



TOWNSHIP OF FAYETTE  
JUNIATA COUNTY  
34-203

LIQUID FUELS TAX FUND  
EXAMINATION REPORT

FOR THE THREE YEARS ENDED  
DECEMBER 31, 2010

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TOWNSHIP OF FAYETTE  
JUNIATA COUNTY  
LIQUID FUELS TAX FUND  
BACKGROUND  
FOR THE THREE YEARS ENDED  
DECEMBER 31, 2010

Background

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

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

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

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

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

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





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

**JACK WAGNER  
AUDITOR GENERAL**

Independent Auditor's Report

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

We examined the accompanying Forms MS-965 With Adjustments for the Liquid Fuels Tax Fund of the Township of Fayette, Juniata County, for the three years ended December 31, 2010. The municipality's management is responsible for the Forms MS-965. Our responsibility is to express an opinion on the Forms MS-965 With Adjustments based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States. An examination includes examining, on a test basis, evidence supporting the Township of Fayette, Juniata County's Forms MS-965 for the three years ended December 31, 2010 and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

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

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

As discussed in Finding No. 2, the township paid two invoices totaling \$1,288.84 twice from its Liquid Fuels Tax Fund. This amount was reimbursed to the township's Liquid Fuels Tax Fund on March 4, 2011, which was subsequent to our examination period. Additionally, as discussed in Finding No. 3, the township expended \$4,495.75 during 2008 for cold patch, \$5,148.30 during

Independent Auditor's Report (Continued)

2009 for equipment rental, \$4,320.00 during 2010 for hauling and \$6,269.74 during 2010 for ice control from its Liquid Fuels Tax Fund. However, documentation for price quotations was not maintained. Furthermore, as discussed in Finding No. 4, the township expended \$7,089.43 from its Liquid Fuels Tax Fund for project No. 09-34203-01 in excess of the approved amount. Also, as discussed in Finding No. 5, the township expended \$6,776.64 during 2009 from the Liquid Fuels Tax Fund for four inch single yellow line painting, which is a nonpermissible expenditure.

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 Fayette, Juniata County, for the three years ended December 31, 2010, in conformity with the criteria set forth in Note 1.

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

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 Fayette, Juniata 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 Fayette, Juniata County's Forms MS-965 that is more than inconsequential will not be prevented or detected by the Township of Fayette, Juniata County's internal control. We consider the deficiencies described in the findings below to be significant deficiencies in internal control over reporting on the Forms MS-965:

### Independent Auditor's Report (Continued)

- Electronic Imaging Of Canceled Checks From The Bank Did Not Include The Back Of The Checks.
- Duplicate Payment Of Invoices.

A material weakness is a significant deficiency or combination of significant deficiencies that results in more than a remote likelihood that a material misstatement of the Forms MS-965 will not be prevented or detected by the Township of Fayette, Juniata 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, of the significant deficiencies described above, we consider the first bulleted deficiency to be a material weakness.

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

- Documentation For Price Quotations Was Not Available For Examination.
- Liquid Fuels Money Overexpended On Project.
- Nonpermissible Expenditure.

We also noted an other matter that, while not required to be included in this report by *Government Auditing Standards*, have been included in the finding below:

- Late Receipt Of Allocations.



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 Fayette, Juniata County, and is not intended to be and should not be used by anyone other than these specified parties.

