December 31, 2007 consists of the following:

| | |
|------------------------|--------------------|
| Cash | \$ 448.80 |
| Certificate of deposit | <u>12,632.65</u> |
| Total | <u>\$13,081.45</u> |

3. Interest On Investments

Our examination disclosed that the municipality deposited idle liquid fuels tax money in an interest-bearing account and a certificate of deposit which earned \$943.23 during 2005, \$627.72 during 2006, and \$626.91 during 2007, thus providing additional funds for road maintenance and repairs.

4. 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>2005</u> | <u>2006</u> | <u>2007</u> |
|---------------|----------------------------------|-------------------|-------------------|-------------------|
| General Fund | Reimbursement (Comment No. 1) | \$2,879.19 | \$2,879.19 | \$2,879.19 |
| General Fund | Reimbursement (Comment No. 2) | - | - | <u>2,167.00</u> |
| Totals | | <u>\$2,879.19</u> | <u>\$2,879.19</u> | <u>\$5,046.19</u> |

TOWNSHIP OF PINE
ARMSTRONG COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE THREE YEARS ENDED
DECEMBER 31, 2007

5. Bank Loan

On August 2, 2002, the municipality borrowed \$40,000.00 from Elderton State Bank to purchase a dump truck. The term of the loan was for 10 years at an interest rate of 5 percent. Principal and interest payments of \$424.80 are due monthly. Prior years' principal and interest payments from the General Fund are \$16,734.80 and \$3,433.04, respectively.

During the current examination period the municipality paid principal of \$8,571.50 and interest of \$1,623.70 from the Liquid Fuels Tax Fund. These amounts are reflected in major equipment purchases on the 2005, 2006, and 2007 Forms MS-965 – Section 1. Additionally, the municipality paid principal of \$5,946.56 and interest of \$850.24 from the General Fund. The outstanding balance of the loan as of December 31, 2007 was \$8,747.14, plus interest.

TOWNSHIP OF PINE
 ARMSTRONG COUNTY
 LIQUID FUELS TAX FUND
 FINDINGS AND RECOMMENDATIONS
 FOR THE THREE YEARS ENDED
 DECEMBER 31, 2007

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

Our examination disclosed inadequate internal controls over fuel purchases and usage as follows:

- There were no records for the dispensation of fuel purchases totaling \$5,275.10.
- Of the \$5,275.10 expended from the Liquid Fuels Tax Fun, \$3,477.81 was used in vehicles that were not for Liquid Fuels Tax Fund purposes.
- Invoice No. 46839 for \$313.84 which was paid on December 31, 2006, was a duplicate payment for diesel fuel purchased.

The fuel expenditures are as follows:

| <u>Year</u> | <u>Gasoline</u> | <u>Diesel</u> | <u>Total</u> |
|-------------------|-------------------|-------------------|-------------------|
| 2005 | \$ 859.20 | \$ 978.59 | \$1,837.79 |
| 2006 | 1,384.09 | 504.86 | 1,888.95 |
| 2007 | 1,234.52 | - | 1,234.52 |
| Total | <u>3,477.81</u> | <u>1,483.45</u> | <u>4,961.26</u> |
| Duplicate payment | <u>-</u> | <u>313.84</u> | <u>313.84</u> |
| Total | <u>\$3,477.81</u> | <u>\$1,797.29</u> | <u>\$5,275.10</u> |

To ensure good internal control of fuel purchases and usage, the municipality should maintain records listing the following information:

- Date.
- Number of gallons pumped.
- License number or identity of the vehicle.

TOWNSHIP OF PINE
ARMSTRONG COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE THREE YEARS ENDED
DECEMBER 31, 2007

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

- Intended use.
- Signature of the operator.

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

The Department of Transportation has been statutorily authorized to promulgate regulations concerning the administration of Liquid Fuels Tax Fund money and has determined that certain items, including the purchase of fuel for nonpermissible Liquid Fuels Tax Fund use, are outside the scope of permissible expenditures.

