



TOWNSHIP OF LENOX  
SUSQUEHANNA COUNTY  
57-219

LIQUID FUELS TAX FUND  
EXAMINATION REPORT

FOR THE TWO YEARS ENDED  
DECEMBER 31, 2009

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TOWNSHIP OF LENOX  
SUSQUEHANNA COUNTY  
LIQUID FUELS TAX FUND  
BACKGROUND  
FOR THE TWO YEARS ENDED  
DECEMBER 31, 2009

Background

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

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

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

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

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

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





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

**JACK WAGNER  
AUDITOR GENERAL**

Independent Auditor's Report

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

We examined the accompanying Forms MS-965 With Adjustments for the Liquid Fuels Tax Fund of the Township of Lenox, Susquehanna County, for the two years ended December 31, 2009. The municipality's management is responsible for the Forms MS-965. Our responsibility is to express an opinion on the Forms MS-965 With Adjustments based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States. An examination includes examining, on a test basis, evidence supporting the Township of Lenox, Susquehanna County's Forms MS-965 for the two years ended December 31, 2009 and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

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

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

Independent Auditor's Report (Continued)

As discussed in Finding No. 2, the township expended \$25,910.00 during 2008 and \$26,550.00 during 2009 from its Liquid Fuels Tax Fund for the rental of equipment with operator without advertising for bids. Additionally, as discussed in Finding No. 3, the township expended \$3,150.00 during 2008 for the hauling of salt brine, which is a nonpermissible expenditure.

In our opinion, except for the matters discussed in the preceding paragraph, the Forms MS-965 With Adjustments present, in all material respects, the information required by the Pennsylvania Department of Transportation for the Liquid Fuels Tax Fund of the Township of Lenox, Susquehanna County, for the two years ended December 31, 2009, in conformity with the criteria set forth in Note 1.

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Township of Lenox, Susquehanna 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 Lenox, Susquehanna County's Forms MS-965 that is more than inconsequential will not be prevented or detected by the Township of Lenox, Susquehanna County's internal control. We consider the deficiency described in the findings 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 Lenox, Susquehanna County's internal control. Our consideration of the internal control over reporting on the Forms MS-965 would not necessarily disclose all matters in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We consider the significant deficiency described above to be a material weakness.

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

- Purchases Over \$10,000.00 In Noncompliance With Advertising And Bidding Requirements.
- Nonpermissible Expenditure.

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

- Late Receipt Of Allocations.

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

June 28, 2010

JACK WAGNER  
Auditor General





TOWNSHIP OF LENOX  
 SUSQUEHANNA 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	73,908.26	-	73,908.26
Traffic control devices	140.12	-	140.12
Street lighting	-	-	-
Storm sewers and drains	-	-	-
Repairs of tools and machinery	889.25	-	889.25
Maintenance and repair of roads and bridges	256,489.78	(32.17)	256,457.61
Highway construction and rebuilding projects	-	-	-
Miscellaneous (Note 6)	185.48	52,500.00	52,685.48
 Total (To Section 2, Line 5)	 <u>\$ 331,612.89</u>	 <u>\$ 52,467.83</u>	 <u>\$ 384,080.72</u>

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

TOWNSHIP OF LENOX  
 SUSQUEHANNA 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	\$ 24,053.15	\$ 206.99	\$ 24,260.14
Receipts:			
2. State allocation	111,777.89	-	111,777.89
2a. Turnback allocation	54,720.00	-	54,720.00
2b. Interest on investments (Note 3)	2,855.02	(1,851.89)	1,003.13
2c. Miscellaneous (Note 5)	186,576.58	54,351.89	240,928.47
3. Total receipts	<u>355,929.49</u>	<u>52,500.00</u>	<u>408,429.49</u>
4. Total funds available	<u>379,982.64</u>	<u>52,706.99</u>	<u>432,689.63</u>
5. Expenditures (Section 1)	<u>331,612.89</u>	<u>52,467.83</u>	<u>384,080.72</u>
6. Balance, December 31, 2008	<u>\$ 48,369.75</u>	<u>\$ 239.16</u>	<u>\$ 48,608.91</u>

