



TOWNSHIP OF FREEPORT
GREENE COUNTY
30-206

LIQUID FUELS TAX FUND
EXAMINATION REPORT

FOR THE FOUR YEARS ENDED
DECEMBER 31, 2009

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TOWNSHIP OF FREEPORT
GREENE COUNTY
LIQUID FUELS TAX FUND
BACKGROUND
FOR THE FOUR 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 Freeport, Greene County, for the four 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 Freeport, Greene County's Forms MS-965 for the four 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 municipality did not maintain documentation to support expenditures of \$1,442.20 during 2007 (see Finding No. 3).
- The municipality expended \$9,000.00 for a used truck during 2006, \$5,551.06 for stone during 2007, and \$9,521.62 for stone during 2008 from its Liquid Fuels Tax Fund. However, documentation for price quotations was not available for examination (see Finding No. 4).
- The municipality expended \$13,061.55 in excess of the approved amount for equipment for the year ending December 31, 2006. We also recommended reimbursement to the Liquid Fuels Tax Fund for these expenditures in Finding No. 4 and Finding No. 6 (see Finding No. 5).
- The municipality expended \$10,885.33 during 2006 for a 2004 Ford F-550 dump truck without advertising for bids (see Finding No. 6).
- The municipality expended \$3,801.36 during 2007 from its Liquid Fuels Tax Fund for nonpermissible items (see Finding No. 7).
- The municipality deposited the 2008 Act 44 allocation of \$2,315.91 into the General Fund on September 21, 2009 (see Finding No. 9).

As discussed in the Comment section of this report, during our prior examination period, the municipality expended \$21,770.66 for the purchase of a new truck without advertising for bids. The Department of Transportation also discovered nonpermissible expenditures of \$23,896.20 during 2006 and 2007. Documentation for the additional \$23,896.20 in nonpermissible expenditures cited by the Department of Transportation was not available to us. The municipality was required to reimburse a total of \$25,000.00 to the Liquid Fuels Tax Fund by making five annual payments of \$5,000.00, commencing immediately. The remaining reimbursement of \$20,666.86 was not required. During our current examination we noted that \$5,000.00 was reimbursed during both 2008 and 2009. Additionally, \$5,000.00 was reimbursed during 2010, which was subsequent to our examination period.

Independent Auditor's Report (Continued)

In our opinion, except for the matters discussed in the two 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 Freeport, Greene County, for the four 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 Freeport, Greene 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 Freeport, Greene County's Forms MS-965 that is more than inconsequential will not be prevented or detected by the Township of Freeport, Greene 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:

- Electronic Imaging Of Canceled Checks From The Bank Did Not Include The Back Of The Checks.
- Failure To Properly Prepare 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 Freeport, Greene 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 and second bulleted deficiencies to be material weaknesses.

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.
- Overexpended Equipment Purchase Tally.
- Purchases Over \$10,000.00 In Noncompliance With Advertising And Bidding Requirements.
- Nonpermissible Expenditures.
- Act 44 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 Allocation.

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

July 10, 2012

JACK WAGNER
Auditor General



TOWNSHIP OF FREEPORT
 GREENE COUNTY
 LIQUID FUELS TAX FUND
 2006 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	\$ 10,885.33	\$ 9,000.00	\$ 19,885.33
Minor equipment purchases	-	671.95	671.95
Computer/Computer related training	-	-	-
Agility projects	-	-	-
Cleaning streets and gutters	-	-	-
Winter maintenance services	7,759.92	-	7,759.92
Traffic control devices	-	-	-
Street lighting	-	-	-
Storm sewers and drains	587.20	-	587.20
Repairs of tools and machinery	2,986.56	(2,074.44)	912.12
Maintenance and repair of roads and bridges	16,201.44	2,074.44	18,275.88
Highway construction and rebuilding projects	-	-	-
Miscellaneous (Note 6)	7,552.51	-	7,552.51
 Total (To Section 2, Line 5)	 <u>\$ 45,972.96</u>	 <u>\$ 9,671.95</u>	 <u>\$ 55,644.91</u>

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

TOWNSHIP OF FREEPORT
 GREENE COUNTY
 LIQUID FUELS TAX FUND
 2006 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, 2006	\$ 17,826.69	\$ -	\$ 17,826.69
Receipts:			
2. State allocation	22,540.86	-	22,540.86
2a. Turnback allocation	9,800.00	-	9,800.00
2b. Interest on investments (Note 3)	149.78	-	149.78
2c. Miscellaneous (Note 5)	6,219.88	186.20	6,406.08
3. Total receipts	<u>38,710.52</u>	<u>186.20</u>	<u>38,896.72</u>
4. Total funds available	<u>56,537.21</u>	<u>186.20</u>	<u>56,723.41</u>
5. Expenditures (Section 1)	<u>45,972.96</u>	<u>9,671.95</u>	<u>55,644.91</u>
6. Balance, December 31, 2006	<u><u>\$ 10,564.25</u></u>	<u><u>\$ (9,485.75)</u></u>	<u><u>\$ 1,078.50</u></u>

