

TOWNSHIP OF KENNETT
CHESTER COUNTY
15-220

LIQUID FUELS TAX FUND
EXAMINATION REPORT

FOR THE TWO YEARS ENDED
DECEMBER 31, 2006

CONTENTS

	<u>Page</u>
Background	1
Independent Auditor's Report.....	3
Financial Section:	
2005 Form MS-965 With Adjustments	7
2006 Form MS-965 With Adjustments	10
Notes To Forms MS-965 With Adjustments.....	13
Findings And Recommendations:	
Finding No. 1 - Failure To Properly Prepare Forms MS-965	19
Finding No. 2 - Liquid Fuels Money Deposited Into The General Fund	21
Finding No. 3 - Documentation For Price Quotations Was Not Available For Examination.....	23
Finding No. 4 - Nonpermissible Expenditures	25
Finding No. 5 - Late Receipt Of Allocation	26
Comment.....	27
Summary Of Exit Conference.....	28
Report Distribution	29

TOWNSHIP OF KENNETH
CHESTER COUNTY
LIQUID FUELS TAX FUND
BACKGROUND
FOR THE TWO YEARS ENDED
DECEMBER 31, 2006

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.

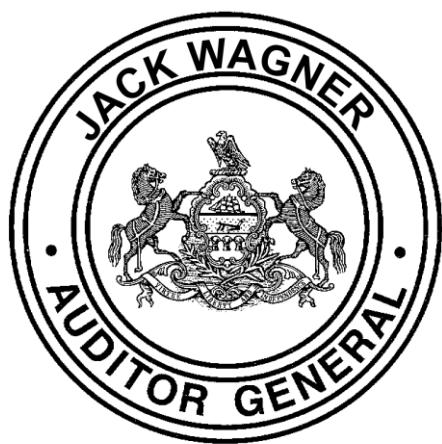
The Vehicle Code, Title 75 P.S. § 9511, provides municipalities with annual maintenance payments to be received from the Motor License Fund for functionally local highways that were transferred to a municipality from the Commonwealth of Pennsylvania.

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.



Independent Auditor's Report

The Honorable Allen D. Biehler, 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 Kennett, Chester County, for the two years ended December 31, 2006. 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 Kennett, Chester County's Forms MS-965 for the two years ended December 31, 2006 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 of this report, the municipality deposited its 2005 and 2006 Liquid Fuels Tax Fund allocations and its 2006 Turnback allocation into its General Fund. As of the date of this report, the 2005 Liquid Fuels Tax Fund allocation of \$152,156.69 had not been reimbursed to the Liquid Fuels Tax Fund. Additionally, as discussed in Finding No. 3 of this report, the municipality expended \$7,970.00 from the Liquid Fuels Tax Fund for road repairs without maintaining documentation for price quotations. Furthermore, as discussed in Finding No. 4 of this report, the municipality expended \$2,127.68 from the Liquid Fuels Tax Fund for Types 3A and 4A Modified stone, which are nonpermissible expenditures.

Independent Auditor's Report (Continued)

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 Kennett, Chester County, for the two years ended December 31, 2006, 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 is 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 Kennett, Chester 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 Kennett, Chester County's Forms MS-965 that is more than inconsequential will not be prevented or detected by the Township of Kennett, Chester County's internal control. We consider the deficiency described in the finding below to be a significant deficiency in internal control over reporting on the Forms MS-965:

- Failure To Properly Prepare Forms MS-965.

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 Kennett, Chester County's internal control. Our consideration of the internal control over reporting on the Forms MS-965 would not necessarily disclose all matters in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described above is a material weakness.

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

- Liquid Fuels Money Deposited Into The General Fund.
- Documentation For Price Quotations Was Not Available For Examination.
- Nonpermissible Expenditures.

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.

We are concerned in light of the municipality's failure to correct a previously reported audit finding for a failure to properly prepare Forms MS-965. During our current examination, we noted that the municipality failed to properly prepare Forms MS-965, deposited Liquid Fuels Tax Fund money into the General Fund, failed to maintain documentation for price quotations, expended Liquid Fuels Tax Fund money for nonpermissible expenditures, and received its Liquid Fuels Tax Fund allocation late. The municipality should strive to implement the recommendations and corrective actions noted in this report.

