



TOWNSHIP OF EAST ROCKHILL
BUCKS COUNTY
09-207

LIQUID FUELS TAX FUND
EXAMINATION REPORT

FOR THE TWO YEARS ENDED
DECEMBER 31, 2009

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TOWNSHIP OF EAST ROCKHILL
BUCKS 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 East Rockhill, Bucks 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 East Rockhill, Bucks 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 Finding No. 3, the township expended \$5,720.00 during 2008 for equipment rental and \$7,454.78 during 2009 for street signs from the Liquid Fuels Tax Fund. However, documentation for price quotations were not available for examination.

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

- Failure To Properly Prepare Forms MS-965.
- Overpayment Of Loan Payment.

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 East Rockhill, Bucks 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. We consider the significant deficiencies described above to be material weaknesses.

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

- Documentation For Price Quotations Was Not Available For Examination.

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

March 10, 2011

JACK WAGNER
Auditor General



TOWNSHIP OF EAST ROCKHILL
 BUCKS 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	\$ 31,431.24	\$ 48,221.49	\$ 79,652.73
Minor equipment purchases	-	-	-
Computer/Computer related training	-	-	-
Agility projects	-	-	-
Cleaning streets and gutters	-	-	-
Winter maintenance services	30,839.39	-	30,839.39
Traffic control devices	9,290.89	-	9,290.89
Street lighting	-	-	-
Storm sewers and drains	-	-	-
Repairs of tools and machinery	17,526.39	-	17,526.39
Maintenance and repair of roads and bridges	120,944.68	-	120,944.68
Highway construction and rebuilding projects	27,426.82	-	27,426.82
Miscellaneous	-	-	-
 Total (To Section 2, Line 5)	 <u>\$ 237,459.41</u>	 <u>\$ 48,221.49</u>	 <u>\$ 285,680.90</u>

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

TOWNSHIP OF EAST ROCKHILL
 BUCKS 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	\$ 105,648.78	\$ -	\$ 105,648.78
Receipts:			
2. State allocation	124,280.12	-	124,280.12
2a. Turnback allocation	52,600.00	-	52,600.00
2b. Interest on investments (Note 3)	2,195.23	785.21	2,980.44
2c. Miscellaneous (Note 5)	48,000.00	-	48,000.00
3. Total receipts	<u>227,075.35</u>	<u>785.21</u>	<u>227,860.56</u>
4. Total funds available	<u>332,724.13</u>	<u>785.21</u>	<u>333,509.34</u>
5. Expenditures (Section 1)	<u>237,459.41</u>	<u>48,221.49</u>	<u>285,680.90</u>
6. Balance, December 31, 2008	<u>\$ 95,264.72</u>	<u>\$ (47,436.28)</u>	<u>\$ 47,828.44</u>

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

TOWNSHIP OF EAST ROCKHILL
 BUCKS 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	\$ 18,835.97	\$ -	\$ 18,835.97
2. Add: Current year equipment allocation (20% of Lines 2 + 2a, Section 2)	35,376.02	-	35,376.02
3. PENNDOT approved adjustments	<u>-</u>	<u>48,000.00</u>	<u>48,000.00</u>
4. Total funds available for equipment acquisition	54,211.99	48,000.00	102,211.99
5. Less: Major equipment expenditures	<u>31,431.24</u>	<u>48,221.49</u>	<u>79,652.73</u>
6. Remainder	<u>22,780.75</u>	<u>(221.49)</u>	<u>22,559.26</u>
7. Equipment balance available for subsequent year (Lesser of Line 6 or Section 2 balance, but not less than zero)	<u>\$ 22,780.75</u>	<u>\$ (221.49)</u>	<u>\$ 22,559.26</u>

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

TOWNSHIP OF EAST ROCKHILL
BUCKS 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	\$ 16,792.64	\$ -	\$ 16,792.64
Minor equipment purchases	-	-	-
Computer/Computer related training	-	-	-
Agility projects	-	-	-
Cleaning streets and gutters	-	-	-
Winter maintenance services	23,102.76	(4,748.64)	18,354.12
Traffic control devices	10,862.56	-	10,862.56
Street lighting	-	-	-
Storm sewers and drains	-	-	-
Repairs of tools and machinery	24,897.24	-	24,897.24
Maintenance and repair of roads and bridges	57,262.11	(2,318.17)	54,943.94
Highway construction and rebuilding projects	62,274.95	-	62,274.95
Miscellaneous	-	-	-
 Total (To Section 2, Line 5)	 <u>\$ 195,192.26</u>	 <u>\$ (7,066.81)</u>	 <u>\$ 188,125.45</u>