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

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

<u>Equipment Balance</u>	<u>Reported</u>	<u>Adjustments (Note 4)</u>	<u>Adjusted Amount</u>
1. Prior year equipment balance	\$ -	\$ 497.51	\$ 497.51
2. Add: Current year equipment allocation (20% of Lines 2 + 2a, Section 2)	33,299.58	-	33,299.58
3. PENNDOT approved adjustments	-	37,051.62	37,051.62
4. Total funds available for equipment acquisition	33,299.58	37,549.13	70,848.71
5. Less: Major equipment expenditures	-	-	-
6. Remainder	<u>33,299.58</u>	<u>37,549.13</u>	<u>70,848.71</u>
7. Equipment balance available for subsequent year (Lesser of Line 6 or Section 2 balance, but not less than zero)	<u>\$ 33,299.58</u>	<u>\$ 15,309.33</u>	<u>\$ 48,608.91</u>

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

TOWNSHIP OF LENOX  
 SUSQUEHANNA 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	57,911.15	-	57,911.15
Traffic control devices	140.00	-	140.00
Street lighting	-	-	-
Storm sewers and drains	-	-	-
Repairs of tools and machinery	93.36	-	93.36
Maintenance and repair of roads and bridges	188,994.20	239.16	189,233.36
Highway construction and rebuilding projects	-	-	-
Miscellaneous	-	-	-
 Total (To Section 2, Line 5)	 <u>\$ 247,138.71</u>	 <u>\$ 239.16</u>	 <u>\$ 247,377.87</u>

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

TOWNSHIP OF LENOX  
 SUSQUEHANNA 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	\$ 48,369.75	\$ 239.16	\$ 48,608.91
Receipts:			
2. State allocation	107,539.19	-	107,539.19
2a. Turnback allocation	67,360.00	-	67,360.00
2b. Interest on investments (Note 3)	735.37	-	735.37
2c. Miscellaneous (Note 5)	74,402.26	-	74,402.26
3. Total receipts	<u>250,036.82</u>	<u>-</u>	<u>250,036.82</u>
4. Total funds available	<u>298,406.57</u>	<u>239.16</u>	<u>298,645.73</u>
5. Expenditures (Section 1)	<u>247,138.71</u>	<u>239.16</u>	<u>247,377.87</u>
6. Balance, December 31, 2009	<u>\$ 51,267.86</u>	<u>\$ -</u>	<u>\$ 51,267.86</u>

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

TOWNSHIP OF LENOX  
 SUSQUEHANNA 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	\$ 33,299.58	\$ 15,309.33	\$ 48,608.91
2. Add: Current year equipment allocation (20% of Lines 2 + 2a, Section 2)	34,979.84	-	34,979.84
3. PENNDOT approved adjustments	-	9,898.89	9,898.89
4. Total funds available for equipment acquisition	68,279.42	25,208.22	93,487.64
5. Less: Major equipment expenditures	-	-	-
6. Remainder	<u>68,279.42</u>	<u>25,208.22</u>	<u>93,487.64</u>
7. Equipment balance available for subsequent year (Lesser of Line 6 or Section 2 balance, but not less than zero)	<u>\$ 51,267.86</u>	<u>\$ -</u>	<u>\$ 51,267.86</u>

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

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

1. Criteria

Section 1

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

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

Section 2

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

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

Section 3

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



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

1. Criteria (Continued)

Section 3 (Continued)

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

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

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

Basis Of Presentation

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

Basis Of Accounting

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

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

1. Criteria (Continued)

General Fixed Assets

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

2. Deposits

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

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

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

There were no deposits exposed to custodial credit risk as of December 31, 2009. Custodial credit risk, as defined by GASB No. 40, includes deposits that are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the municipality's name.

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

2. Deposits (Continued)

Fund Balance

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

Cash	\$12,732.75
Certificate of deposit	<u>38,535.11</u>
Total	<u>\$51,267.86</u>

3. Interest On Investments

Our examination disclosed that the municipality deposited idle liquid fuels tax money in interest-bearing accounts and a certificate of deposit which earned \$1,003.13 during 2008, and \$735.37 during 2009, thus providing additional funds for road maintenance and repairs.

4. Adjustments

2008 - Section 1

An adjustment of \$(32.17) was made to "Maintenance and repair of roads and bridges" because these expenditures were overstated.

An adjustment of \$52,500.00 was made to "Miscellaneous" expenditures because the reimbursement of temporary loans to the Equipment Fund was not reported.

2008 - Section 2

An adjustment of \$206.99 was made to "Balance, January 1, 2008" because of a prior report adjustment that was not carried forward in the fund balance.

An adjustment of \$(1,851.89) was made to "Interest on investments" because miscellaneous receipts were misclassified as interest.