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

TOWNSHIP OF FREEPORT
 GREENE COUNTY
 LIQUID FUELS TAX FUND
 2006 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	\$ 355.61	\$ -	\$ 355.61
2. Add: Current year equipment allocation (20% of Lines 2 + 2a, Section 2)	6,468.17	-	6,468.17
3. PENNDOT approved adjustments	<u>-</u>	<u>-</u>	<u>-</u>
4. Total funds available for equipment acquisition	6,823.78	-	6,823.78
5. Less: Major equipment expenditures	<u>10,885.33</u>	<u>9,000.00</u>	<u>19,885.33</u>
6. Remainder	<u>(4,061.55)</u>	<u>(9,000.00)</u>	<u>(13,061.55)</u>
7. Equipment balance available for subsequent year (Lesser of Line 6 or Section 2 balance, but not less than zero)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

TOWNSHIP OF FREEPORT
 GREENE COUNTY
 LIQUID FUELS TAX FUND
 2007 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	4,986.07	-	4,986.07
Traffic control devices	-	-	-
Street lighting	-	-	-
Storm sewers and drains	-	-	-
Repairs of tools and machinery	489.69	(2.40)	487.29
Maintenance and repair of roads and bridges	18,955.75	(9.95)	18,945.80
Highway construction and rebuilding projects	-	-	-
Miscellaneous (Note 6)	5,458.36	102.36	5,560.72
 Total (To Section 2, Line 5)	 <u>\$ 29,889.87</u>	 <u>\$ 90.01</u>	 <u>\$ 29,979.88</u>

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

TOWNSHIP OF FREEPORT
 GREENE COUNTY
 LIQUID FUELS TAX FUND
 2007 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, 2007	\$ 10,564.25	\$ (9,485.75)	\$ 1,078.50
Receipts:			
2. State allocation	23,292.14	-	23,292.14
2a. Turnback allocation	15,680.00	-	15,680.00
2b. Interest on investments (Note 3)	930.68	(434.09)	496.59
2c. Miscellaneous (Note 5)	6,259.82	(3,259.82)	3,000.00
3. Total receipts	<u>46,162.64</u>	<u>(3,693.91)</u>	<u>42,468.73</u>
4. Total funds available	<u>56,726.89</u>	<u>(13,179.66)</u>	<u>43,547.23</u>
5. Expenditures (Section 1)	<u>29,889.87</u>	<u>90.01</u>	<u>29,979.88</u>
6. Balance, December 31, 2007	<u><u>\$ 26,837.02</u></u>	<u><u>\$ (13,269.67)</u></u>	<u><u>\$ 13,567.35</u></u>

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

TOWNSHIP OF FREEPORT
 GREENE COUNTY
 LIQUID FUELS TAX FUND
 2007 FORM MS-965 – SECTION 3
 WITH ADJUSTMENTS

<u>Equipment Balance</u>	<u>Reported</u>	<u>Adjustments</u>	<u>Adjusted Amount</u>
1. Prior year equipment balance	\$ -	\$ -	\$ -
2. Add: Current year equipment allocation (20% of Lines 2 + 2a, Section 2)	7,794.43	-	7,794.43
3. PENNDOT approved adjustments	<u>-</u>	<u>-</u>	<u>-</u>
4. Total funds available for equipment acquisition	7,794.43	-	7,794.43
5. Less: Major equipment expenditures	<u>-</u>	<u>-</u>	<u>-</u>
6. Remainder	<u>7,794.43</u>	<u>-</u>	<u>7,794.43</u>
7. Equipment balance available for subsequent year (Lesser of Line 6 or Section 2 balance, but not less than zero)	<u>\$ 7,794.43</u>	<u>\$ -</u>	<u>\$ 7,794.43</u>

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

TOWNSHIP OF FREEPORT
 GREENE 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	3,676.34	-	3,676.34
Traffic control devices	-	-	-
Street lighting	-	-	-
Storm sewers and drains	-	-	-
Repairs of tools and machinery	6,254.60	-	6,254.60
Maintenance and repair of roads and bridges	11,836.12	-	11,836.12
Highway construction and rebuilding projects	-	-	-
Miscellaneous (Note 6)	3,074.26	(1,317.69)	1,756.57
 Total (To Section 2, Line 5)	 <u>\$ 24,841.32</u>	 <u>\$ (1,317.69)</u>	 <u>\$ 23,523.63</u>