June 21, 2011

JACK WAGNER  
Auditor General

TOWNSHIP OF FAYETTE  
 JUNIATA 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	\$ -	\$ -	\$ -
Minor equipment purchases	-	-	-
Computer/Computer related training	-	-	-
Agility projects	-	-	-
Cleaning streets and gutters	-	-	-
Winter maintenance services	4,839.53	-	4,839.53
Traffic control devices	-	-	-
Street lighting	-	-	-
Storm sewers and drains	-	-	-
Repairs of tools and machinery	3,866.95	-	3,866.95
Maintenance and repair of roads and bridges	12,192.14	-	12,192.14
Highway construction and rebuilding projects	174,000.00	-	174,000.00
Miscellaneous (Bank service charges)	-	64.00	64.00
 Total (To Section 2, Line 5)	 <u>\$ 194,898.62</u>	 <u>\$ 64.00</u>	 <u>\$ 194,962.62</u>

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

TOWNSHIP OF FAYETTE  
 JUNIATA 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	\$ 419,541.04	\$ (25.00)	\$ 419,516.04
Receipts:			
2. State allocation	155,094.03	-	155,094.03
2a. Turnback allocation	14,040.00	-	14,040.00
2b. Interest on investments (Note 3)	3,346.59	-	3,346.59
2c. Miscellaneous	-	-	-
3. Total receipts	<u>172,480.62</u>	<u>-</u>	<u>172,480.62</u>
4. Total funds available	<u>592,021.66</u>	<u>(25.00)</u>	<u>591,996.66</u>
5. Expenditures (Section 1)	<u>194,898.62</u>	<u>64.00</u>	<u>194,962.62</u>
6. Balance, December 31, 2008	<u><u>\$ 397,123.04</u></u>	<u><u>\$ (89.00)</u></u>	<u><u>\$ 397,034.04</u></u>

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

TOWNSHIP OF FAYETTE  
 JUNIATA COUNTY  
 LIQUID FUELS TAX FUND  
 2008 FORM MS-965 – SECTION 3  
 WITH ADJUSTMENTS

<u>Equipment Balance</u>	<u>Reported</u>	<u>Adjustments</u>	<u>Adjusted Amount</u>
1. Prior year equipment balance	\$ 219,177.07	\$ -	\$ 219,177.07
2. Add: Current year equipment allocation (20% of Lines 2 + 2a, Section 2)	33,826.81	-	33,826.81
3. PENNDOT approved adjustments	-	-	-
4. Total funds available for equipment acquisition	253,003.88	-	253,003.88
5. Less: Major equipment expenditures	-	-	-
6. Remainder	<u>253,003.88</u>	<u>-</u>	<u>253,003.88</u>
7. Equipment balance available for subsequent year (Lesser of Line 6 or Section 2 balance, but not less than zero)	<u>\$ 253,003.88</u>	<u>\$ -</u>	<u>\$ 253,003.88</u>

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

TOWNSHIP OF FAYETTE  
 JUNIATA 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	\$ 41,778.80	\$ -	\$ 41,778.80
Minor equipment purchases	-	-	-
Computer/Computer related training	-	-	-
Agility projects	-	-	-
Cleaning streets and gutters	-	-	-
Winter maintenance services	4,480.72	-	4,480.72
Traffic control devices	6,776.64	-	6,776.64
Street lighting	-	-	-
Storm sewers and drains	-	-	-
Repairs of tools and machinery	7,392.51	-	7,392.51
Maintenance and repair of roads and bridges	21,538.77	-	21,538.77
Highway construction and rebuilding projects	93,359.48	-	93,359.48
Miscellaneous	64.00	(64.00)	-
 Total (To Section 2, Line 5)	 <u>\$ 175,390.92</u>	 <u>\$ (64.00)</u>	 <u>\$ 175,326.92</u>

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

TOWNSHIP OF FAYETTE  
 JUNIATA 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	\$ 397,098.04	\$ (64.00)	\$ 397,034.04
Receipts:			
2. State allocation	149,236.36	-	149,236.36
2a. Turnback allocation	14,040.00	-	14,040.00
2b. Interest on investments (Note 3)	3,839.90	-	3,839.90
2c. Miscellaneous (Refund for bank service charges)	4.43	-	4.43
3. Total receipts	<u>167,120.69</u>	<u>-</u>	<u>167,120.69</u>
4. Total funds available	<u>564,218.73</u>	<u>(64.00)</u>	<u>564,154.73</u>
5. Expenditures (Section 1)	<u>175,390.92</u>	<u>(64.00)</u>	<u>175,326.92</u>
6. Balance, December 31, 2009	<u><u>\$ 388,827.81</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 388,827.81</u></u>