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

4. Adjustments (Continued)

2008 - Section 2 (Continued)

An adjustment of \$54,351.89 was made to “Miscellaneous” receipts because \$52,500.00 of temporary loans from the Equipment Fund were not reported and \$1,851.89 of receipts were misclassified as interest.

2008 - Section 3

An adjustment of \$497.51 was made to “Prior year equipment balance” because an incorrect equipment balance was carried forward.

An adjustment of \$37,051.62 was made to “PENNDOT approved adjustments” because 20 percent of the unexpended turnback account balances that were deposited into Liquid Fuels Tax Fund were not reported as approved adjustments.

2009 - Section 1

An adjustment of \$239.16 was made to “Maintenance and repair of roads and bridges” because these expenditures were understated.

2009 - Section 2

An adjustment of \$239.16 was made to “Balance, January 1, 2009” to reflect the adjustments made in 2008 - Section 1 and 2008 - Section 2.

2009 - Section 3

An adjustment of \$15,309.33 was made to “Prior year equipment balance” because an incorrect equipment balance was carried forward.

An adjustment of \$9,898.89 was made to “PENNDOT approved adjustments” because 20 percent of the unexpended turnback account balances that were deposited into Liquid Fuels Tax Fund were not reported as approved adjustments.

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

5. Miscellaneous Receipts

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

<u>Source</u>	<u>Description</u>	<u>2008</u>	<u>2009</u>
Equipment Fund	Temporary loans (Note 7)	\$ 52,500.00	\$ -
Turnback Road 504	Unexpended balance	101,851.89	-
Commonwealth of Pennsylvania	Severe weather assistance	3,170.35	2,137.81
Turnback Road 506	Unexpended balance	70,158.19	-
Turnback Road 512	Unexpended balance	13,248.04	-
General Fund	Reimbursement (Comment)	-	22,770.00
Turnback Road 508	Unexpended balance	-	3,170.97
Turnback Road 511	Unexpended balance	-	7,788.37
Turnback Road 509	Unexpended balance	<u>-</u>	<u>38,535.11</u>
Totals		<u>\$240,928.47</u>	<u>\$74,402.26</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>2008</u>
Financial institution	Bank service charges	\$ 185.48
Equipment Fund	Reimbursement of temporary loans (Note 7)	<u>52,500.00</u>
Total		<u>\$52,685.48</u>

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

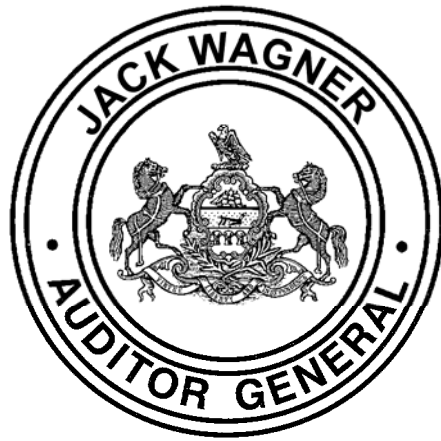
7. Temporary Loans

During 2008 the municipality loaned a total of \$52,500.00 from its Equipment Fund to its Liquid Fuels Tax Fund. On December 31, 2008 the municipality transferred \$52,500.00 from its Liquid Fuels Tax Fund to the Equipment Fund to repay the loans.

8. Bank Loan

On April 27, 2006, the municipality borrowed \$68,395.00 from the Peoples National Bank to purchase a 2005 wheel loader. The term of the loan was for four years at an interest rate of 4.50 percent. Principal payments of \$17,098.75, plus interest, are due annually. Prior years' principal and interest payments from the Liquid Fuels Tax Fund were \$17,098.75 and \$4,086.60, respectively.

During the current examination period the municipality paid principal of \$34,197.50 and interest of \$3,899.23 from the General Fund. The outstanding balance of the loan as of December 31, 2009 was \$17,098.75, plus interest.



TOWNSHIP OF LENOX  
SUSQUEHANNA COUNTY  
LIQUID FUELS TAX FUND  
FINDINGS AND RECOMMENDATIONS  
FOR THE TWO YEARS ENDED  
DECEMBER 31, 2009

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

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

2008 - Section 1

- An adjustment of \$(32.17) was made to "Maintenance and repair of roads and bridges" because these expenditures were overstated.
- An adjustment of \$52,500.00 was made to "Miscellaneous" expenditures because the reimbursement of temporary loans to the Equipment Fund was not reported.