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

November 29, 2007

JACK WAGNER
Auditor General



**TOWNSHIP OF KENNETT
CHESTER COUNTY
LIQUID FUELS TAX FUND
2005 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	-	-	-
Agility projects	-	-	-
Cleaning streets and gutters	-	-	-
Winter maintenance services	25,266.02	(25,266.02)	-
Traffic control devices	16,844.52	(16,844.52)	-
Street lighting	-	-	-
Storm sewers and drains	-	-	-
Repairs of tools and machinery	14,982.11	(14,982.11)	-
Maintenance and repair of roads and bridges	78,198.11	(78,198.11)	-
Highway construction and rebuilding projects	24,709.24	(24,709.24)	-
Miscellaneous	-	-	-
Total (To Section 2, Line 5)	\$ 160,000.00	\$ (160,000.00)	\$ -

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

**TOWNSHIP OF KENNETT
CHESTER COUNTY
LIQUID FUELS TAX FUND
2005 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, 2005	\$ 4,804.09	\$ 161,930.20	\$ 166,734.29
Receipts:			
2. State allocation	152,156.69	(152,156.69)	-
2a. Turnback allocation	15,750.00	-	15,750.00
2b. Interest on investments (Note 3)	5,194.06	-	5,194.06
2c. Miscellaneous	-	-	-
Mathematical error	<u>13.22</u>	<u>(13.22)</u>	<u>-</u>
3. Total receipts	<u>173,113.97</u>	<u>(152,169.91)</u>	<u>20,944.06</u>
4. Total funds available	<u>177,918.06</u>	<u>9,760.29</u>	<u>187,678.35</u>
5. Expenditures (Section 1)	<u>160,000.00</u>	<u>(160,000.00)</u>	<u>-</u>
6. Balance, December 31, 2005	<u><u>\$ 17,918.06</u></u>	<u><u>\$ 169,760.29</u></u>	<u><u>\$ 187,678.35</u></u>

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

**TOWNSHIP OF KENNETH
CHESTER COUNTY
LIQUID FUELS TAX FUND
2005 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	\$ 4,804.09	\$ 30,062.35	\$ 34,866.44
2. Add: Current year equipment allocation (20% of Lines 2 + 2a, Section 2)	33,581.34	-	33,581.34
3. PENNDOT approved adjustments	-	-	-
4. Total funds available for equipment acquisition	38,385.43	30,062.35	68,447.78
5. Less: Major equipment expenditures	-	-	-
6. Remainder	<u>38,385.43</u>	<u>30,062.35</u>	<u>68,447.78</u>
7. Equipment balance available for subsequent year (Lesser of Line 6 or Section 2 balance, but not less than zero)	<u>\$ 17,918.06</u>	<u>\$ 50,529.72</u>	<u>\$ 68,447.78</u>

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

**TOWNSHIP OF KENNETT
CHESTER 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	\$ -	\$ -	\$ -
Minor equipment purchases	-	-	-
Agility projects	-	-	-
Cleaning streets and gutters	-	-	-
Winter maintenance services	-	-	-
Traffic control devices	22,045.46	-	22,045.46
Street lighting	-	-	-
Storm sewers and drains	-	-	-
Repairs of tools and machinery	-	-	-
Maintenance and repair of roads and bridges	23,643.49	13,265.35	36,908.84
Highway construction and rebuilding projects	150,736.58	(13,265.35)	137,471.23
Miscellaneous	-	-	-
Total (To Section 2, Line 5)	\$ 196,425.53	\$ -	\$ 196,425.53

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

**TOWNSHIP OF KENNETT
CHESTER 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	\$ 17,905.06	\$ 169,773.29	\$ 187,678.35
Receipts:			
2. State allocation	163,687.35	-	163,687.35
2a. Turnback allocation	15,750.00	-	15,750.00
2b. Interest on investments (Note 3)	13,778.71	-	13,778.71
2c. Miscellaneous (Comment)	<u>-</u>	<u>7,344.76</u>	<u>7,344.76</u>
3. Total receipts	<u>193,216.06</u>	<u>7,344.76</u>	<u>200,560.82</u>
4. Total funds available	<u>211,121.12</u>	<u>177,118.05</u>	<u>388,239.17</u>
5. Expenditures (Section 1)	<u>196,425.53</u>	<u>-</u>	<u>196,425.53</u>
6. Balance, December 31, 2006	<u><u>\$ 14,695.59</u></u>	<u><u>\$ 177,118.05</u></u>	<u><u>\$ 191,813.64</u></u>