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

TOWNSHIP OF FAYETTE  
 JUNIATA COUNTY  
 LIQUID FUELS TAX FUND  
 2009 FORM MS-965 – SECTION 3  
 WITH ADJUSTMENTS

<u>Equipment Balance</u>	<u>Reported</u>	<u>Adjustments</u>	<u>Adjusted Amount</u>
1. Prior year equipment balance	\$ 253,003.88	\$ -	\$ 253,003.88
2. Add: Current year equipment allocation (20% of Lines 2 + 2a, Section 2)	32,655.27	-	32,655.27
3. PENNDOT approved adjustments	-	-	-
4. Total funds available for equipment acquisition	285,659.15	-	285,659.15
5. Less: Major equipment expenditures	41,778.80	-	41,778.80
6. Remainder	<u>243,880.35</u>	<u>-</u>	<u>243,880.35</u>
7. Equipment balance available for subsequent year (Lesser of Line 6 or Section 2 balance, but not less than zero)	<u>\$ 243,880.35</u>	<u>\$ -</u>	<u>\$ 243,880.35</u>

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

TOWNSHIP OF FAYETTE  
 JUNIATA COUNTY  
 LIQUID FUELS TAX FUND  
 2010 FORM MS-965 – SECTION 1  
 WITH ADJUSTMENTS

<u>Expenditure Summary</u>	<u>Reported</u>	<u>Adjustments</u>	<u>Adjusted Amount</u>
Major equipment purchases	\$ 90,000.00	\$ -	\$ 90,000.00
Minor equipment purchases	-	-	-
Computer/Computer related training	-	-	-
Agility projects	-	-	-
Cleaning streets and gutters	-	-	-
Winter maintenance services	20,170.83	-	20,170.83
Traffic control devices	-	-	-
Street lighting	-	-	-
Storm sewers and drains	-	-	-
Repairs of tools and machinery	2,026.71	-	2,026.71
Maintenance and repair of roads and bridges	21,323.48	-	21,323.48
Highway construction and rebuilding projects	102,673.65	-	102,673.65
Miscellaneous (Bank service charges)	35.00	-	35.00
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total (To Section 2, Line 5)	<u>\$ 236,229.67</u>	<u>\$ -</u>	<u>\$ 236,229.67</u>

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



TOWNSHIP OF FAYETTE  
 JUNIATA 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	\$ 388,827.81	\$ -	\$ 388,827.81
Receipts:			
2. State allocation	143,299.87	-	143,299.87
2a. Turnback allocation	14,040.00	-	14,040.00
2b. Interest on investments (Note 3)	4,106.12	-	4,106.12
2c. Miscellaneous	-	-	-
3. Total receipts	<u>161,445.99</u>	<u>-</u>	<u>161,445.99</u>
4. Total funds available	<u>550,273.80</u>	<u>-</u>	<u>550,273.80</u>
5. Expenditures (Section 1)	<u>236,229.67</u>	<u>-</u>	<u>236,229.67</u>
6. Balance, December 31, 2010	<u><u>\$ 314,044.13</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 314,044.13</u></u>

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

TOWNSHIP OF FAYETTE  
 JUNIATA COUNTY  
 LIQUID FUELS TAX FUND  
 2010 FORM MS-965 – SECTION 3  
 WITH ADJUSTMENTS

<u>Equipment Balance</u>	<u>Reported</u>	<u>Adjustments</u>	<u>Adjusted Amount</u>
1. Prior year equipment balance	\$ 243,880.35	\$ -	\$ 243,880.35
2. Add: Current year equipment allocation (20% of Lines 2 + 2a, Section 2)	31,467.97	-	31,467.97
3. PENNDOT approved adjustments	-	-	-
4. Total funds available for equipment acquisition	275,348.32	-	275,348.32
5. Less: Major equipment expenditures	90,000.00	-	90,000.00
6. Remainder	<u>185,348.32</u>	<u>-</u>	<u>185,348.32</u>
7. Equipment balance available for subsequent year (Lesser of Line 6 or Section 2 balance, but not less than zero)	<u>\$ 185,348.32</u>	<u>\$ -</u>	<u>\$ 185,348.32</u>

