



TOWNSHIP OF BRADYS BEND
ARMSTRONG COUNTY
03-203

LIQUID FUELS TAX FUND
EXAMINATION REPORT

FOR THE TWO YEARS ENDED
DECEMBER 31, 2009

CONTENTS

	<u>Page</u>
Background.....	1
Independent Auditor's Report.....	3
Financial Section:	
2008 Form MS-965 With Adjustments	9
2009 Form MS-965 With Adjustments	12
Notes To Forms MS-965 With Adjustments.....	15
Findings And Recommendations:	
Finding No. 1 - Documentation Supporting Expenditures Was Not Available For Examination.....	21
Finding No. 2 - Purchases Over \$10,000.00 In Noncompliance With Advertising And Bidding Requirements	23
Finding No. 3 - Documentation For Price Quotations Was Not Available For Examination.....	25
Finding No. 4 - Liquid Fuels Money Deposited Into The General Fund	27
Finding No. 5 - Late Receipt Of Allocations.....	29
Comments	31
Summary Of Exit Conference.....	32
Report Distribution	33

TOWNSHIP OF BRADYS BEND
ARMSTRONG COUNTY
LIQUID FUELS TAX FUND
BACKGROUND
FOR THE TWO YEARS ENDED
DECEMBER 31, 2009

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 Bradys Bend, Armstrong County, for the two years ended December 31, 2009. 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 Bradys Bend, Armstrong County's Forms MS-965 for the two years ended December 31, 2009 and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

We are mandated by Section 403 of *The Fiscal Code*, 72 P.S. § 403, to audit each municipality's Liquid Fuels Tax Fund to ensure that funds received are expended in accordance with applicable laws and regulations. *Government Auditing Standards* issued by the Comptroller General of the United States include attestation engagements as a separate type of audit. An attestation engagement performed pursuant to *Government Auditing Standards* involves additional standards that exceed the standards provided by the American Institute of Certified Public Accountants. Accordingly, this attestation engagement complies with both *Government Auditing Standards* and Section 403 of *The Fiscal Code*.

As described in Note 4, the adjustments included on the Forms MS-965 With Adjustments are made by the Department of the Auditor General.

Independent Auditor's Report (Continued)

As discussed in the Findings and Recommendations section of this report:

- The township failed to maintain documentation to support expenditures of \$6,110.57 during 2008 (Finding No. 1).
- The township did not advertise for bids for the purchase of a used John Deere backhoe for \$16,500.00 during 2008 (Finding No. 2).
- The township did not maintain documentation for price quotations for the purchase of bottom ash for \$4,765.51 during 2009 (Finding No. 3).
- The township deposited its 2008 state allocation of \$44,122.13 and its 2008 turnback allocation of \$44,040.00 respectively, into its General Fund on September 29, 2008. The municipality reimbursed \$88,000.00 to its Liquid Fuels Tax Fund on October 1, 2008, leaving \$162.13 due the Liquid Fuels Tax Fund (Finding No. 4).

Additionally, as discussed in Comment No. 2, during the 2005-2007 examination period:

- The township failed to maintain documentation to support expenditures of \$27,857.16.
- The township failed to maintain fuel dispensation records for fuel purchases of \$15,664.62.
- The township did not advertise for bids for expenditures of \$12,094.44 for MC-70 road oil.

The Department of Transportation required the township to reimburse \$2,818.32 to its Liquid Fuels Tax Fund for its 2005-2007 examination findings. The township reimbursed that amount to its Liquid Fuels Tax Fund on January 13, 2010, which was subsequent to our examination period.

Independent Auditor's Report (Continued)

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 Bradys Bend, Armstrong County, for the two years ended December 31, 2009, 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 Bradys Bend, 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 Bradys Bend, Armstrong County's Forms MS-965 that is more than inconsequential will not be prevented or detected by the Township of Bradys Bend, 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:

- Documentation Supporting Expenditures Was Not Available For Examination.

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 Bradys Bend, 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 not a material weakness.