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

TOWNSHIP OF FREEPORT
 GREENE 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	\$ 7,794.43	\$ 5,772.92	\$ 13,567.35
Receipts:			
2. State allocation (Finding No. 9)	-	-	-
2a. Turnback allocation	15,680.00	-	15,680.00
2b. Interest on investments (Note 3)	257.69	14.00	271.69
2c. Miscellaneous (Note 5)	10,758.28	-	10,758.28
3. Total receipts	<u>26,695.97</u>	<u>14.00</u>	<u>26,709.97</u>
4. Total funds available	<u>34,490.40</u>	<u>5,786.92</u>	<u>40,277.32</u>
5. Expenditures (Section 1)	<u>24,841.32</u>	<u>(1,317.69)</u>	<u>23,523.63</u>
6. Balance, December 31, 2008	<u><u>\$ 9,649.08</u></u>	<u><u>\$ 7,104.61</u></u>	<u><u>\$ 16,753.69</u></u>

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

TOWNSHIP OF FREEPORT
 GREENE 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	\$ 7,794.43	\$ -	\$ 7,794.43
2. Add: Current year equipment allocation (20% of Lines 2 + 2a, Section 2)	3,136.00	-	3,136.00
3. PENNDOT approved adjustments	<u>-</u>	<u>-</u>	<u>-</u>
4. Total funds available for equipment acquisition	10,930.43	-	10,930.43
5. Less: Major equipment expenditures	<u>-</u>	<u>-</u>	<u>-</u>
6. Remainder	<u>10,930.43</u>	<u>-</u>	<u>10,930.43</u>
7. Equipment balance available for subsequent year (Lesser of Line 6 or Section 2 balance, but not less than zero)	<u>\$ 9,649.08</u>	<u>\$ 1,281.35</u>	<u>\$ 10,930.43</u>

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

TOWNSHIP OF FREEPORT
 GREENE 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	\$ -	\$ -	\$ -
Minor equipment purchases	-	-	-
Computer/Computer related training	-	-	-
Agility projects	-	-	-
Cleaning streets and gutters	-	-	-
Winter maintenance services	1,314.96	-	1,314.96
Traffic control devices	-	-	-
Street lighting	-	-	-
Storm sewers and drains	-	-	-
Repairs of tools and machinery	6,066.41	(68.00)	5,998.41
Maintenance and repair of roads and bridges	36,063.35	(916.20)	35,147.15
Highway construction and rebuilding projects	-	-	-
Miscellaneous (Bank service charges)	24,679.51	(24,641.41)	38.10
 Total (To Section 2, Line 5)	 <u>\$ 68,124.23</u>	 <u>\$ (25,625.61)</u>	 <u>\$ 42,498.62</u>

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

TOWNSHIP OF FREEPORT
 GREENE 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	\$ 16,753.69	\$ -	\$ 16,753.69
Receipts:			
2. State allocation (Finding No. 9)	47,954.69	-	47,954.69
2a. Turnback allocation	15,680.00	-	15,680.00
2b. Interest on investments (Note 3)	154.69	2.25	156.94
2c. Miscellaneous (Note 5)	30,627.86	(25,627.86)	5,000.00
3. Total receipts	<u>94,417.24</u>	<u>(25,625.61)</u>	<u>68,791.63</u>
4. Total funds available	<u>111,170.93</u>	<u>(25,625.61)</u>	<u>85,545.32</u>
5. Expenditures (Section 1)	<u>68,124.23</u>	<u>(25,625.61)</u>	<u>42,498.62</u>
6. Balance, December 31, 2009	<u><u>\$ 43,046.70</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 43,046.70</u></u>

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

TOWNSHIP OF FREEPORT
 GREENE 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	\$ 16,753.69	\$ (5,823.26)	\$ 10,930.43
2. Add: Current year equipment allocation (20% of Lines 2 + 2a, Section 2)	12,726.94	-	12,726.94
3. PENNDOT approved adjustments	-	-	-
4. Total funds available for equipment acquisition	29,480.63	(5,823.26)	23,657.37
5. Less: Major equipment expenditures	-	-	-
6. Remainder	<u>29,480.63</u>	<u>(5,823.26)</u>	<u>23,657.37</u>
7. Equipment balance available for subsequent year (Lesser of Line 6 or Section 2 balance, but not less than zero)	<u>\$ 29,480.63</u>	<u>\$ (5,823.26)</u>	<u>\$ 23,657.37</u>

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

TOWNSHIP OF FREEPORT
GREENE COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE FOUR 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 FREEPORT
GREENE COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE FOUR 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 FREEPORT
GREENE COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE FOUR YEARS ENDED
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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 FREEPORT
GREENE COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
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2. Deposits (Continued)

Fund Balance

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

Cash	\$43,046.70
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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 \$149.78 during 2006, \$496.59 during 2007, \$271.69 during 2008, and \$156.94 during 2009 thus providing additional funds for road maintenance and repairs.

