



TOWNSHIP OF POLK  
JEFFERSON COUNTY  
33-214

LIQUID FUELS TAX FUND  
EXAMINATION REPORT

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

**COMMONWEALTH OF PENNSYLVANIA**

**EUGENE A. DEPASQUALE - AUDITOR GENERAL**

**DEPARTMENT OF THE AUDITOR GENERAL**



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

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States. An examination includes examining, on a test basis, evidence supporting the Township of Polk, Jefferson County's Forms MS-965 for the period January 1, 2010 to December 31, 2012 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. 2, the township expended \$3,349.00 during 2011 for equipment rental from a company owned by a township supervisor. Additionally, as discussed in Finding No. 3, the township expended \$2,764.96 for loan payments on a truck that was purchased in noncompliance with the COSTARS purchasing agreement.

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

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

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

Independent Auditor's Report (Continued)

A material weakness is a significant deficiency or combination of significant deficiencies that results in more than a remote likelihood that a material misstatement of the Forms MS-965 will not be prevented or detected by the Township of Polk, Jefferson 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 described 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*:

- Nonpermissible Expenditures.
- Related Party Transactions.
- Noncompliance With COSTARS Purchasing Agreement.

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.

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



**EUGENE A. DEPASQUALE**  
Auditor General

April 8, 2013

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

Background

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

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

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

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

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

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

TOWNSHIP OF POLK  
JEFFERSON 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	\$ 16,646.00	\$ (5,270.00)	\$ 11,376.00
Minor equipment purchases	3,657.68	5,270.00	8,927.68
Computer/Computer related training	-	-	-
Agility projects	-	-	-
Cleaning streets and gutters	-	-	-
Winter maintenance services	2,815.99	-	2,815.99
Traffic control devices	438.31	-	438.31
Street lighting	-	-	-
Storm sewers and drains	6.79	-	6.79
Repairs of tools and machinery	15,418.15	-	15,418.15
Maintenance and repair of roads and bridges	48,442.16	571.39	49,013.55
Highway construction and rebuilding projects	-	-	-
Miscellaneous	571.39	(571.39)	-
	<u>571.39</u>	<u>(571.39)</u>	<u>-</u>
Total (To Section 2, Line 5)	<u>\$ 87,996.47</u>	<u>\$ -</u>	<u>\$ 87,996.47</u>

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

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

<u>Fund Balance</u>	<u>Reported</u>	<u>Adjustments</u>	<u>Adjusted Amount</u>
1. Balance, January 1, 2010	\$ 28,146.24	\$ -	\$ 28,146.24
Receipts:			
2. State allocation	41,258.14	-	41,258.14
2a. Turnback allocation	-	-	-
2b. Interest on investments (Note 3)	22.33	-	22.33
2c. Miscellaneous (Note 5)	31,212.76	-	31,212.76
3. Total receipts	<u>72,493.23</u>	<u>-</u>	<u>72,493.23</u>
4. Total funds available	<u>100,639.47</u>	<u>-</u>	<u>100,639.47</u>
5. Expenditures (Section 1)	<u>87,996.47</u>	<u>-</u>	<u>87,996.47</u>
6. Balance, December 31, 2010	<u><u>\$ 12,643.00</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 12,643.00</u></u>

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



TOWNSHIP OF POLK  
JEFFERSON 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	\$ 12,392.07	\$ -	\$ 12,392.07
2. Add: Current year equipment allocation (20% of Lines 2 + 2a, Section 2)	8,251.63	-	8,251.63
3. PENNDOT approved adjustments	<u>17,806.00</u>	<u>(6,430.00)</u>	<u>11,376.00</u>
4. Total funds available for equipment acquisition	38,449.70	(6,430.00)	32,019.70
5. Less: Major equipment expenditures	<u>16,646.00</u>	<u>(5,270.00)</u>	<u>11,376.00</u>
6. Remainder	<u><u>21,803.70</u></u>	<u><u>(1,160.00)</u></u>	<u><u>20,643.70</u></u>
7. Equipment balance available for subsequent year (Lesser of Line 6 or Section 2 balance, but not less than zero)	<u><u>\$ 12,643.00</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 12,643.00</u></u>