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

TOWNSHIP OF EAST ROCKHILL
 BUCKS 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	\$ 95,264.72	\$ (47,436.28)	\$ 47,828.44
Receipts:			
2. State allocation	119,962.37	-	119,962.37
2a. Turnback allocation	52,600.00	-	52,600.00
2b. Interest on investments (Note 3)	1,025.13	-	1,025.13
2c. Miscellaneous (Note 5)	-	9,235.04	9,235.04
3. Total receipts	<u>173,587.50</u>	<u>9,235.04</u>	<u>182,822.54</u>
4. Total funds available	<u>268,852.22</u>	<u>(38,201.24)</u>	<u>230,650.98</u>
5. Expenditures (Section 1)	<u>195,192.26</u>	<u>(7,066.81)</u>	<u>188,125.45</u>
6. Balance, December 31, 2009	<u><u>\$ 73,659.96</u></u>	<u><u>\$ (31,134.43)</u></u>	<u><u>\$ 42,525.53</u></u>

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

TOWNSHIP OF EAST ROCKHILL
BUCKS 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	\$ 22,780.75	\$ (221.49)	\$ 22,559.26
2. Add: Current year equipment allocation (20% of Lines 2 + 2a, Section 2)	34,512.47	-	34,512.47
3. PENNDOT approved adjustments	-	2,035.04	2,035.04
4. Total funds available for equipment acquisition	57,293.22	1,813.55	59,106.77
5. Less: Major equipment expenditures	16,792.64	-	16,792.64
6. Remainder	<u>40,500.58</u>	<u>1,813.55</u>	<u>42,314.13</u>
7. Equipment balance available for subsequent year (Lesser of Line 6 or Section 2 balance, but not less than zero)	<u>\$ 40,500.58</u>	<u>\$ 1,813.55</u>	<u>\$ 42,314.13</u>

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

TOWNSHIP OF EAST ROCKHILL
BUCKS 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 EAST ROCKHILL
BUCKS 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 EAST ROCKHILL
BUCKS 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 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, 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 EAST ROCKHILL
BUCKS 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>\$42,525.53</u>
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3. Interest On Investments

Our examination disclosed that the municipality deposited idle liquid fuels tax money in interest-bearing accounts which earned \$2,980.44 during 2008, and \$1,025.13 during 2009, thus providing additional funds for road maintenance and repairs.

4. Adjustments

2008 - Section 1

An adjustment of \$48,221.49 was made to "Major equipment purchases" because check Nos. 362 for \$32,768.34 and 371 for \$15,453.15 were not reported.

2008 - Section 2

An adjustment of \$785.21 was made to "Interest on investments" because interest earnings were understated.

2008 - Section 3

An adjustment of \$48,000.00 was made to "PENNDOT approved adjustments" because the proceeds from a loan for the purchase of a tractor and attachments were not reported (see Note 5).

An adjustment of \$48,221.49 was made to "Major equipment expenditures" to reflect the adjustment made to major equipment purchases in 2008 - Section 1.

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

4. Adjustments (Continued)

2009 - Section 1

An adjustment of \$(4,748.64) was made to “Winter maintenance services” because these expenditures were overstated.

An adjustment of \$(2,318.17) was made to “Maintenance and repair of roads and bridges” because check Nos. 1406 for \$3,705.27 and 1431 for \$2,548.78 were voided but were included as expenditures and transfers to the General Fund of \$335.88 on June 16, 2009, and \$3,600.00 on September 18, 2009, were not reported.

2009 - Section 2

An adjustment of \$(47,436.28) was made to “Balance, January 1, 2009” to reflect the adjustment made to the fund balance in 2008 - Section 2.

An adjustment of \$9,235.04 was made to “Miscellaneous” because these receipts were not reported.

2009 - Section 3

An adjustment of \$(221.49) was made to “Prior year equipment balance” to reflect the adjustment made to the equipment balance in 2008 - Section 3.

An adjustment of \$2,035.04 was made to “PENNDOT approved adjustments” because a reimbursement from a financial institution for an overpayment on an equipment loan was not reported as an approved adjustment (Finding No. 2).

5. Miscellaneous Receipts

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

<u>Source</u>	<u>Description</u>	<u>2008</u>	<u>2009</u>
Financial institution	General obligation note (Note 8)	\$48,000.00	\$ -
Financial institution	Refund for overpayment (Note 6)	-	2,035.04
Capital Reserve Fund	Correction of payment in error (Note 9)	-	<u>7,200.00</u>
Totals		<u>\$48,000.00</u>	<u>\$9,235.04</u>

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

6. Lease-Purchase Agreement

On April 27, 2005, the municipality entered into a lease-purchase agreement with the Municipal Capital Corporation to purchase a 2005 GMC dump truck for \$88,994.00. The agreement was for a term of four years at an interest rate of 4.50 percent. Principal and interest payments of \$23,738.28 are due annually. Prior years' principal and interest payments from the Liquid Fuels Tax Fund were \$66,277.94 and \$4,936.90, respectively.