4. Adjustments

2006 - Section 1

An adjustment of \$9,000.00 was made to “Major equipment purchases” because these expenditures were not reported.

An adjustment of \$671.95 was made to “Minor equipment purchases” because these expenditures were not reported.

Adjustments were made to “Repairs of tools and machinery” and “Maintenance and repair of roads and bridges” because expenditures of \$2,074.44 were misclassified.

2006 - Section 2

An adjustment of \$186.20 was made to “Miscellaneous” because these receipts were understated.

2006 - Section 3

An adjustment of \$9,000.00 was made to “Major equipment expenditures” to reflect the adjustment made to major equipment purchases in 2006 - Section 1.

TOWNSHIP OF FREEPORT
GREENE COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
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4. Adjustments (Continued)

2007 - Section 1

An adjustment of \$(2.40) was made to “Repairs of tools and machinery” because check No. 1720 was voided but was included as an expenditure.

An adjustment of \$(9.95) was made to “Maintenance and repair of roads and bridges” because miscellaneous expenditures of \$51.36 were misclassified, expenditures of \$49.60 were not reported, and these expenditures were overstated by \$8.19.

An adjustment of \$102.36 was made to “Miscellaneous” because expenditures of \$51.36 were misclassified as maintenance and repair of roads and bridges and bank service charges of \$51.00 were not reported.

2007 - Section 2

An adjustment of \$(9,485.75) was made to “Balance, January 1, 2007” to reflect the adjustment made to the fund balance in 2006 - Section 2.

An adjustment of \$(434.09) was made to “Interest on investments” because interest earnings were overstated.

An adjustment of \$(3,259.82) was made to “Miscellaneous” because these receipts were overstated.

2008 - Section 1

An adjustment of \$(1,317.69) was made to “Miscellaneous” because these expenditures were overstated.

2008 - Section 2

An adjustment of \$5,772.92 was made to “Balance, January 1, 2008” because an incorrect fund balance was carried forward.

An adjustment of \$14.00 was made to “Interest on investments” because interest earnings were understated.

TOWNSHIP OF FREEPORT
GREENE COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
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4. Adjustments (Continued)

2009 - Section 1

An adjustment of \$(68.00) was made to “Repairs of tools and machinery” because these expenditures were overstated.

An adjustment of \$(916.20) was made to “Maintenance and repair of roads and bridges” because these expenditures were overstated.

An adjustment of \$(24,641.41) was made to “Miscellaneous” because these expenditures were overstated.

2009 - Section 2

An adjustment of \$2.25 was made to “Interest on investments” because interest earnings were understated.

An adjustment of \$(25,627.86) was made to “Miscellaneous” because these receipts were overstated.

2009 - Section 3

An adjustment of \$(5,823.26) was made to “Prior year equipment balance” because an incorrect equipment balance was carried forward.

TOWNSHIP OF FREEPORT
 GREENE COUNTY
 LIQUID FUELS TAX FUND
 NOTES TO FORMS MS-965 WITH ADJUSTMENTS
 FOR THE FOUR YEARS ENDED
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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>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Vendors	Reimbursement for damages	\$6,217.62	\$ -	\$ -	\$ -
Unknown	Unidentified receipt	188.46	-	-	-
Greene County Commissioners	Grant	-	3,000.00	-	-
General Fund	Grant	-	-	5,758.28	-
General Fund	Reimbursement (Comment)	-	-	5,000.00	5,000.00
Totals		<u>\$6,406.08</u>	<u>\$3,000.00</u>	<u>\$10,758.28</u>	<u>\$5,000.00</u>

6. Miscellaneous Expenditures

The following miscellaneous expenditures were paid from the Liquid Fuels Tax Fund during the examination period:

<u>Payee</u>	<u>Description</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Vendor	Postage stamps	\$ 1.51	\$ -	\$ -
Insurance company	Premium	7,551.00	1,242.20	1,240.28
Employees	Miscellaneous payroll	-	466.16	516.20
Employee	Meeting pay (Finding No. 7)	-	3,750.00	-
Financial institution	Bank service charges	-	51.00	.09
Vendor	Gutters (Finding No. 7)	-	51.36	-
Totals		<u>\$7,552.51</u>	<u>\$5,560.72</u>	<u>\$1,756.57</u>