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

TOWNSHIP OF POLK  
JEFFERSON COUNTY  
LIQUID FUELS TAX FUND  
2011 FORM MS-965 – SECTION 1  
WITH ADJUSTMENTS

<u>Expenditure Summary</u>	<u>Reported</u>	<u>Adjustments (Note 4)</u>	<u>Adjusted Amount</u>
Major equipment purchases	\$ -	\$ -	\$ -
Minor equipment purchases	5,022.17	-	5,022.17
Computer/Computer related training	-	-	-
Agility projects	-	-	-
Cleaning streets and gutters	-	-	-
Winter maintenance services	2,047.33	-	2,047.33
Traffic control devices	295.13	-	295.13
Street lighting	-	-	-
Storm sewers and drains	-	-	-
Repairs of tools and machinery	14,936.93	-	14,936.93
Maintenance and repair of roads and bridges	34,548.81	2,424.59	36,973.40
Highway construction and rebuilding projects	-	-	-
Miscellaneous	2,424.59	(2,424.59)	-
	<u>59,274.96</u>	<u>(2,424.59)</u>	<u>-</u>
Total (To Section 2, Line 5)	<u>\$ 59,274.96</u>	<u>\$ -</u>	<u>\$ 59,274.96</u>

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

TOWNSHIP OF POLK  
JEFFERSON COUNTY  
LIQUID FUELS TAX FUND  
2011 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, 2011	\$ 12,643.00	\$ -	\$ 12,643.00
Receipts:			
2. State allocation	42,206.92	-	42,206.92
2a. Turnback allocation	-	-	-
2b. Interest on investments (Note 3)	6.07	-	6.07
2c. Miscellaneous (Note 5)	<u>6,381.50</u>	<u>-</u>	<u>6,381.50</u>
3. Total receipts	<u>48,594.49</u>	<u>-</u>	<u>48,594.49</u>
4. Total funds available	<u>61,237.49</u>	<u>-</u>	<u>61,237.49</u>
5. Expenditures (Section 1)	<u>59,274.96</u>	<u>-</u>	<u>59,274.96</u>
6. Balance, December 31, 2011	<u>\$ 1,962.53</u>	<u>\$ -</u>	<u>\$ 1,962.53</u>

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

TOWNSHIP OF POLK  
JEFFERSON COUNTY  
LIQUID FUELS TAX FUND  
2011 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	\$ 11,951.62	\$ 691.38	\$ 12,643.00
2. Add: Current year equipment allocation (20% of Lines 2 + 2a, Section 2)	8,441.38	-	8,441.38
3. PENNDOT approved adjustments	-	-	-
4. Total funds available for equipment acquisition	20,393.00	691.38	21,084.38
5. Less: Major equipment expenditures	-	-	-
6. Remainder	<u>20,393.00</u>	<u>691.38</u>	<u>21,084.38</u>
7. Equipment balance available for subsequent year (Lesser of Line 6 or Section 2 balance, but not less than zero)	<u>\$ 1,962.53</u>	<u>\$ -</u>	<u>\$ 1,962.53</u>

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

TOWNSHIP OF POLK  
JEFFERSON COUNTY  
LIQUID FUELS TAX FUND  
2012 FORM MS-965 – SECTION 1  
WITH ADJUSTMENTS

<u>Expenditure Summary</u>	<u>Reported</u>	<u>Adjustments (Note 4)</u>	<u>Adjusted Amount</u>
Major equipment purchases	\$ -	\$ 8,339.33	\$ 8,339.33
Minor equipment purchases	8,345.46	(7,840.92)	504.54
Computer/Computer related training	-	-	-
Agility projects	498.41	(498.41)	-
Cleaning streets and gutters	-	-	-
Winter maintenance services	1,074.07	-	1,074.07
Traffic control devices	-	-	-
Street lighting	-	-	-
Storm sewers and drains	140.84	-	140.84
Repairs of tools and machinery	13,627.04	-	13,627.04
Maintenance and repair of roads and bridges	70,424.77	2,452.83	72,877.60
Highway construction and rebuilding projects	-	-	-
Miscellaneous (Note 9)	4,802.83	(2,452.83)	2,350.00
 Total (To Section 2, Line 5)	 <u>\$ 98,913.42</u>	 <u>\$ -</u>	 <u>\$ 98,913.42</u>