Furthermore, although the money for the duplicate payment of an invoice should be reimbursed to the Liquid Fuels Tax Fund, the primary concern is the inadequate internal controls which enabled the duplicate payment of \$313.84 to remain undetected.

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.

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 \$5,275.10 to its Liquid Fuels Tax Fund.

Recommendations

We recommend that the municipality reimburse \$5,275.10 to its Liquid Fuels Tax Fund upon official notification by the Department of Transportation.

TOWNSHIP OF PINE
ARMSTRONG COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE THREE YEARS ENDED
DECEMBER 31, 2007

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

Recommendations (Continued)

We also recommend that, in the future, the municipality prepare detailed fuel usage reports to ensure good internal controls over fuel purchases and usage, comply with the Department of Transportation's Regulations as noted in this finding, and establish and implement internal controls to ensure vendor invoices are reviewed timely to avoid duplicate payments.

Management's Response

The municipal officials stated:

In regards to Finding No.1 and Finding No. 2 presented in this report, our township respectfully requests that PENNDOT waives the findings because it will create an undue financial hardship to the Township of Pine. Our township is currently in the process of satisfying prior audit questioned costs.

Auditor's Conclusion

The Department of Transportation will determine if the municipality should reimburse any or all of the \$5,275.10 to its Liquid Fuels Tax Fund.

TOWNSHIP OF PINE
ARMSTRONG COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE THREE YEARS ENDED
DECEMBER 31, 2007

Finding No. 2 - Documentation For Price Quotations Was Not Available For Examination

Our examination disclosed that the township expended \$5,375.00 for the replacement of road drainage pipes. This amount consists of \$3,225.00 from the General Fund and \$2,150.00 from the Liquid Fuels Tax Fund. However, documentation for price quotations was not available for examination.

The above purchases were not 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.

In addition, the above purchases were not made in compliance with the Department of Transportation's *Publication 9*, Appendix D, Section 449.7(d), which states, in part:

...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 and \$10,000 and three price quotes 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 and \$10,000 as specified above.

TOWNSHIP OF PINE
ARMSTRONG COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE THREE YEARS ENDED
DECEMBER 31, 2007

Finding No. 2 - Documentation For Price Quotations Was Not Available For Examination
(Continued)

The failure to comply with *The Second Class Township Code* and the Department of Transportation's *Publication 9* could result in the township having to reimburse \$2,150.00 to its Liquid Fuels Tax Fund.

Recommendations

We recommend that the township reimburse \$2,150.00 to its Liquid Fuels Tax Fund upon official notification by the Department of Transportation.

We further recommend that, in the future, the township comply with *The Second Class Township Code* and the Department of Transportation's *Publication 9* as noted in this finding.

Management's Response

The municipal officials stated:

In regards to Finding No. 1 and Finding No. 2 presented in this report, our township respectfully requests that PENNDOT waives the findings because it will create an undue financial hardship to the Township of Pine. Our township is currently in the process of satisfying prior audit questioned costs.

Auditor's Conclusion

The Department of Transportation will determine if the township should reimburse any or all of the \$2,150.00 to its Liquid Fuels Tax Fund.

TOWNSHIP OF PINE
ARMSTRONG COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE THREE YEARS ENDED
DECEMBER 31, 2007

Finding No. 3 - Late Receipt Of Allocations

Our examination disclosed that the 2005 and 2007 Liquid Fuels Tax Fund allocations, which should have been distributed during the first week of April of each year, were not received until May 9, 2005, and May 21, 2007, respectively, because the municipality failed to comply with the Department of Transportation's Regulation 449.12, which requires the timely filing of particular documents and information, among them:

- Evidence that its treasurer is bonded in accordance with the law or that its treasurer is a bank requiring no bond.
- A report indicating the manner in which its Liquid Fuels Tax Fund was expended in the preceding year.
- Survey of financial condition.
- Roster of municipal officials.

Because the municipality failed to file documents and information timely as noted above, the municipality did not have use of these allocations for more than one month in 2005 and 2007. Furthermore, had the allocations been received timely, money may have been available for investment purposes, potentially earning interest income which could have been used for road maintenance and repairs.