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

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

1. Criteria

Section 1

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

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

Section 2

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

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

Section 3

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

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

1. Criteria (Continued)

Section 3 (Continued)

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

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

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

Basis Of Presentation

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

Basis Of Accounting

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

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

1. Criteria (Continued)

General Fixed Assets

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

2. Deposits

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

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

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

There were no deposits exposed to custodial credit risk as of December 31, 2010. Custodial credit risk, as defined by GASB No. 40, includes deposits that are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the municipality's name.

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

2. Deposits (Continued)

Fund Balance

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

Cash	\$250,440.85
Certificates of deposit	<u>63,603.28</u>
Total	<u>\$314,044.13</u>

3. Interest On Investments

Our examination disclosed that the municipality deposited idle liquid fuels tax money in an interest-bearing account and certificates of deposit which earned \$3,346.59 during 2008, \$3,839.90 during 2009, and \$4,106.12 during 2010, thus providing additional funds for road maintenance and repairs.

4. Adjustments

2008 - Section 1

An adjustment of \$64.00 was made to "Miscellaneous" because bank service charges were not reported.

2008 - Section 2

An adjustment of \$(25.00) was made to "Balance, January 1, 2008" because prior report adjustments were not carried forward in the fund balance.

2009 - Section 1

An adjustment of \$(64.00) was made to "Miscellaneous" because there were no miscellaneous expenditures.

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

4. Adjustments (Continued)

2009 - Section 2

An adjustment of \$(64.00) was made to “Balance, January 1, 2009” because an incorrect fund balance was carried forward.

TOWNSHIP OF FAYETTE  
JUNIATA COUNTY  
LIQUID FUELS TAX FUND  
FINDINGS AND RECOMMENDATIONS  
FOR THE THREE YEARS ENDED  
DECEMBER 31, 2010

Finding No. 1 - Electronic Imaging Of Canceled Checks From The Bank Did Not Include The Back Of The Checks

Our examination disclosed that the imaging of canceled checks from the bank for the Liquid Fuels Tax Fund account was not acceptable because the bank provides only an image of the front side of the canceled checks. For us to properly complete our examination testing, we have to examine the front and the back of the canceled checks.

Good internal controls and the Commonwealth of Pennsylvania Management Directive 210.11, dated June 16, 1997, require that imaging systems comply with the provisions of the Internal Revenue Service (IRS) procedures for record keeping with electronic imaging. To be acceptable, the documents provided by the system must meet IRS procedures governing size, content, format, and pattern. Those procedures require that all images produced by the imaging system exhibit a high degree of legibility and readability when displayed on paper. Legibility includes the ability to identify all letters and numerals positively and quickly. Readability includes the ability to recognize a group of letters or numerals as words or completed numbers. Imaged documents must include the front and back of a document in which both the front and back are used.

Further, good internal controls ensure that by having a municipal official review the front and back of the canceled checks, any errors or irregularities can be detected on a timely basis.

Without this control, the potential exists for errors or misappropriations to go undetected for long periods of time.

The municipality obtained and provided us with copies of the backs of the canceled checks requested for examination.

Recommendations

We recommend that the municipal officials obtain images of the front and back of canceled checks in accordance with Directive 210.11. Additionally, municipal officials should review the front and back of each canceled check for any errors or misappropriations.