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

TOWNSHIP OF POLK  
JEFFERSON COUNTY  
LIQUID FUELS TAX FUND  
2012 FORM MS-965 – SECTION 2  
WITH ADJUSTMENTS

<u>Fund Balance</u>	<u>Reported</u>	<u>Adjustments</u>	<u>Adjusted Amount</u>
1. Balance, January 1, 2012	\$ 1,962.53	\$ -	\$ 1,962.53
Receipts:			
2. State allocation	43,062.17	-	43,062.17
2a. Turnback allocation	-	-	-
2b. Interest on investments (Note 3)	3.21	-	3.21
2c. Miscellaneous (Note 5)	<u>56,197.75</u>	<u>-</u>	<u>56,197.75</u>
3. Total receipts	<u>99,263.13</u>	<u>-</u>	<u>99,263.13</u>
4. Total funds available	<u>101,225.66</u>	<u>-</u>	<u>101,225.66</u>
5. Expenditures (Section 1)	<u>98,913.42</u>	<u>-</u>	<u>98,913.42</u>
6. Balance, December 31, 2012	<u><u>\$ 2,312.24</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 2,312.24</u></u>

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

TOWNSHIP OF POLK  
JEFFERSON COUNTY  
LIQUID FUELS TAX FUND  
2012 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	\$ 1,962.53	\$ -	\$ 1,962.53
2. Add: Current year equipment allocation (20% of Lines 2 + 2a, Section 2)	8,612.43	-	8,612.43
3. PENNDOT approved adjustments	<u>2,579.00</u>	<u>(79.00)</u>	<u>2,500.00</u>
4. Total funds available for equipment acquisition	13,153.96	(79.00)	13,074.96
5. Less: Major equipment expenditures	<u>-</u>	<u>8,339.33</u>	<u>8,339.33</u>
6. Remainder	<u>13,153.96</u>	<u>(8,418.33)</u>	<u>4,735.63</u>
7. Equipment balance available for subsequent year (Lesser of Line 6 or Section 2 balance, but not less than zero)	<u>\$ 2,312.24</u>	<u>\$ -</u>	<u>\$ 2,312.24</u>

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

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

1. Criteria

Section 1

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

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

Section 2

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

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



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

1. Criteria (Continued)

Section 3

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

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

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

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

Basis Of Presentation

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

Basis Of Accounting

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

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

1. Criteria (Continued)

General Fixed Assets

General fixed assets are recognized as expenditures at the time of purchase. No depreciation has been provided on the heavy equipment used to maintain and repair roads and bridges.

2. Deposits

*The Second Class Township Code*, Title 53 P.S. § 68204, authorizes the township to deposit its funds in the following:

- Deposits in savings accounts or time deposits, other than certificates of deposit or share accounts of institutions having their principal place of business in the Commonwealth of Pennsylvania and insured by the Federal Deposit Insurance Corporation (FDIC) or other like insurance. For any amount above the insured maximum, the depository shall pledge approved collateral.
- Certificates of deposit purchased from institutions insured by the FDIC or other like insurance to the extent that such accounts are so insured. For any amounts in excess of the insured maximum, such deposits shall be collateralized by a pledge or assignment of assets. Certificates of deposit may not exceed 20 percent of a bank's total capital surplus or 20 percent of a savings and loan's or savings bank's assets minus liabilities.

Deposits consist of receipts and deposits in 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, 2012. Custodial credit risk, as defined by GASB No. 40, includes deposits that are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the municipality's name.

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

2. Deposits (Continued)

Fund Balance

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

Cash	\$2,312.24
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3. Interest On Investments

Our examination disclosed that the municipality deposited idle liquid fuels tax money in an interest-bearing account which earned \$22.33 during 2010, \$6.07 during 2011, and \$3.21 during 2012, thus providing additional funds for road maintenance and repairs.

4. Adjustments

2010 - Section 1

Adjustments were made to “Major equipment purchases” and “Minor equipment purchases” because expenditures of \$5,270.00 were misclassified.

Adjustments were made to “Maintenance and repair of roads and bridges” and “Miscellaneous” because expenditures of \$571.39 were misclassified.