During the current examination period the municipality paid principal of \$24,751.10 and interest of \$1,022.22 from the Liquid Fuels Tax Fund. These amounts are reflected in major equipment purchases on the 2008 Form MS-965 - Section 1. The municipality overpaid principal by \$2,035.04 on May 5, 2008. The municipality deposited a refund of \$2,035.04 into the Liquid Fuels Tax Fund on February 6, 2009.

7. Pennsylvania Infrastructure Bank Loan

On July 5, 2007, the municipality borrowed \$150,000.00 from the Pennsylvania Infrastructure Bank for the reconstruction of roads and bridges. The term of the loan was for ten years at an interest rate of 4.125 percent. Principal and interest payments of \$9,228.93 are due semi-annually.

During the current examination period the municipality paid principal of \$25,310.45 and interest of \$11,605.27 from the Liquid Fuels Tax Fund. These amounts are reflected in highway construction and rebuilding projects on the 2008 and 2009 Forms MS-965 - Section 1. The outstanding balance of the loan as of December 31, 2009 was \$124,689.55, plus interest.

8. General Obligation Note

On August 1, 2008, the municipality borrowed \$48,000.00 from the First Savings Bank of Perkasio to purchase a tractor and attachments. The term of the loan was for four years at an interest rate of 2.85 percent. Principal and interest payments of \$1,393.58 are due monthly.

During the current examination period the municipality paid principal of \$20,820.33 and interest of \$1,476.95 from the Liquid Fuels Tax Fund. These amounts are reflected in major equipment purchases on the 2008 and 2009 Forms MS-965 - Section 1. The outstanding balance of the loan as of December 31, 2009 was \$27,179.67, plus interest.

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

9. Payments In Error

On September 15, 2009, the municipality paid vendor invoice No. 677 on September 15, 2009, with check No. 547 for \$3,600.00 from the Liquid Fuels Tax Fund. On September 18, 2009, the municipality transferred \$3,600.00 from its Liquid Fuels Tax Fund to the General Fund for the reimbursement of this expenditure. On December 7, 2009 the municipality transferred \$7,200.00 from its General Fund to its Liquid Fuels Tax Fund for the reimbursement of the payment and the transfer.



TOWNSHIP OF EAST ROCKHILL
BUCKS COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE TWO YEARS ENDED
DECEMBER 31, 2009

Finding No. 1 - Failure To Properly Prepare Forms MS-965

Our examination disclosed that there were numerous errors made in the preparation of the municipality's 2009 and 2010 Forms MS-965. These adjustments, which are disclosed in Note 4, are as follows:

2008 - Section 1

- An adjustment of \$48,221.49 was made to "Major equipment purchases" because check Nos. 362 for \$32,768.34 and 371 for \$15,453.15 were not reported.

2008 - Section 2

- An adjustment of \$785.21 was made to "Interest on investments" because interest earnings were understated.

2008 - Section 3

- An adjustment of \$48,000.00 was made to "PENNDOT approved adjustments" because the proceeds from a loan for the purchase of a tractor and attachments were not reported (Note 5).
- An adjustment of \$48,221.49 was made to "Major equipment expenditures" to reflect the adjustment made to major equipment purchases in 2008 - Section 1.

2009 - Section 1

- An adjustment of \$(4,748.64) was made to "Winter maintenance services" because these expenditures were overstated.
- An adjustment of \$(2,318.17) was made to "Maintenance and repair of roads and bridges" because check Nos. 1406 for \$3,705.27 and 1431 for \$2,548.78 were voided but were included as expenditures and transfers to the General Fund of \$335.88 on June 16, 2009, and \$3,600.00 on September 18, 2009, were not reported.

TOWNSHIP OF EAST ROCKHILL
BUCKS COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE TWO YEARS ENDED
DECEMBER 31, 2009

Finding No. 1 - Failure To Properly Prepare Forms MS-965 (Continued)

2009 - Section 2

- An adjustment of \$(47,436.28) was made to “Balance, January 1, 2009” to reflect the adjustment made to the fund balance in 2008 - Section 2.
- An adjustment of \$9,235.04 was made to “Miscellaneous” because these receipts were not reported.

2009 - Section 3

- An adjustment of \$(221.49) was made to “Prior year equipment balance” to reflect the adjustment made to the equipment balance in 2008 - Section 3.
- An adjustment of \$2,035.04 was made to “PENNDOT approved adjustments” because a reimbursement from a financial institution for an overpayment on an equipment loan was not reported as an approved adjustment (Finding No. 2).

Good internal controls ensure that the municipality complete its Forms MS-965 accurately and completely. The failure to properly complete Forms MS-965 increases the risk that errors or irregularities may occur and remain undetected.