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

- Purchases Over \$10,000.00 In Noncompliance With Advertising And Bidding Requirements.
- Documentation For Price Quotations Was Not Available For Examination.
- Liquid Fuels Money Deposited Into The General Fund.

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 Allocations.

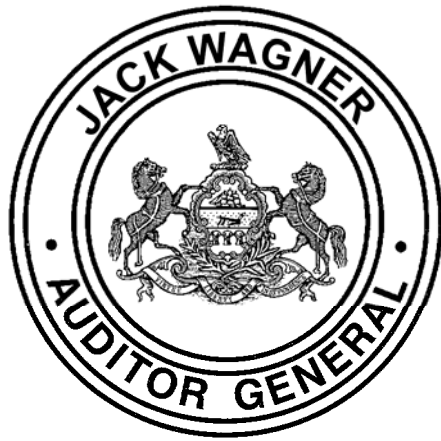
We are concerned in light of the township's failure to correct previously reported findings regarding a failure to maintain documentation supporting expenditures, purchases over \$10,000.00 in noncompliance with advertising and bidding requirements, and the late receipt of allocations. During our current examination the township failed to maintain documentation supporting expenditures, made purchases over \$10,000.00 in noncompliance with advertising and bidding requirements, failed to maintain documentation for price quotations, deposited Liquid Fuels Tax Fund money into the General Fund, and received its Liquid Fuels Tax Fund allocations late. The township should strive to implement the recommendations and corrective actions noted in this report.

Independent Auditor's Report (Continued)

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

December 2, 2010

JACK WAGNER
Auditor General



TOWNSHIP OF BRADYS BEND
 ARMSTRONG COUNTY
 LIQUID FUELS TAX FUND
 2008 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	\$ 30,530.00	\$ -	\$ 30,530.00
Minor equipment purchases	-	-	-
Computer/Computer related training	-	-	-
Agility projects	-	-	-
Cleaning streets and gutters	-	-	-
Winter maintenance services	-	-	-
Traffic control devices	-	-	-
Street lighting	-	-	-
Storm sewers and drains	-	-	-
Repairs of tools and machinery	18,879.17	141.58	19,020.75
Maintenance and repair of roads and bridges	79,029.09	-	79,029.09
Highway construction and rebuilding projects	-	-	-
Miscellaneous (Bank service charges)	-	85.72	85.72
	<u> </u>	<u> </u>	<u> </u>
Total (To Section 2, Line 5)	<u>\$ 128,438.26</u>	<u>\$ 227.30</u>	<u>\$ 128,665.56</u>

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

TOWNSHIP OF BRADYS BEND
 ARMSTRONG COUNTY
 LIQUID FUELS TAX FUND
 2008 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, 2008	\$ 96,619.43	\$ 40,155.54	\$ 136,774.97
Receipts:			
2. State allocations (Note 6)	-	84,051.09	84,051.09
2a. Turnback allocation	44,040.00	-	44,040.00
2b. Interest on investments (Note 3)	2,562.03	-	2,562.03
2c. Miscellaneous (Comment No. 1)	-	5,496.48	5,496.48
3. Total receipts	<u>46,602.03</u>	<u>89,547.57</u>	<u>136,149.60</u>
4. Total funds available	<u>143,221.46</u>	<u>129,703.11</u>	<u>272,924.57</u>
5. Expenditures (Section 1)	<u>128,438.26</u>	<u>227.30</u>	<u>128,665.56</u>
6. Balance, December 31, 2008	<u><u>\$ 14,783.20</u></u>	<u><u>\$ 129,475.81</u></u>	<u><u>\$ 144,259.01</u></u>