TOWNSHIP OF FREEPORT
GREENE COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
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7. Lease-Purchase Agreement

On October 26, 2004, the municipality entered into a lease-purchase agreement with Ford Motor Credit Company to purchase a 2004 Ford F-550 dump truck with a plow for \$48,777.50. The agreement was for a term of five years at an interest rate of 5.8 percent. Principal and interest payments of \$10,885.30 are due annually. Prior years' principal and interest payments from the Liquid Fuels Tax Fund were \$19,572.91 and \$2,197.75, respectively. This truck was not properly bid (see Finding No. 6 and Comment).

During the current examination period the municipality paid principal of \$9,191.46 and interest of \$1,693.87 from the Liquid Fuels Tax Fund. These amounts are reflected in major equipment purchases on the 2006 Form MS-965 - Section 1. The balance of the loan as of December 31, 2006 was \$20,013.13. No payments were made from the Liquid Fuels Tax Fund on this loan after 2006. We were unable to determine if the municipality paid the balance of the loan using other municipal funds (see Finding No. 6).

TOWNSHIP OF FREEPORT
GREENE COUNTY
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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 misappropriations 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.

Recommendation

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

Management's Response

The chairperson of the board stated:

We provided the fronts and backs of checks after meeting with the auditors.

Auditor's Conclusion

As stated above, good internal controls ensure that by having a municipal official review the front and back of canceled checks, any errors or misappropriations 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 municipal officials should obtain copies of the front and back of canceled checks from its financial institution and review them monthly. During our next examination we will determine if the municipality complied with our recommendation.

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GREENE COUNTY
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Finding No. 2 - Failure To Properly Prepare Forms MS-965

Our examination disclosed that there were numerous errors made in the preparation of the municipality's 2006, 2007, 2008, and 2009 Forms MS-965. These adjustments, which are disclosed in Note 4, are as follows:

2006 - Section 1

- An adjustment of \$9,000.00 was made to "Major equipment purchases" because these expenditures were not reported.
- An adjustment of \$671.95 was made to "Minor equipment purchases" because these expenditures were not reported.
- Adjustments were made to "Repairs of tools and machinery" and "Maintenance and repair of roads and bridges" because expenditures of \$2,074.44 were misclassified.

2006 - Section 2

- An adjustment of \$186.20 was made to "Miscellaneous" because these receipts were understated.

2006 - Section 3

- An adjustment of \$9,000.00 was made to "Major equipment expenditures" to reflect the adjustment made to major equipment purchases in 2006 - Section 1.

2007 - Section 1

- An adjustment of \$(2.40) was made to "Repairs of tools and machinery" because check No. 1720 was voided but was included as an expenditure.
- An adjustment of \$(9.95) was made to "Maintenance and repair of roads and bridges" because miscellaneous expenditures of \$51.36 were misclassified, expenditures of \$49.60 were not reported, and these expenditures were overstated by \$8.19.

TOWNSHIP OF FREEPORT
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Finding No. 2 - Failure To Properly Prepare Forms MS-965 (Continued)

2007 - Section 1 (Continued)

- An adjustment of \$102.36 was made to “Miscellaneous” because expenditures of \$51.36 were misclassified as maintenance and repair of roads and bridges and bank service charges of \$51.00 were not reported.

2007 - Section 2

- An adjustment of \$(9,485.75) was made to “Balance, January 1, 2007” to reflect the adjustment made to the fund balance in 2006 - Section 2.
- An adjustment of \$(434.09) was made to “Interest on investments” because interest earnings were overstated.
- An adjustment of \$(3,259.82) was made to “Miscellaneous” because these receipts were overstated.

2008 - Section 1

- An adjustment of \$(1,317.69) was made to “Miscellaneous” because these expenditures were overstated.

2008 - Section 2

- An adjustment of \$5,772.92 was made to “Balance, January 1, 2008” because an incorrect fund balance was carried forward.
- An adjustment of \$14.00 was made to “Interest on investments” because interest earnings were understated.

2009 - Section 1

- An adjustment of \$(68.00) was made to “Repairs of tools and machinery” because these expenditures were overstated.

TOWNSHIP OF FREEPORT
GREENE COUNTY
LIQUID FUELS TAX FUND
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Finding No. 2 - Failure To Properly Prepare Forms MS-965 (Continued)

2009 - Section 1 (Continued)

- An adjustment of \$(916.20) was made to “Maintenance and repair of roads and bridges” because these expenditures were overstated.
- An adjustment of \$(24,641.41) was made to “Miscellaneous” because these expenditures were overstated.