2010 - Section 3

An adjustment of \$(6,430.00) was made to “PENNDOT approved adjustments” because approved adjustments were overstated.

An adjustment of \$(5,270.00) was made to “Major equipment expenditures” to reflect the adjustment made to major equipment purchases in 2010 - Section 1.

2011 - Section 1

Adjustments were made to “Maintenance and repair of roads and bridges” and “Miscellaneous” because expenditures of \$2,424.59 were misclassified.

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

4. Adjustments (Continued)

2011 - Section 3

An adjustment of \$691.38 was made to “Prior year equipment balance” because an incorrect equipment balance was carried forward.

2012 - Section 1

Adjustments were made to “Major equipment purchases,” “Minor equipment purchases,” and “Agility projects” because expenditures of \$8,339.33 were misclassified.

Adjustments were made to “Maintenance and repair of roads and bridges” and “Miscellaneous” because expenditures of \$2,452.83 were misclassified.

2012 - Section 3

An adjustment of \$(79.00) was made to “PENNDOT approved adjustments” because approved adjustments were overstated.

An adjustment of \$8,339.33 was made to “Major equipment expenditures” to reflect the adjustment made to major equipment purchases in 2012 - Section 1.

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

5. Miscellaneous Receipts

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

Source	Description	2010	2011	2012
Equipment account	Reimbursement for York rake	\$ 3,535.00	\$ -	\$ -
General Fund	Reimbursement for wages	951.76	-	229.00
Equipment account	Reimbursement for grader blade	2,895.00	-	-
Equipment account	Reimbursement for truck	11,376.00	-	2,500.00
Jefferson County	Dirt and gravel road grant	12,455.00	-	-
Jefferson County	Dirt and gravel road grant (Finding No. 1)	-	-	40,318.75
General Fund	Reimbursement for payment in error (Note 9)	-	-	2,350.00
Equipment Fund	Reimbursement for leaf machine	-	2,881.50	-
General Fund	Grants	-	3,500.00	10,800.00
Totals		\$31,212.76	\$6,381.50	\$56,197.75

6. Lease-Purchase Agreement

On November 11, 2008, the municipality entered into a lease-purchase agreement with Ford Motor Credit Company to purchase a Ford F-350 truck for \$44,462.00. The municipality made a down payment from the General Fund of \$15,000.00, leaving \$29,462.00 to be financed. The agreement was for a term of four years at an interest rate of 5.95 percent. Principal and interest payments of \$691.24 are due monthly. Because the truck was purchased in noncompliance with the COSTARS purchasing agreement, payments are not permitted to be made from the Liquid Fuels Tax Fund (Finding No. 3). Prior years' principal and interest payments from the General Fund were \$7,301.77 and \$1,684.35, respectively.

During the current examination period the municipality paid principal of \$2,694.28 and interest of \$70.68 from the Liquid Fuels Tax Fund. These amounts are reflected in major equipment purchases on the 2012 Form MS-965 - Section 1. Additionally, the municipality paid principal of \$19,465.95 and interest of \$1,962.49 from the General Fund. The lease-purchase agreement was paid-in-full on October 15, 2012.

TOWNSHIP OF POLK  
JEFFERSON COUNTY  
LIQUID FUELS TAX FUND  
NOTES TO FORMS MS-965 WITH ADJUSTMENTS  
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7. Bank Loan

On October 1, 2010, the municipality purchased a 2000 International truck for \$20,950.00. The municipality made a down payment of \$5,816.00 from the General Fund. The municipality borrowed the balance of \$15,134.00 from S&T Bank. The term of the loan was for five years at an interest rate of 5.15 percent.

During the current examination period the municipality paid principal of \$235.90 and interest of \$51.84 from the Liquid Fuels Tax Fund. These amounts are reflected in major equipment purchases on the 2012 Form MS-965 - Section 1. Additionally, the municipality paid principal of \$3,406.77 and interest of \$909.33 from the General Fund. On February 17, 2012, the municipality refinanced the remaining balance of \$11,494.58, which consisted of principal of \$11,491.33 and interest of \$3.25 (Note 8).

8. Bank Loan

On February 17, 2012, the municipality borrowed \$26,994.58 from S&T Bank to purchase a used roller for \$15,500.00 and to refinance the balance of \$11,494.58 from an existing loan (Note 7). The term of the loan was for five years at an interest rate of 4.35 percent. Principal and interest payments of \$498.41 are due monthly.