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

TOWNSHIP OF BRADYS BEND
 ARMSTRONG COUNTY
 LIQUID FUELS TAX FUND
 2008 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	\$ 62,323.00	\$ 3,500.00	\$ 65,823.00
2. Add: Current year equipment allocation (20% of Lines 2 + 2a, Section 2)	8,808.00	16,810.21	25,618.21
3. PENNDOT approved adjustments	-	-	-
4. Total funds available for equipment acquisition	71,131.00	20,310.21	91,441.21
5. Less: Major equipment expenditures	30,530.00	-	30,530.00
6. Remainder	<u>40,601.00</u>	<u>20,310.21</u>	<u>60,911.21</u>
7. Equipment balance available for subsequent year (Lesser of Line 6 or Section 2 balance, but not less than zero)	<u>\$ 14,783.20</u>	<u>\$ 46,128.01</u>	<u>\$ 60,911.21</u>

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

TOWNSHIP OF BRADYS BEND
 ARMSTRONG 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	\$ 40,348.25	\$ (1,050.00)	\$ 39,298.25
Minor equipment purchases	-	1,050.00	1,050.00
Computer/Computer related training	-	-	-
Agility projects	-	-	-
Cleaning streets and gutters	-	-	-
Winter maintenance services	12,292.52	-	12,292.52
Traffic control devices	-	-	-
Street lighting	-	-	-
Storm sewers and drains	-	-	-
Repairs of tools and machinery	16,389.24	(69.26)	16,319.98
Maintenance and repair of roads and bridges	43,325.15	-	43,325.15
Highway construction and rebuilding projects	-	-	-
Miscellaneous (Bank service charges)	129.86	-	129.86
	<u>129.86</u>	<u>-</u>	<u>129.86</u>
 Total (To Section 2, Line 5)	 <u>\$ 112,485.02</u>	 <u>\$ (69.26)</u>	 <u>\$ 112,415.76</u>

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

TOWNSHIP OF BRADYS BEND
 ARMSTRONG COUNTY
 LIQUID FUELS TAX FUND
 2009 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, 2009	\$ 143,826.94	\$ 432.07	\$ 144,259.01
Receipts:			
2. State allocation	42,456.15	-	42,456.15
2a. Turnback allocation	44,040.00	-	44,040.00
2b. Interest on investments (Note 3)	100.02	2.29	102.31
2c. Miscellaneous (Note 5)	219.58	-	219.58
3. Total receipts	<u>86,815.75</u>	<u>2.29</u>	<u>86,818.04</u>
4. Total funds available	<u>230,642.69</u>	<u>434.36</u>	<u>231,077.05</u>
5. Expenditures (Section 1)	<u>112,485.02</u>	<u>(69.26)</u>	<u>112,415.76</u>
6. Balance, December 31, 2009	<u><u>\$ 118,157.67</u></u>	<u><u>\$ 503.62</u></u>	<u><u>\$ 118,661.29</u></u>

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

TOWNSHIP OF BRADYS BEND
 ARMSTRONG 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	\$ 74,631.00	\$ (13,719.79)	\$ 60,911.21
2. Add: Current year equipment allocation (20% of Lines 2 + 2a, Section 2)	17,299.23	-	17,299.23
3. PENNDOT approved adjustments	-	-	-
4. Total funds available for equipment acquisition	91,930.23	(13,719.79)	78,210.44
5. Less: Major equipment expenditures	40,348.25	(1,050.00)	39,298.25
6. Remainder	<u>51,581.98</u>	<u>(12,669.79)</u>	<u>38,912.19</u>
7. Equipment balance available for subsequent year (Lesser of Line 6 or Section 2 balance, but not less than zero)	<u>\$ 51,581.98</u>	<u>\$ (12,669.79)</u>	<u>\$ 38,912.19</u>

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

TOWNSHIP OF BRADYS BEND
ARMSTRONG COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE TWO YEARS ENDED
DECEMBER 31, 2009

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 BRADYS BEND
ARMSTRONG COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE TWO YEARS ENDED
DECEMBER 31, 2009

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 BRADYS BEND
ARMSTRONG COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE TWO YEARS ENDED
DECEMBER 31, 2009

1. Criteria (Continued)

General Fixed Assets

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

2. Deposits

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

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

Deposits consist of receipts and deposits in financial institutions. Pennsylvania statutes require all deposits to be insured and, for any amount above the insured maximum, to be secured with approved collateral as defined.