Recommendation

We recommend that the municipality ensure that its Forms MS-965 are complete and accurate.

Management’s Response

The secretary/treasurer stated:

Financing for equipment was not paid directly to the equipment dealer and was deposited and expended from Liquid Fuels. Unfamiliarity with the Form MS-965 reporting requirements by township staff and the unusual circumstances of the loan, led to errors on the Form MS-965. Appropriate steps to avoid these errors has been taken in the form of staff development and training.

TOWNSHIP OF EAST ROCKHILL
BUCKS COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE TWO YEARS ENDED
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Finding No. 1 - Failure To Properly Prepare Forms MS-965 (Continued)

Auditor's Conclusion

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

TOWNSHIP OF EAST ROCKHILL
BUCKS COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE TWO YEARS ENDED
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Finding No. 2 - Overpayment Of Loan Payment

Our examination disclosed that on May 5, 2008, the municipality expended \$25,773.32 for the final payment on a lease-purchase agreement (see Note 6). However, the amount due on the agreement was only \$23,738.28. The difference of \$2,035.04 was reimbursed to the Liquid Fuels Tax Fund on February 6, 2009.

Although this money was reimbursed to the Liquid Fuels Tax Fund on February 6, 2009, the primary concern is the inadequate internal controls which enabled the overpayment of \$2,035.04 to remain undetected for nine months.

Good internal controls ensure that vendor invoices are reviewed timely to avoid overpayments. The failure to follow this procedure increases the possibility that overpayments can be made on disbursements and go undetected for long periods of time.

Recommendation

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

Management's Response

The secretary/treasurer stated:

The error was discovered during a routine annual audit and steps were taken to correct it immediately. Due to the timing of the error with the routine audit, a longer than desirable period of time passed before we were successful in correcting the error.

Auditor's Conclusion

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

TOWNSHIP OF EAST ROCKHILL
 BUCKS COUNTY
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Finding No. 3 - Documentation For Price Quotations Was Not Available For Examination

Our examination disclosed that the township expended \$5,720.00 during 2008 for equipment rental and \$7,454.78 during 2009 for street signs from the Liquid Fuels Tax Fund. The township was required to obtain three written or telephonic price quotations for these expenditures. However, documentation for price quotations was not available for examination. The purchases were as follows:

<u>Invoice Number</u>	<u>Invoice Date</u>	<u>Check Number</u>	<u>Check Date</u>	<u>Amount</u>	<u>Totals</u>
10147	02/29/08	308	03/18/08	\$2,730.00	
10180	03/31/08	317	04/08/08	2,990.00	
2008 Total for equipment rental					\$ 5,720.00
3415	03/25/09	475	04/21/09	183.00	
3467	04/10/09	475	04/21/09	562.56	
3468	04/10/09	475	04/21/09	470.12	
3469	04/10/09	475	04/21/09	2,719.24	
3470	04/10/09	475	04/21/09	717.60	
3471	04/10/09	475	04/21/09	1,368.35	
4135	08/27/09	544	09/15/09	232.52	
4363	10/06/09	554	10/20/09	528.00	
4539	10/26/09	562	11/10/09	39.74	
4497	10/21/09	562	11/10/09	132.00	
4700	11/11/09	580	12/08/09	80.00	
4733	11/23/09	580	12/08/09	421.65	
2009 Total for street signs					7,454.78
Two Year Total					<u>\$13,174.78</u>

The above expenditures 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:

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

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 expenditures 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.

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 \$13,174.78 to its Liquid Fuels Tax Fund.

Recommendations

We recommend that the township reimburse \$13,174.78 to its Liquid Fuels Tax Fund upon official notification by the Department of Transportation.

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

Recommendations (Continued)

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 township manager/secretary/treasurer stated:

I discussed this issue with the auditor and reviewed the errors with the department heads to prevent further findings in future years.

Auditor's Conclusion

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

TOWNSHIP OF EAST ROCKHILL
BUCKS COUNTY
LIQUID FUELS TAX FUND
SUMMARY OF EXIT CONFERENCE
FOR THE TWO YEARS ENDED
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An exit conference was held March 10, 2011. Those participating were:

TOWNSHIP OF EAST ROCKHILL

Mrs. Anne W. Klepfer, Township Manager/Secretary/Treasurer

DEPARTMENT OF THE AUDITOR GENERAL

Mrs. Sandra Gichiengo, Auditor

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

TOWNSHIP OF EAST ROCKHILL
BUCKS 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 East Rockhill
Bucks County
1622 Ridge Road
Perkasie, PA 18944

The Honorable David R. Nyman

Chairman of the Board of Supervisors

Mrs. Anne W. Klepfer

Township Manager/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.