Recommendation

We recommend that, in the future, the municipality comply with the Department of Transportation's Regulation 449.12 to ensure that the allocations are received during the first week in April as outlined above.

Management's Response

The township officials offered no formal response at this time.

TOWNSHIP OF PINE
 ARMSTRONG COUNTY
 LIQUID FUELS TAX FUND
 COMMENTS
 FOR THE THREE YEARS ENDED
 DECEMBER 31, 2007

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

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

During our current examination we reviewed a letter from the Department of Transportation dated April 7, 2005 that informed the township that the reimbursement of \$11,516.75 would be required. This amount consists of \$7,246.35 of the \$24,154.50 and \$4,270.40 of the \$4,700.40. The Department of Transportation approved a payment plan for the township to reimburse its Liquid Fuels Tax Fund as follows:

| <u>Due Date</u> | <u>Amount</u> | <u>Date Reimbursed</u> |
|-----------------|--------------------|------------------------|
| 06/30/05 | \$ 2,879.19 | 04/30/05 |
| 06/30/06 | 2,879.19 | 06/05/06 |
| 06/30/07 | 2,879.19 | 05/06/07 |
| 06/30/08 | <u>2,879.18</u> | - |
| Total | <u>\$11,516.75</u> | |

As of December 31, 2007 \$2,879.19 was due to the Liquid Fuels Tax Fund.

TOWNSHIP OF PINE
 ARMSTRONG COUNTY
 LIQUID FUELS TAX FUND
 COMMENTS
 FOR THE THREE YEARS ENDED
 DECEMBER 31, 2007

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

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

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

| <u>Due Date</u> | <u>Amount</u> | <u>Date Reimbursed</u> |
|-----------------|-------------------|------------------------|
| 12/31/07 | \$2,167.00 | 05/06/07 |
| 12/31/08 | 2,167.00 | - |
| 12/31/09 | <u>2,166.00</u> | - |
| Total | <u>\$6,500.00</u> | |

As of December 31, 2007, \$4,333.00 was due to the Liquid Fuels Tax Fund.

In our 2003-2004 report we also recommended that the township ensure good internal controls over expenditures by maintaining invoices to support all expenditures.

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

TOWNSHIP OF PINE
ARMSTRONG COUNTY
LIQUID FUELS TAX FUND
SUMMARY OF EXIT CONFERENCE
FOR THE THREE YEARS ENDED
DECEMBER 31, 2007

An exit conference was held August 19, 2008. Those participating were:

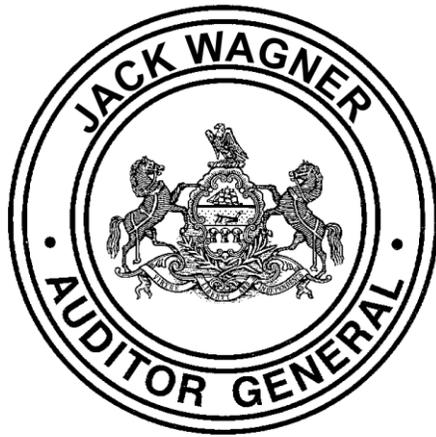
TOWNSHIP OF PINE

Miss Stephanie Ann Reedy, Secretary/Treasurer

DEPARTMENT OF THE AUDITOR GENERAL

Mr. Robert D. Conterno, Auditor

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



TOWNSHIP OF PINE
ARMSTRONG COUNTY
LIQUID FUELS TAX FUND
REPORT DISTRIBUTION
FOR THE THREE YEARS ENDED
DECEMBER 31, 2007

This report was initially distributed to:

The Honorable Allen D. Biehler, P.E.
Secretary
Department of Transportation

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

| | |
|---------------------------------------|--------------------------------------|
| The Honorable David Kammerdiener, Jr. | Chairman of the Board of Supervisors |
| Miss Stephanie Ann Reedy | Secretary/Treasurer |

This report is a matter of public record. Copies of this report may be obtained from the Pennsylvania Department of the Auditor General, Office of Communications, 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.