There were no deposits exposed to custodial credit risk as of December 31, 2009. 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 BRADYS BEND
ARMSTRONG COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE TWO YEARS ENDED
DECEMBER 31, 2009

2. Deposits (Continued)

Fund Balance

The fund balance as of December 31, 2009 consists of the following:

Cash	<u>\$118,661.29</u>
------	---------------------

3. Interest On Investments

Our examination disclosed that the municipality deposited idle liquid fuels tax money in interest-bearing accounts which earned \$2,562.03 during 2008, and \$102.31 during 2009, thus providing additional funds for road maintenance and repairs.

4. Adjustments

2008 - Section 1

An adjustment of \$141.58 was made to “Repairs of tools and machinery” because these expenditures were understated.

An adjustment of \$85.72 was made to “Miscellaneous” because bank service charges were not reported.

2008 - Section 2

An adjustment of \$40,155.54 was made to “Balance, January 1, 2008” because an incorrect fund balance was reported.

An adjustment of \$84,051.09 was made to “State allocation” because the allocation was not reported.

An adjustment of \$5,496.48 was made to “Miscellaneous” because a reimbursement from the General Fund was not reported (see Comment No. 1).

TOWNSHIP OF BRADYS BEND
ARMSTRONG COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE TWO YEARS ENDED
DECEMBER 31, 2009

4. Adjustments (Continued)

2008 - Section 3

An adjustment of \$3,500.00 was made to “Prior year equipment balance” because of prior report adjustments that were not carried forward in the equipment balance.

An adjustment of \$16,810.21 was made to “Current year equipment allocation” because the state allocation from 2008 – Section 2, which is used to calculate this figure, was not reported.

2009 - Section 1

Adjustments were made to “Major equipment purchases” and “Minor equipment purchases” because expenditures of \$1,050.00 were misclassified.

An adjustment of \$(69.26) was made to “Repairs of tools and machinery” because check Nos. 1043 for \$55.66 and 1046 for \$13.60 were voided but were included as expenditures.

2009 - Section 2

An adjustment of \$432.07 was made to “Balance, January 1, 2009” because an incorrect fund balance was reported.

An adjustment of \$2.29 was made to “Interest on investments” because interest earnings were understated.

2009 - Section 3

An adjustment of \$(13,719.79) was made to “Prior year equipment balance” because an incorrect equipment balance was carried forward.

An adjustment of \$(1,050.00) was made to “Major equipment expenditures” to reflect the adjustment made to major equipment purchases in 2009 – Section 1.

TOWNSHIP OF BRADYS BEND
ARMSTRONG COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE TWO YEARS ENDED
DECEMBER 31, 2009

5. Miscellaneous Receipts

On February 10, 2009 and March 30, 2009, the municipality transferred \$141.58 and \$78.00, respectively, from its General Fund to its Liquid Fuels Tax Fund for the reimbursement of road repairs.

6. State Allocations

The municipality received its 2007 and 2008 Liquid Fuels Tax Fund allocations of \$40,091.99 and \$44,122.13, respectively, during 2008. The 2008 allocation was deposited into the municipality's General Fund and the municipality transferred only \$43,959.10 from its General Fund to its Liquid Fuels Tax Fund, which was \$163.03 less than the amount that should have been transferred.

TOWNSHIP OF BRADYS BEND
 ARMSTRONG COUNTY
 LIQUID FUELS TAX FUND
 FINDINGS AND RECOMMENDATIONS
 FOR THE TWO YEARS ENDED
 DECEMBER 31, 2009

Finding No. 1 - Documentation Supporting Expenditures Was Not Available For Examination

Our examination disclosed that during 2008 the municipality did not maintain invoices to support the following expenditures:

<u>Check No.</u>	<u>Check Date</u>	<u>Amount</u>
422	02/11/08	\$1,117.95
443	04/08/08	62.00
1006	11/08/08	416.06
1007	11/08/08	<u>1,514.56</u>
Total		<u>\$3,110.57</u>

Additionally, the municipality transferred \$3,000.00 from its Liquid Fuels Tax Fund to its General Fund on July 23, 2008 for the reimbursement of payroll expenditures. However, the municipality did not maintain time sheets describing the work performed and the amount of time required to complete each task.