2009 - Section 2

- An adjustment of \$2.25 was made to “Interest on investments” because interest earnings were understated.
- An adjustment of \$(25,627.86) was made to “Miscellaneous” because these receipts were overstated.

2009 - Section 3

- An adjustment of \$(5,823.26) was made to “Prior year equipment balance” because an incorrect equipment balance was carried forward.

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 misappropriations 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 chairperson of the board stated:

We had many different secretaries and the paperwork was not properly filed.

Auditor’s Conclusion

Upon hiring a new secretary/treasurer, the municipality should contact the Department of Transportation for assistance with the completion of all required forms. During our next examination we will determine if the municipality complied with our recommendation.

TOWNSHIP OF FREEPORT
 GREENE COUNTY
 LIQUID FUELS TAX FUND
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Finding No. 3 - Documentation Supporting Expenditures Was Not Available For Examination

Our examination disclosed that the municipality did not maintain documentation to support expenditures of \$1,442.20 during 2007. The municipality failed to provide invoices to support these expenditures. These expenditures were as follows:

Check No.	Check Date	Amount
1759	04/05/07	\$ 200.00
1006	09/16/07	1,242.20
Total		\$1,442.20

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.

The failure to maintain documentation to support expenditures could result in the municipality having to reimburse \$1,442.20 to its Liquid Fuels Tax Fund.

Recommendations

We recommend that the municipality reimburse \$1,442.20 to its Liquid Fuels Tax Fund upon official notification by the Department of Transportation.

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

TOWNSHIP OF FREEPORT
GREENE COUNTY
LIQUID FUELS TAX FUND
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Finding No. 3 - Documentation Supporting Expenditures Was Not Available For Examination
(Continued)

Management's Response

The chairperson of the board stated:

I was not in office at the time. I called everyone that I could call but could not find any more documentation.

Auditor's Conclusion

During our next examination we will determine whether the township has complied with our recommendations.

TOWNSHIP OF FREEPORT
 GREENE COUNTY
 LIQUID FUELS TAX FUND
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Finding No. 4 - Documentation For Price Quotations Was Not Available For Examination

Our examination disclosed that the township expended \$9,000.00 from its Liquid Fuels Tax Fund during 2006 for the purchase of a 1992 Ford pick-up truck. Additionally, the township expended \$5,551.06 during 2007 and \$9,521.62 during 2008 from the Liquid Fuels Tax Fund for the purchase of stone. 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>
Statement	07/14/06	Cash	07/14/06	<u>\$9,000.00</u>	
2006 Total					\$ 9,000.00
Various	Various	1751	04/05/07	1,170.68	
Various	Various	1778	05/03/07	<u>4,380.38</u>	
2007 Total					5,551.06
246221	01/31/08	1001	02/10/08	467.47	
Various	02/29/08	1010	03/19/08	840.26	
Various	03/15/08	1013	03/30/08	3,574.52	
Various	Various	1019	06/05/08	3,539.37	
250548	04/15/08	1021	06/18/08	600.00	
249445	03/31/08	1022	07/07/08	<u>500.00</u>	
2008 Total					<u>9,521.62</u>
Grand Total					<u><u>\$24,072.68</u></u>

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Finding No. 4 - Documentation For Price Quotations Was Not Available For Examination
(Continued)

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:

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 \$24,072.68 to its Liquid Fuels Tax Fund.

TOWNSHIP OF FREEPORT
GREENE COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
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Finding No. 4 - Documentation For Price Quotations Was Not Available For Examination
(Continued)

Recommendations

We recommend that the township reimburse \$24,072.68 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 township officials offered no formal response at this time.

TOWNSHIP OF FREEPORT
 GREENE COUNTY
 LIQUID FUELS TAX FUND
 FINDINGS AND RECOMMENDATIONS
 FOR THE FOUR YEARS ENDED
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Finding No. 5 - Overexpended Equipment Purchase Tally

Our examination disclosed that the municipality expended \$13,061.55 in excess of the amount available for the purchase of equipment for the year ending December 31, 2006, as follows:

<u>2006</u>	<u>Actual</u>
1. Prior year equipment balance	\$ 355.61
2. Current year equipment allocation (20% of Lines 2 + 2A, Section 2)	6,468.17
3. PENNDOT approved adjustments	<u>-</u>
4. Total funds available for equipment acquisition	6,823.78
5. Less: Major equipment purchases	<u>19,885.33</u>
6. Amount overexpended for equipment – 2006	<u><u>\$(13,061.55)</u></u>

The Department of Transportation’s, *Publication 9*, Appendix D, Section 449.11, 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, 20 percent of the current year’s Liquid Fuels Tax Fund allocations, and any approved adjustments.