During the current examination period the municipality paid principal of \$2,225.05, interest of \$461.58, and an application fee of \$100.00 from the Liquid Fuels Tax Fund. These amounts are reflected in major equipment purchases on the 2012 Form MS-965 - Section 1. Additionally, the municipality paid principal of \$2,044.69 and interest of \$447.36 from the General Fund. The outstanding balance of the loan as of December 31, 2012 was \$22,724.84, plus interest.

9. Payment In Error

On August 15, 2012, the municipality expended \$2,350.00 from its Liquid Fuels Tax Fund for an annual CPA audit in error. On August 22, 2012, the municipality transferred \$2,350.00 from its General Fund to its Liquid Fuels Tax Fund to correct the payment in error.

TOWNSHIP OF POLK  
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FINDINGS AND RECOMMENDATIONS  
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Finding No. 1 - Nonpermissible Expenditures

Our examination disclosed that the municipality expended \$25,725.00 on May 1, 2012, from the Liquid Fuels Tax Fund for the purchase of shale, which is a nonpermissible expenditure.

Stone approved by the Department of Transportation are listed in the Department of Transportation Specifications *Publication 408*, Section 703.2. Shale is not approved for use by municipalities in *Publication 408*.

The municipality deposited dirt and gravel road grant money of \$40,318.75 into its Liquid Fuels Tax Fund that was received from Jefferson County for the reimbursement of dirt and gravel road expenditures.

Recommendation

We recommend that, in the future, the municipality purchase stone that is approved by the Department of Transportation.

Management's Response

The secretary/treasurer stated:

Dirt and gravel road monies were deposited to offset this.

Auditor's Conclusion

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

TOWNSHIP OF POLK  
JEFFERSON COUNTY  
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Finding No. 2 - Related Party Transactions

Our examination disclosed that the township expended \$3,349.00 during 2011 from the Liquid Fuels Tax Fund for equipment rental. Because the equipment was rented from a company owned by a township supervisor, the contract was required to be bid using the public bid process. The public bid process requires the township to advertise for sealed bids to be opened at a public meeting. However, the advertisement did not request sealed bids nor did the township receive them. Due to the supervisor's financial interest in the company and the lack of an open and public award process, the contracts appear to violate *The Second Class Township Code* and The Public Official and Employee Ethics Act. Therefore, it 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.



TOWNSHIP OF POLK  
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Finding No. 2 - Related Party Transactions (Continued)

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

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 \$3,349.00 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.

Recommendations

We recommend that the township reimburse \$3,349.00 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 Ethics Act.

Management’s Response

The secretary/treasurer stated:

The supervisor’s equipment was larger in size, would use less wages and was already insured.

TOWNSHIP OF POLK  
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LIQUID FUELS TAX FUND  
FINDINGS AND RECOMMENDATIONS  
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Finding No. 2 - Related Party Transactions (Continued)

Auditor's Conclusion

*The Second Class Township Code* and the Ethics Act require purchases of \$500.00 from a related party to be awarded through the public bid process. The township did not advertise for bids for the equipment rental. During our next examination we will determine if the municipality complied with our recommendations.

TOWNSHIP OF POLK  
JEFFERSON COUNTY  
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Finding No. 3 - Noncompliance With COSTARS Purchasing Agreement

Our examination disclosed that on November 11, 2008, the township purchased a Ford F-350 dump truck for \$44,462.00. The township made a down payment of \$15,000.00 from its General Fund and borrowed the remaining \$29,462.00 from Ford Motor Credit Corporation (Note 6). During 2012, the township made loan payments of \$2,764.96 from its Liquid Fuels Tax Fund. The truck was purchased from an approved COSTARS supplier at the COSTARS contracted prices. However, the township was not a member of COSTARS (COSTARS is a program run by the Department of General Services that permits local government entities to obtain lower prices by purchasing from a state contract).

Municipalities must register on-line with the Department of General Services to be eligible to make purchases from a COSTARS contract. Additionally, contractors agree to sell items or services under this contract to registered COSTARS members. The contractors are not permitted to use the COSTARS contract to sell to non-COSTARS members.