Good internal control procedures ensure that there is documentation to support all expenditures.

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

The Department of Transportation has been statutorily authorized to promulgate regulations concerning the administration of Liquid Fuels Tax Fund money and has determined that certain items, including expenditures made without supporting documentation, are outside the scope of permissible expenditures.

Without adequate documentation, we could not determine if the expenditures were permissible according to the Liquid Fuels Tax Municipal Allocation Law and the Department of Transportation's Regulations. Additionally, the risk of fraud occurring and remaining undetected increases significantly when documentation for expenditures is not maintained.

The failure to maintain documentation to support expenditures could result in the municipality having to reimburse \$6,110.57 to its Liquid Fuels Tax Fund.

TOWNSHIP OF BRADYS BEND
ARMSTRONG COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE TWO YEARS ENDED
DECEMBER 31, 2009

Finding No. 1 - Documentation Supporting Expenditures Was Not Available For Examination
(Continued)

A similar finding was also written in our prior report.

Recommendations

We recommend that the municipality reimburse \$6,110.57 to its Liquid Fuels Tax Fund upon official notification by the Department of Transportation.

We again recommend that the municipality ensure good internal control over expenditures by maintaining adequate documentation to support all expenditures.

Management's Response

The secretary/treasurer stated:

I am aware of the past problems with the record keeping within the municipality. Since I have been here, since July of 2009, myself and the three supervisors have been working hard to put the township back together. I am keeping orderly records and am doing all I can to follow Liquid Fuel procedures. I can assure you the next audit will go smoothly and a huge improvement will be in place. I care tremendously about the situation of the township.

Auditor's Conclusion

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

TOWNSHIP OF BRADYS BEND
 ARMSTRONG COUNTY
 LIQUID FUELS TAX FUND
 FINDINGS AND RECOMMENDATIONS
 FOR THE TWO YEARS ENDED
 DECEMBER 31, 2009

Finding No. 2 - Purchases Over \$10,000.00 In Noncompliance With Advertising And Bidding Requirements

Our examination disclosed that during 2008 the township expended \$16,500.00 from the Liquid Fuels Tax Fund for the purchase of a used John Deere backhoe without advertising for bids. These expenditures were as follows:

<u>Invoice Number</u>	<u>Invoice Date</u>	<u>Check Number</u>	<u>Check Date</u>	<u>Amount</u>
1210	March-2008	435	03/31/08	\$ 3,500.00
1216	April-2008	448	05/05/08	3,500.00
1224	May-2008	446	05/05/08	<u>9,500.00</u>
Total				<u>\$16,500.00</u>

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.

The failure to comply with *The Second Class Township Code* could result in the township having to reimburse \$16,500.00 to its Liquid Fuels Tax Fund.

A similar finding was also written in our prior report.

Recommendations

We recommend that the township reimburse \$16,500.00 to its Liquid Fuels Tax Fund upon official notification by the Department of Transportation.

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

TOWNSHIP OF BRADYS BEND
ARMSTRONG COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE TWO YEARS ENDED
DECEMBER 31, 2009

Finding No. 2 - Purchases Over \$10,000.00 In Noncompliance With Advertising And Bidding Requirements (Continued)

Management's Response

The secretary/treasurer stated:

I am aware of the past problems with the record keeping within the municipality. Since I have been here, since July of 2009, myself and the three supervisors have been working hard to put the township back together. I am keeping orderly records and am doing all I can to follow Liquid Fuel procedures. I can assure you the next audit will go smoothly and a huge improvement will be in place. I care tremendously about the situation of the township.