We recommended reimbursement to the Liquid Fuels Tax Fund for major equipment purchases in Finding No. 4 (\$9,000.00) and Finding No. 6 (\$10,885.33).

The failure to follow *Publication 9* could result in the municipality having to reimburse \$13,061.55 to its Liquid Fuels Tax Fund.

The municipality did not overexpend its equipment purchase tally during 2007, 2008, and 2009.

Recommendations

If the Department of Transportation does not require reimbursement for Finding No. 4 and/or Finding No. 6, we recommend that the municipality reimburse up to \$13,061.55 to its Liquid Fuels Tax Fund upon official notification by the Department of Transportation.

We further recommend that the municipality continue to only expend up to the approved amount on equipment expenditures in accordance with the Department of Transportation’s *Publication 9*.

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GREENE COUNTY
LIQUID FUELS TAX FUND
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Finding No. 5 - Overexpended Equipment Purchase Tally (Continued)

Management's Response

The chairperson of the board stated:

I was not in office at this time.

Auditor's Conclusion

The township supervisors should ensure that the municipality complies with all Liquid Fuels Tax Fund laws and regulations. During our next examination we will determine if the municipality complied with our recommendations.

TOWNSHIP OF FREEPORT
GREENE COUNTY
LIQUID FUELS TAX FUND
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Finding No. 6 - Purchases Over \$10,000.00 In Noncompliance With Advertising And Bidding Requirements

On October 26, 2004, the township entered into a lease-purchase agreement with Ford Motor Credit Company to purchase a 2004 Ford F-550 dump truck for \$48,777.50 without advertising for bids (see Note 7). During 2006 the township paid principal of \$9,191.46 and interest of \$1,693.87 from its Liquid Fuels Tax Fund. The balance of the loan as of December 31, 2006 was \$20,013.13. The township was unable to provide us with documentation that the loan was paid off using other municipal funds.

The above expenditure 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 \$10,885.33 to its Liquid Fuels Tax Fund.

Additionally, the municipality should maintain documentation of all loan payments regardless of which funds are used to pay the loan. Failure to do so could result in errors or misappropriations occurring and remaining undetected for long periods of time.

A similar finding was also written in our prior report. However, the township did not make any purchases over \$10,000.00 during 2007, 2008, and 2009 without advertising for bids.

Recommendations

We recommend that the township reimburse \$10,885.33 to its Liquid Fuels Tax Fund upon official notification by the Department of Transportation.

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

TOWNSHIP OF FREEPORT
GREENE COUNTY
LIQUID FUELS TAX FUND
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Finding No. 6 - Purchases Over \$10,000.00 In Noncompliance With Advertising And Bidding Requirements (Continued)

Management's Response

The chairperson of the board stated:

I was not in office at this time.

Auditor's Conclusion

The township supervisors should ensure that the municipality complies with all Liquid Fuels Tax Fund laws and regulations. During our next examination we will determine if the municipality complied with our recommendations.

TOWNSHIP OF FREEPORT
 GREENE COUNTY
 LIQUID FUELS TAX FUND
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Finding No. 7 - Nonpermissible Expenditures

Our examination disclosed that the municipality expended \$3,801.36 during 2007 from the Liquid Fuels Tax Fund for the following nonpermissible items:

Description	Amount
Supervisors meeting pay	\$3,750.00
Gutters for municipal building	51.36
2007 Total	\$3,801.36

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 supervisors meeting pay and gutters for the municipal building, are outside the scope of permissible expenditures.

The failure to follow the Liquid Fuels Tax Municipal Allocation Law and the Department of Transportation's Regulations as noted above could result in the municipality having to reimburse \$3,801.36 to its Liquid Fuels Tax Fund.

Recommendations

We recommend that the municipality reimburse \$3,801.36 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 Liquid Fuels Tax Municipal Allocation Law and the Department of Transportation's Regulations regarding permissible expenditures.

TOWNSHIP OF FREEPORT
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Finding No. 7 - Nonpermissible Expenditures (Continued)

Management's Response

The chairperson of the board stated:

I was not in office at this time.

Auditor's Conclusion

The municipal officials should comply with the Department of Transportation's *Publication 9* as noted above. During our next examination we will determine if the municipality complied with our recommendations.