TOWNSHIP OF FAYETTE  
JUNIATA COUNTY  
LIQUID FUELS TAX FUND  
FINDINGS AND RECOMMENDATIONS  
FOR THE THREE YEARS ENDED  
DECEMBER 31, 2010

Finding No. 1 - Electronic Imaging Of Canceled Checks From The Bank Did Not Include The  
Back Of The Checks (Continued)

Management's Response

The secretary/treasurer stated:

The bank only provides fronts of checks, and the former secretary didn't make copies.

Auditor's Conclusion

The municipality should obtain and review copies of its canceled checks monthly. The municipality should check with its financial institution to see if they are available on line. If so, they should be printed monthly. During our next examination we will determine if the municipality complied with our recommendations.

TOWNSHIP OF FAYETTE  
 JUNIATA COUNTY  
 LIQUID FUELS TAX FUND  
 FINDINGS AND RECOMMENDATIONS  
 FOR THE THREE YEARS ENDED  
 DECEMBER 31, 2010

Finding No. 2 - Duplicate Payment Of Invoices

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

<u>Invoice Number</u>	<u>First Check No.</u>	<u>First Date Paid</u>	<u>Second Check No.</u>	<u>Second Date Paid</u>	<u>Invoice Amount</u>
16381	1589	10/25/10	1592	11/13/10	\$ 916.79
164241	1589	10/25/10	1592	11/13/10	<u>372.05</u>
				Total	<u>\$1,288.84</u>

Although this money was repaid by the vendor and deposited into the Liquid Fuels Tax Fund on March 4, 2011, which is subsequent to our current examination period, the primary concern is the inadequate internal controls which enabled the duplicate payments of \$1,288.84 to remain undetected for five months.

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

Recommendation

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

Management's Response

The secretary/treasurer stated:

Duplicate payment wasn't discovered until after the fact.

Auditor's Conclusion

The failure to review invoices timely could result in duplicate payments occurring and remaining undetected for long periods of time. During our next examination we will determine if the municipality complied with our recommendation.

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

Our examination disclosed that the township expended \$4,495.75 during 2008 for cold patch, \$5,148.30 during 2009 for equipment rental, \$4,320.00 during 2010 for hauling, and \$6,269.74 during 2010 for ice control 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. These purchases were as follows:

<u>Description</u>	<u>Invoice Number</u>	<u>Invoice Date</u>	<u>Check Number</u>	<u>Check Date</u>	<u>Amount</u>	<u>Totals</u>
Cold Patch	80736	05/31/08	1534	06/11/08	\$1,295.75	
	82335	07/31/08	1539	08/13/08	3,200.00	
2008 Total cold patch						\$ 4,495.75
Equipment rental	None	04/10/09	1557	05/13/09	\$1,048.50	
	None	05/29/09	1558	06/10/09	4,099.80	
2009 Total equipment rental						5,148.30
Hauling	2367	12/01/09	1567	01/13/10	\$4,320.00	4,320.00
Ice control	00310762	11/24/09	1568	01/13/10	4,312.86	
	00331770	02/25/10	1571	03/10/10	1,956.88	
2010 Total ice control						<u>6,269.74</u>
Three Year Total						<u>\$20,233.79</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 \$20,233.79 to its Liquid Fuels Tax Fund.

Recommendations

We recommend that the township reimburse \$20,233.79 to its Liquid Fuels Tax Fund upon official notification by the Department of Transportation.

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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 secretary/treasurer stated:

I was not aware that it was accumulative total for the purchases of like materials.

Auditor's Conclusion

The township officials should review *The Second Class Township Code* and the Department of Transportation's *Publication 9* to become familiar with requirements for price quotations. During our next examination we will determine if the municipality complied with our recommendations.

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Finding No. 4 - Liquid Fuels Money Overexpended On Project

Our examination disclosed that the municipality expended \$93,359.48 of Liquid Fuels Tax Fund money on construction project No. 09-34203-01. However, the amount approved to be expended from the Liquid Fuels Tax Fund for this project was \$86,270.05. The difference of \$7,089.43 should have been paid directly from the General Fund.