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

**TOWNSHIP OF KENNETH
CHESTER 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	\$ 17,905.06	\$ 50,542.72	\$ 68,447.78
2. Add: Current year equipment allocation (20% of Lines 2 + 2a, Section 2)	35,887.47	-	35,887.47
3. PENNDOT approved adjustments	-	-	-
4. Total funds available for equipment acquisition	53,792.53	50,542.72	104,335.25
5. Less: Major equipment expenditures	-	-	-
6. Remainder	<u>53,792.53</u>	<u>50,542.72</u>	<u>104,335.25</u>
7. Equipment balance available for subsequent year (Lesser of Line 6 or Section 2 balance, but not less than zero)	<u>\$ 14,695.59</u>	<u>\$ 89,639.66</u>	<u>\$ 104,335.25</u>

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

TOWNSHIP OF KENNETH
CHESTER COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE TWO YEARS ENDED
DECEMBER 31, 2006

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 KENNETH
CHESTER COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE TWO YEARS ENDED
DECEMBER 31, 2006

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 KENNETH
CHESTER COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE TWO YEARS ENDED
DECEMBER 31, 2006

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, 2006. 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 KENNETH
CHESTER COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE TWO YEARS ENDED
DECEMBER 31, 2006

2. Deposits (Continued)

Fund Balance

The fund balance as of December 31, 2006 consists of the following:

Cash	<u>\$191,813.64</u>
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3. Interest On Investments

Our examination disclosed that the municipality deposited idle liquid fuels tax money in an interest-bearing account which earned \$5,194.06 during 2005, and \$13,778.71 during 2006, thus providing additional funds for road maintenance and repairs.

4. Adjustments

2005 - Section 1

Adjustments were made to “Winter maintenance services,” “Traffic control devices,” “Repairs of tools and machinery,” “Maintenance and repair of roads and bridges,” and “Highway construction and rebuilding projects” because expenditures of \$160,000.00 were reported but were never paid from the Liquid Fuels Tax Fund.

2005 - Section 2

An adjustment of \$161,930.20 was made to “Balance, January 1, 2005” because of prior report adjustments that were not carried forward in the fund balance.

An adjustment of \$(152,156.69) was made to “State allocation” because this receipt was deposited into the General Fund.

2005 - Section 3

An adjustment of \$30,062.35 was made to “Prior year equipment balance” because of prior report adjustments that were not carried forward in the equipment balance.

2006 - Section 1

Adjustments were made to “Maintenance and repair of roads and bridges” and “Highway construction and rebuilding projects” because expenditures of \$13,265.35 were misclassified.

TOWNSHIP OF KENNETT
CHESTER COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE TWO YEARS ENDED
DECEMBER 31, 2006

4. Adjustments (Continued)

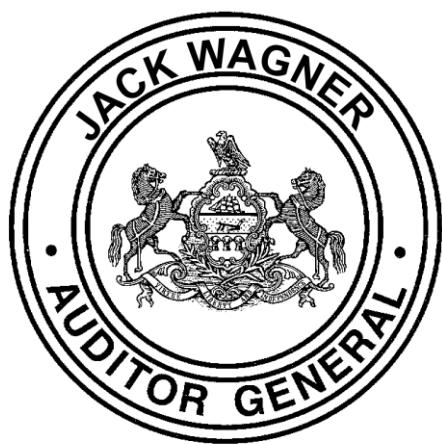
2006 - Section 2

An adjustment of \$169,773.29 was made to “Balance, January 1, 2006” because an incorrect fund balance was reported.

An adjustment of \$7,344.76 was made to “Miscellaneous” receipts because a reimbursement from the General Fund was not reported.

2006 - Section 3

An adjustment of \$50,542.72 was made to “Prior year equipment balance” because an incorrect equipment balance was carried forward.



TOWNSHIP OF KENNETH
CHESTER COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE TWO YEARS ENDED
DECEMBER 31, 2006

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

Our examination disclosed that there were numerous errors made in the preparation of the municipality's 2005 and 2006 Forms MS-965. These adjustments, which are disclosed in Note 4, are as follows:

2005 - Section 1

- Adjustments were made to "Winter maintenance services," "Traffic control devices," "Repairs of tools and machinery," "Maintenance and repair of roads and bridges," and "Highway construction and rebuilding projects" because expenditures of \$160,000.00 were reported but were never paid from the Liquid Fuels Tax Fund.