TOWNSHIP OF FREEPORT
GREENE COUNTY
LIQUID FUELS TAX FUND
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Finding No. 8 - Act 44 Money Deposited Into The General Fund

Our examination disclosed that the municipality deposited its 2008 Act 44 allocation of \$2,315.91 into the General Fund on September 21, 2009, which is in noncompliance with the Liquid Fuels Tax Municipal Allocation Law. Act 44 Tax money was distributed by the Department of Transportation to municipalities beginning in 2008 as a result of an increase in turnpike tolls. Beginning in 2009, Act 44 money was included in the municipality's regular Liquid Fuels Tax Fund allocation.

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.

The failure to follow the Liquid Fuels Tax Municipal Allocation Law as noted above could result in the municipality having to reimburse \$2,315.91 to its Liquid Fuels Tax Fund.

Recommendations

We recommend that the municipality reimburse \$2,315.91 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.

Management's Response

The chairperson of the board stated:

I was not in office at this time.

Auditor's Conclusion

During our next examination, we will determine whether the township has complied with our recommendations.

TOWNSHIP OF FREEPORT
GREENE COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE FOUR YEARS ENDED
DECEMBER 31, 2009

Finding No. 9 - Late Receipt Of Allocation

Our examination disclosed that the 2008 Liquid Fuels Tax Fund allocation of \$23,307.18 (included in state allocation on the 2009 Form MS-965 With Adjustments), which should have been distributed from the Department of Transportation to the municipality during the first week of April of that year, was not received until September 30, 2009, 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 31st and the Survey of Financial Condition by March 15th.
- 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 2008 allocation for nearly 18 months. Furthermore, had the allocation been received timely, money may have been available for investment purposes, potentially earning interest income which could have been used for road maintenance and repairs.

Recommendation

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

TOWNSHIP OF FREEPORT
GREENE COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE FOUR YEARS ENDED
DECEMBER 31, 2009

Finding No. 9 - Late Receipt Of Allocation (Continued)

Management's Response

The chairperson of the board stated:

We had many different secretaries and paperwork wasn't filed timely.

Auditor's Conclusion

The municipality should contact the Department of Transportation for assistance in completing required forms when a new secretary is hired. During our next examination we will determine if the municipality complied with our recommendation.

TOWNSHIP OF FREEPORT
 GREENE COUNTY
 LIQUID FUELS TAX FUND
 COMMENT
 FOR THE FOUR YEARS ENDED
 DECEMBER 31, 2009

Comment - Summary Of Prior Examination Recommendation

In our prior report we recommended that the Department of Transportation review our examination finding to determine if the municipality should reimburse \$21,770.66 to its Liquid Fuels Tax Fund for purchases over \$10,000.00 without advertising for bids. A similar finding was also written in our current report (see Finding No. 6).

During our current examination we reviewed a letter dated November 2, 2007, from the Department of Transportation informing the municipality to reimburse \$21,770.66 to its Liquid Fuels Tax Fund. Additionally, we also reviewed a letter dated October 31, 2008, from the Department of Transportation informing the municipality to reimburse an additional \$23,896.20 to its Liquid Fuels Tax Fund for nonpermissible expenditures made during 2006 and 2007. Documentation for the additional \$23,896.20 in nonpermissible expenditures cited by the Department of Transportation was not available to us. The Department of Transportation and the municipality made an agreement to allow the municipality to reimburse only \$25,000.00 to the Liquid Fuels Tax Fund. Reimbursement of the remaining \$20,666.86 was not required. The repayment schedule would be as follows:

Due Date	Amount	Date Reimbursed
10/24/08	\$5,000.00	10/03/08
06/30/09	5,000.00	05/05/09
06/30/10	5,000.00	-
06/30/11	5,000.00	-
06/30/12	5,000.00	-
Total	\$25,000.00	

As of December 31, 2009, the balance due to the township's Liquid Fuels Tax Fund was \$15,000.00.

TOWNSHIP OF FREEPORT
GREENE COUNTY
LIQUID FUELS TAX FUND
SUMMARY OF EXIT CONFERENCE
FOR THE FOUR YEARS ENDED
DECEMBER 31, 2009

An exit conference was held July 10, 2012. Those participating were:

TOWNSHIP OF FREEPORT

The Honorable Barbara Cunningham, Chairperson of the Board of Supervisors

DEPARTMENT OF THE AUDITOR GENERAL

Ms. Susan Pitts, Audit Manager

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



TOWNSHIP OF FREEPORT
GREENE COUNTY
LIQUID FUELS TAX FUND
REPORT DISTRIBUTION
FOR THE FOUR YEARS ENDED
DECEMBER 31, 2009

This report was initially distributed to:

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

Township of Freeport
Greene County
773 Golden Oaks Road
New Freeport, PA 15352

The Honorable Barbara Cunningham	Chairperson of the Board of Supervisors
Ms. Lisa Gatrell	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.