The Department of Transportation's Regulations do not permit a municipality to expend Liquid Fuels Tax Fund money in excess of the amount approved on Municipal Services Completion Report Form MS-999.

The failure to comply with the Department of Transportation's Regulations could result in the municipality having to reimburse \$7,089.43 to its Liquid Fuels Tax Fund.

Recommendations

We recommend that the municipality reimburse \$7,089.43 to its Liquid Fuels Tax Fund upon official notification by the Department of Transportation.

We further recommend that, in the future, the municipality expend only the approved amount of Liquid Fuels Tax Fund money on road construction projects.

Management's Response

The secretary/treasurer stated:

The former secretary/treasurer completed the report before all project costs were identified.

Auditor's Conclusion

The municipal officials should ensure that all costs associated with a project are included on Form MS-999 before its submission to the Department of Transportation. The Department of Transportation's Regulations do not permit municipalities to expend Liquid Fuels Tax Fund money on a project in excess of the amount approved on Form MS-999. During our next examination we will determine if the municipality complied with our recommendations.

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Finding No. 5 - Nonpermissible Expenditure

Our examination disclosed that the municipality expended \$6,776.64 during 2009 from the Liquid Fuels Tax Fund for four inch single yellow line painting, which is a nonpermissible expenditure.

The *Federal Highway Administration's Manual on Uniform Traffic Control Devices*, Section 3B.01, states:

A solid single yellow line shall not be used as a center line marking on a two-way roadway.

The failure to follow the *Federal Highway Administration's Manual on Uniform Traffic Control Devices* as noted above could result in the municipality having to reimburse \$6,776.64 to its Liquid Fuels Tax Fund.

Recommendations

We recommend that the municipality reimburse \$6,776.64 to its Liquid Fuels Tax Fund upon official notification by the Department of Transportation.

We further recommend that, in the future, the municipality comply with the *Federal Highway Administration's Manual On Uniform Traffic Control Devices* regarding permissible road markings.

Management's Response

The secretary/treasurer stated:

I was not aware that single yellow line painting wasn't permissible.

Auditor's Conclusion

The municipal officials should review the *Federal Highway Administration's Manual On Uniform Traffic Control Devices* to become familiar with permissible road markings. During our next examination we will determine if the municipality complied with our recommendations.

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Finding No. 6 - Late Receipt Of Allocations

Our examination disclosed that the 2008 and 2009 Liquid Fuels Tax Fund allocations, which should have been distributed from the Department of Transportation to the municipality during the first week of April of each year, were not received until July 28, 2008, and May 4, 2009, respectively, 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 allocation for almost four months for the 2008 allocation and one month for the 2009 allocation. 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.

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



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Finding No. 6 - Late Receipt Of Allocations (Continued)

Recommendation

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

Management's Response

The secretary/treasurer stated:

Former secretary/treasurer was late on numerous responsibilities.

Auditor's Conclusion

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

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SUMMARY OF EXIT CONFERENCE  
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An exit conference was held June 21, 2011. Those participating were:

TOWNSHIP OF FAYETTE

Mrs. Sharon K. Lukens, Secretary/Treasurer

DEPARTMENT OF THE AUDITOR GENERAL

Mrs. Diane A. Bowman, Auditor

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



TOWNSHIP OF FAYETTE  
JUNIATA COUNTY  
LIQUID FUELS TAX FUND  
REPORT DISTRIBUTION  
FOR THE THREE YEARS ENDED  
DECEMBER 31, 2010

This report was initially distributed to:

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

Township of Fayette  
Juniata County  
181 Bunkertown Road  
McAlisterville, PA 17049

The Honorable Lonnie L. Snyder

Chairman of the Board of Supervisors

Mrs. Sharon K. Lukens

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](http://www.auditorgen.state.pa.us).