Auditors Conclusion

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

TOWNSHIP OF BRADYS BEND
 ARMSTRONG COUNTY
 LIQUID FUELS TAX FUND
 FINDINGS AND RECOMMENDATIONS
 FOR THE TWO YEARS ENDED
 DECEMBER 31, 2009

Finding No. 3 - Documentation For Price Quotations Was Not Available For Examination

Our examination disclosed that during 2009 the township expended \$4,765.51 from the Liquid Fuels Tax Fund for the purchase of bottom ash. The municipality was required to obtain three written on telephonic price quotations for these purchases. However, documentation for price quotations was not available for examination. The bottom ash purchases were as follows:

<u>Invoice Number</u>	<u>Invoice Date</u>	<u>Check Number</u>	<u>Check Date</u>	<u>Amount</u>
5001-90014183	01/06/09	1035	02/06/09	\$1,454.29
5001-90014298	01/30/09	1045	03/16/09	<u>3,311.22</u>
Total				<u>\$4,765.51</u>

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

TOWNSHIP OF BRADYS BEND
ARMSTRONG COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE TWO YEARS ENDED
DECEMBER 31, 2009

Finding No. 3 - Documentation For Price Quotations Was Not Available For Examination-
(Continued)

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.

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 \$4,765.51 to its Liquid Fuels Tax Fund.

Recommendations

We recommend that the township reimburse \$4,765.51 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:

I am aware of the past problems with the record keeping within the municipality. Since I have been here, since July of 2009, myself and the three supervisors have been working hard to put the township back together. I am keeping orderly records and am doing all I can to follow Liquid Fuel procedures. I can assure you the next audit will go smoothly and a huge improvement will be in place. I care tremendously about the situation of the township.

Auditor's Conclusion

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

TOWNSHIP OF BRADYS BEND
ARMSTRONG COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE TWO YEARS ENDED
DECEMBER 31, 2009

Finding No. 4 - Liquid Fuels Money Deposited Into The General Fund

Our examination disclosed that the municipality deposited its 2008 state allocation of \$44,122.13 and its 2008 turnback allocation of \$44,040.00 into the General Fund on September 29, 2008, which, is in noncompliance with the Liquid Fuels Tax Municipal Allocation Law.

The practice of depositing liquid fuels money into any account other than the Liquid Fuels Tax Fund account is contrary to the Act of June 1, 1956, P.L. (1955) 1944, 72 P.S. § 2615.5, known as the Liquid Fuels Tax Municipal Allocation Law, which states:

. . . each city, borough, town and township, shall . . . Establish and maintain a special fund into which the moneys [Liquid Fuels Tax Funds] . . . shall be deposited and into which no other moneys may be deposited or commingled . . .

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

On October 1, 2008, the municipality reimbursed \$88,000.00 to the Liquid Fuels Tax Fund.

The failure to follow the Liquid Fuels Tax Municipal Allocation Law as noted above could result in the municipality having to reimburse \$162.13 to its Liquid Fuels Tax Fund.

Recommendations

We recommend that the municipality reimburse \$162.13 to its Liquid Fuels Tax Fund upon official notification by the Department of Transportation.

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

TOWNSHIP OF BRADYS BEND
ARMSTRONG COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE TWO YEARS ENDED
DECEMBER 31, 2009

Finding No. 4 - Liquid Fuels Money Deposited Into The General Fund (Continued)

Management's Response

The secretary/treasurer stated:

I am aware of the past problems with the record keeping within the municipality. Since I have been here, since July of 2009, myself and the three supervisors have been working hard to put the township back together. I am keeping orderly records and am doing all I can to follow Liquid Fuel procedures. I can assure you the next audit will go smoothly and a huge improvement will be in place. I care tremendously about the situation of the township.

Auditors Conclusion

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

TOWNSHIP OF BRADYS BEND
ARMSTRONG COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE TWO YEARS ENDED
DECEMBER 31, 2009

Finding No. 5 - Late Receipt Of Allocations

Our examination disclosed that the 2008 and 2009 Liquid Fuels Tax Fund allocations of \$44,122.13 and \$42,456.15, respectively, which should have been distributed by the Department of Transportation to the municipality during the first week of April of each year, were not received until October 1, 2008 and May 13, 2009, 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 the 2008 allocation for six months and the 2009 allocation for more than one month. 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.