2005 - Section 2

- An adjustment of \$161,930.20 was made to "Balance, January 1, 2005" because of prior report adjustments that were not carried forward in the fund balance.
- An adjustment of \$(152,156.69) was made to "State allocation" because this receipt was deposited into the General Fund.

2005 - Section 3

- An adjustment of \$30,062.35 was made to "Prior year equipment balance" because of prior report adjustments that were not carried forward in the equipment balance.

2006 - Section 1

- Adjustments were made to "Maintenance and repair of roads and bridges" and "Highway construction and rebuilding projects" because expenditures of \$13,265.35 were misclassified.

TOWNSHIP OF KENNETH
CHESTER COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE TWO YEARS ENDED
DECEMBER 31, 2006

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

2006 - Section 2

- An adjustment of \$169,773.29 was made to “Balance, January 1, 2006” because an incorrect fund balance was reported.
- An adjustment of \$7,344.76 was made to “Miscellaneous” receipts because a reimbursement from the General Fund was not reported.

2006 - Section 3

- An adjustment of \$50,542.72 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 irregularities may occur and remain undetected.

A similar finding was also written in our prior report.

Recommendation

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

Management's Response

The municipal officials offered no formal response at this time.

Auditor's Conclusion

This is a recurring finding. We strongly recommend that the municipality comply with our recommendation.

TOWNSHIP OF KENNETH
CHESTER COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE TWO YEARS ENDED
DECEMBER 31, 2006

Finding No. 2 - Liquid Fuels Money Deposited Into The General Fund

Our examination disclosed that the municipality deposited the following Liquid Fuels Tax Fund monies into the General Fund:

<u>Source</u>	<u>Date</u>	<u>Amount</u>
2005 State allocation	08/01/05	\$152,156.69
2006 State allocation	04/25/06	163,687.35
2006 Turnback allocation	04/03/06	<u>15,750.00</u>
Total		<u>\$331,594.04</u>

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.

We noted that the municipality reimbursed \$163,687.35 and \$15,750.00 to the Liquid Fuels Tax Fund on May 19, 2006 and on December 21, 2006, respectively.

The failure to follow the Liquid Fuels Tax Municipal Allocation Law could result in the municipality having to reimburse \$152,156.69 to its Liquid Fuels Tax Fund.

TOWNSHIP OF KENNETH
CHESTER COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE TWO YEARS ENDED
DECEMBER 31, 2006

Finding No. 2 - Liquid Fuels Money Deposited Into The General Fund (Continued)

Recommendations

We recommend that the municipality reimburse \$152,156.69 to its Liquid Fuels Tax Fund upon official notification by the Department of Transportation.

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

Management's Response

The municipal officials offered no formal response at this time.

TOWNSHIP OF KENNETH
CHESTER COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE TWO YEARS ENDED
DECEMBER 31, 2006

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

Our examination disclosed that the township expended \$7,970.00 from the Liquid Fuels Tax Fund for road repairs. However, documentation for price quotations was not available for examination. These purchases were as follows:

Invoice <u>Number</u>	Invoice <u>Date</u>	Check <u>Number</u>	Check <u>Date</u>	<u>Amount</u>
20360	12/14/05	5542	01/16/06	\$3,995.00
20361	12/14/05	5542	01/16/06	3,975.00
Total				<u>\$7,970.00</u>

The above purchases were not made in compliance with the contract requirements of *The Second Class Township Code*, 53 P.S. § 68102(b), (also found at § 3102(b) of *The Second Class Township Code* as published by the Local Government Commission), which states, in part:

Written or telephonic price quotations from at least three qualified and responsible contractors shall be requested for all contracts that exceed four thousand dollars (\$4,000.00) but are less than the amount [in excess of \$10,000.00] requiring advertisement and competitive bidding or, in lieu of price quotations, a memorandum shall be kept on file showing that fewer than three qualified contractors exist in the market area within which it is practicable to obtain quotations. A written record of telephonic price quotations shall be made and shall contain at least the date of the quotation, the name of the contractor and the contractor's representative, the construction, reconstruction, repair, maintenance or work which was the subject of the quotation and the price. Written price quotations, written records of telephonic price quotations and memoranda shall be retained for a period of three years.

TOWNSHIP OF KENNETH
CHESTER COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE TWO YEARS ENDED
DECEMBER 31, 2006

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

In addition, the above purchases were not made in compliance with Department of Transportation *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 Department of Transportation *Publication 9* could result in the township having to reimburse \$7,970.00 to its Liquid Fuels Tax Fund.