Because the township was not a member of COSTARS, the above purchase was not made in compliance with the advertising, bidding, and contract requirements of *The Second Class Township Code*, 53 P.S. § 68102(a), (also found at § 3102(a) of *The Second Class Township Code* as published by the Local Government Commission), which requires that purchases over \$10,000.00 must be advertised, bid, and awarded by contract. *The Second Class Township Code*, 53 P.S. § 68104(a), (also found at § 3104(a) of *The Second Class Township Code* as published by the Local Government Commission) further states that advertising, bidding and contract requirements should not be evaded through piecemeal purchases.

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

Each municipality shall make an annual estimate of its requirements of road construction and maintenance materials, and shall advertise for bids on all items and groups of like items ordinarily supplied by a single supplier . . . which are estimated to exceed \$10,000 for the year . . . . If the cost during the year of an unadvertised item or group of like items ordinarily supplied by a single supplier exceeds \$10,000 . . . the entire cost shall be ineligible for payment from the Liquid Fuels Tax Fund unless it can be shown to the satisfaction of the Secretary [of the Department of Transportation] that it was reasonably believed that the cost of the year's requirements of that item or group of like items would not exceed \$10,000 . . .

TOWNSHIP OF POLK  
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Finding No. 3 - Noncompliance With COSTARS Purchasing Agreement (Continued)

The failure to comply with the COSTARS purchasing agreement, *The Second Class Township Code*, and the Department of Transportation's *Publication 9* could result in the township having to reimburse \$2,764.96 to its Liquid Fuels Tax Fund.

Recommendations

We recommend that the township reimburse \$2,764.96 to its Liquid Fuels Tax Fund upon official notification by the Department of Transportation.

We further recommend that the township register with the Department of General Services to become a COSTARS member if it chooses to make purchases from COSTARS contracts.

Additionally, we recommend that, in the future, the township comply with *The Second Class Township Code* and the Department of Transportation's *Publication 9*. The threshold for advertising and bidding increased to purchases over \$18,500.00 for 2012 and subsequent years.

Management's Response

The secretary/treasurer stated:

No comment. We were not in office at the time of the purchase.

Auditor's Conclusion

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

TOWNSHIP OF POLK  
JEFFERSON COUNTY  
LIQUID FUELS TAX FUND  
FINDINGS AND RECOMMENDATIONS  
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Finding No. 4 - Late Receipt Of Allocation

Our examination disclosed that the 2012 Liquid Fuels Tax Fund allocation of \$43,062.17, 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 May 1, 2012 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 31<sup>st</sup> and the Survey of Financial Condition by March 15<sup>th</sup>.
- 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 2012 allocation for one month. 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.

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.

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

Management's Response

The secretary/treasurer stated:

We are in agreement.

Auditor's Conclusion

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

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

Comment - Summary Of Prior Examination Recommendations

In our prior report we recommended that the Department of Transportation review our examination finding to determine if the municipality should reimburse \$7,000.00 to its Liquid Fuels Tax Fund for monies improperly expended on a project.

During our current examination we reviewed a letter dated April 17, 2012, from the Department of Transportation informing the municipality that this reimbursement would not be required.

In our prior report we also recommended that the municipality expend no liquid fuels tax funds for construction projects without prior approval of the Department of Transportation.

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

In our prior report we also recommended that the municipality ensure that its Forms MS-965 are complete and accurate.

Our current examination found that the municipality substantially complied with our prior examination recommendation. Insignificant instances of noncompliance were verbally communicated to the municipality.

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

An exit conference was held April 8, 2013. Those participating were:

TOWNSHIP OF POLK

Ms. Barbara D. Davis, 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 POLK  
JEFFERSON COUNTY  
LIQUID FUELS TAX FUND  
REPORT DISTRIBUTION  
FOR THE PERIOD  
JANUARY 1, 2010 TO DECEMBER 31, 2012

This report was initially distributed to:

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

Mr. Robert P. Caruso  
Executive Director  
State Ethics Commission

Township of Polk  
Jefferson County  
11382 Richardsville Road  
Brookville, PA 15825

The Honorable John Lee

Chairman of the Board of Supervisors

Ms. Barbara D. Davis

Secretary/Treasurer

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