A similar finding was written in our prior report.

Recommendation

We again 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.

TOWNSHIP OF BRADYS BEND
ARMSTRONG COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE TWO YEARS ENDED
DECEMBER 31, 2009

Finding No. 5 - Late Receipt Of Allocations (Continued)

Management's Response

The secretary/treasurer stated:

I am aware of the past problems with the record keeping within the municipality. Since I have been here, since July of 2009, myself and the three supervisors have been working hard to put the township back together. I am keeping orderly records and am doing all I can to follow Liquid Fuel procedures. I can assure you the next audit will go smoothly and a huge improvement will be in place. I care tremendously about the situation of the township.

Auditors Conclusion

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

TOWNSHIP OF BRADYS BEND
ARMSTRONG COUNTY
LIQUID FUELS TAX FUND
COMMENTS
FOR THE TWO YEARS ENDED
DECEMBER 31, 2009

Comment No. 1 – Summary Of 2004 Audit Recommendation

In our 2004 report we recommended that the Department of Transportation review our audit finding to determine if the municipality should reimburse \$5,496.48 to its Liquid Fuels Tax Fund for failing to maintain documentation for price quotations.

During our current examination we reviewed a letter dated May 4, 2007, from the Department of Transportation informing the municipality to reimburse \$5,496.48 to its Liquid Fuels Tax Fund. We noted that the municipality reimbursed this amount to its Liquid Fuels Tax Fund on March 17, 2008.

Comment No. 2 – Summary Of 2005-2007 Examination Recommendations

In our 2005-2007 report we recommended that the Department of Transportation review our examination findings to determine if the municipality should reimburse \$55,616.22 to its Liquid Fuels Tax Fund. This amount consists of \$27,857.16 for failing to maintain documentation to support expenditures, \$15,664.62 for failing to maintain fuel dispensation records, and \$12,094.44 for the purchase of MC-70 road oil without advertising for bids. Findings for failing to maintain documentation to support expenditures and purchases made over \$10,000.00 without advertising for bids were also written in our current report (see Finding No. 1 and Finding No. 2).

During our current examination we reviewed a letter dated May 27, 2010, from the Department of Transportation informing the municipality to reimburse \$2,818.32 of the \$55,616.22 to its Liquid Fuels Tax Fund. The municipality reimbursed \$2,818.32 to its Liquid Fuels Tax Fund on January 13, 2010, which was subsequent to our examination period.

In our 2005-2007 report we also recommended:

- That the municipality prepare detailed fuel usage reports to ensure good internal controls over fuel purchases and usage.
- That the municipality's transcribed minutes for municipal meetings be available for public review within a reasonable period of time after each meeting.

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

TOWNSHIP OF BRADYS BEND
ARMSTRONG COUNTY
LIQUID FUELS TAX FUND
SUMMARY OF EXIT CONFERENCE
FOR THE TWO YEARS ENDED
DECEMBER 31, 2009

An exit conference was held December 2, 2010. Those participating were:

TOWNSHIP OF BRADYS BEND

Mrs. Sheila A. Markel, Secretary/Treasurer

DEPARTMENT OF THE AUDITOR GENERAL

Mr. James P. Adams, Auditor

Mr. Edward J. Politylo, Auditor

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

TOWNSHIP OF BRADYS BEND
ARMSTRONG COUNTY
LIQUID FUELS TAX FUND
REPORT DISTRIBUTION
FOR THE TWO YEARS ENDED
DECEMBER 31, 2009

This report was initially distributed to:

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

Township of Bradys Bend
Armstrong County
1004 State Route 68
East Brady, PA 16028

The Honorable James L. Curran

Chairman of the Board of Supervisors

Mrs. Sheila A. Markel

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.