Recommendations

We recommend that the township reimburse \$7,970.00 to its Liquid Fuels Tax Fund upon official notification by the Department of Transportation.

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

Management's Response

The municipal officials offered no formal response at this time.

TOWNSHIP OF KENNETH
CHESTER COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE TWO YEARS ENDED
DECEMBER 31, 2006

Finding No. 4 - Nonpermissible Expenditures

Our examination disclosed that the municipality expended \$2,127.68 from the Liquid Fuels Tax Fund for the purchases of Types 3A and 4A Modified stone, which are nonpermissible expenditures. These expenditures are as follows:

<u>Invoice Number</u>	<u>Invoice Date</u>	<u>Check Number</u>	<u>Check Date</u>	<u>Amount</u>
167552	08/31/06	6300	09/18/06	\$ 289.44
167553	08/31/06	6300	09/18/06	1,319.12
165760	08/21/06	6300	09/18/06	519.12
Total				<u>\$2,127.68</u>

Stone approved by the Department of Transportation are listed in the Department of Transportation Specifications *Publication 408*, Section 703.2. Types 3A and 4A Modified stone do not appear in *Publication 408*.

The failure to purchase stone that is approved by the Department of Transportation could result in the municipality having to reimburse \$2,127.68 to its Liquid Fuels Tax Fund.

Recommendations

We recommend that the municipality reimburse \$2,127.68 to its Liquid Fuels Tax Fund upon official notification by the Department of Transportation.

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

Management's Response

The municipal officials offered no formal response at this time.

TOWNSHIP OF KENNETH
CHESTER COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE TWO YEARS ENDED
DECEMBER 31, 2006

Finding No. 5 - Late Receipt Of Allocation

Our examination disclosed that the 2005 Liquid Fuels Tax Fund allocation, which should have been distributed during the first week of April of that year, was not received until August 1, 2005. Upon its receipt, the allocation was deposited into the General Fund (see Finding No. 2). The municipality failed to comply with Department of Transportation Regulation 449.12, which requires the timely filing of particular documents and information, among them:

- Evidence that its treasurer is bonded in accordance with the law or that its treasurer is a bank requiring no bond.
- A report indicating the manner in which its Liquid Fuels Tax Fund was expended in the preceding year.
- Survey of financial condition.
- Roster of municipal officials.

Because the municipality failed to file documents and information timely as noted above, the municipality did not have use of the allocation for four 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 Department of Transportation Regulation 449.12 to ensure that the allocations are received during the first week in April as outlined above.

Management's Response

The municipal officials offered no formal response at this time.

TOWNSHIP OF KENNETH
CHESTER COUNTY
LIQUID FUELS TAX FUND
COMMENT
FOR THE TWO YEARS ENDED
DECEMBER 31, 2006

Comment - Summary Of 2003 Examination Recommendations

In our 2003 report we recommended that the Department of Transportation review our examination finding to determine if the municipality should reimburse \$7,344.76 to its Liquid Fuels Tax Fund for nonpermissible expenditures.

During our prior examination we reviewed a letter dated February 23, 2006, from the Department of Transportation informing the municipality to reimburse \$7,344.76 to its Liquid Fuels Tax Fund. We noted that the municipality reimbursed this amount to its Liquid Fuels Tax Fund on March 9, 2006.

TOWNSHIP OF KENNETH
CHESTER COUNTY
LIQUID FUELS TAX FUND
SUMMARY OF EXIT CONFERENCE
FOR THE TWO YEARS ENDED
DECEMBER 31, 2006

An exit conference was held November 29, 2007. Those participating were:

TOWNSHIP OF KENNETH

Ms. Lisa M. Moore, Secretary/Treasurer

DEPARTMENT OF THE AUDITOR GENERAL

Mr. Robert Rosenfeldt, Auditor

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

TOWNSHIP OF KENNETH
CHESTER COUNTY
LIQUID FUELS TAX FUND
REPORT DISTRIBUTION
FOR THE TWO YEARS ENDED
DECEMBER 31, 2006

This report was initially distributed to:

The Honorable Allen D. Biehler, P.E.
Secretary
Department of Transportation

Township of Kennett
Chester County
806 Burrows Run Road
Chadds Ford, PA 19317

The Honorable Michael E. Elling

Chairman of the Board of Supervisors

Ms. Lisa M. Moore

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.