2008 - Section 2

- An adjustment of \$206.99 was made to "Balance, January 1, 2008" because of a prior report adjustment that was not carried forward in the fund balance.
- An adjustment of \$(1,851.89) was made to "Interest on investments" because miscellaneous receipts were misclassified as interest.
- An adjustment of \$54,351.89 was made to "Miscellaneous" receipts because \$52,500.00 of temporary loans from the Equipment Fund were not reported and \$1,851.89 of receipts were misclassified as interest.

2008 - Section 3

- An adjustment of \$497.51 was made to "Prior year equipment balance" because an incorrect equipment balance was carried forward.
- An adjustment of \$37,051.62 was made to "PENNDOT approved adjustments" because 20 percent of the unexpended turnback account balances that were deposited into Liquid Fuels Tax Fund were not reported as approved adjustments.

2009 - Section 1

- An adjustment of \$239.16 was made to "Maintenance and repair of roads and bridges" because these expenditures were understated.



TOWNSHIP OF LENOX  
SUSQUEHANNA COUNTY  
LIQUID FUELS TAX FUND  
FINDINGS AND RECOMMENDATIONS  
FOR THE TWO YEARS ENDED  
DECEMBER 31, 2009

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

2009 - Section 2

- An adjustment of \$239.16 was made to “Balance, January 1, 2009” to reflect the adjustments made in 2008 - Section 1 and 2008 - Section 2.

2009 - Section 3

- An adjustment of \$15,309.33 was made to “Prior year equipment balance” because an incorrect equipment balance was carried forward.
- An adjustment of \$9,898.89 was made to “PENNDOT approved adjustments” because 20 percent of the unexpended turnback account balances that were deposited into Liquid Fuels Tax Fund were not reported as approved adjustments.

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 municipal officials stated:

We will try to do better in future.

Auditor’s Conclusion

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

TOWNSHIP OF LENOX  
 SUSQUEHANNA COUNTY  
 LIQUID FUELS TAX FUND  
 FINDINGS AND RECOMMENDATIONS  
 FOR THE TWO YEARS ENDED  
 DECEMBER 31, 2009

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

Our examination disclosed that the township expended \$25,910.00 during 2008 and \$26,550.00 during 2009 from the Liquid Fuels Tax Fund for the rental of equipment with operator without advertising for bids. These expenditures were as follows:

<u>Invoice Number</u>	<u>Invoice Date</u>	<u>Check Number</u>	<u>Check Date</u>	<u>Amount</u>	<u>Totals</u>
None	06/09/2008	2573	07/07/2008	\$3,940.00	
None	07/31/2008	2608	08/03/2008	7,790.00	
None	07/12/2008	2609	08/03/2008	2,320.00	
None	10/31/2008	2674	11/03/2008	1,900.00	
None	11/14/2008	2685	12/01/2008	<u>9,960.00</u>	
2008 Total					\$25,910.00
None	03/18/2009	2775	04/06/2009	4,950.00	
None	04/28/2009	2786	05/04/2009	1,575.00	
None	05/29/2009	2809	06/01/2009	1,850.00	
None	07/06/2009	2862	08/03/2009	7,950.00	
None	08/07/2009	2881	09/07/2009	3,300.00	
None	09/15/2009	2903	10/05/2009	5,375.00	
None	None	2935	11/02/2009	<u>1,550.00</u>	
2009 Total					<u>26,550.00</u>
Two Year Total					<u><u>\$52,460.00</u></u>

The above purchases were 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.

In addition, the above purchases were not made in compliance with the Department of Transportation's *Publication 9*, Appendix D, Section 449.7(d), which states, in part:

TOWNSHIP OF LENOX  
SUSQUEHANNA COUNTY  
LIQUID FUELS TAX FUND  
FINDINGS AND RECOMMENDATIONS  
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Finding No. 2 - Purchases Over \$10,000.00 In Noncompliance With Advertising And Bidding Requirements (Continued)

Each municipality shall make an annual estimate of its requirements of road construction and maintenance materials, and shall advertise for bids on all items and groups of like items ordinarily supplied by a single supplier . . . which are estimated to exceed \$10,000 for the year . . . . If the cost during the year of an unadvertised item or group of like items ordinarily supplied by a single supplier exceeds \$10,000 . . . 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 . . .

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 \$52,460.00 to its Liquid Fuels Tax Fund.

Recommendations

We recommend that the township reimburse \$52,460.00 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 the Department of Transportation's *Publication 9* as noted in this finding.

Management's Response

The township officials stated:

We phone quoted but didn't know it went over the \$10,000.00 need to bid. We have bid all equipment by hour in 2010.

Auditor's Conclusion

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

TOWNSHIP OF LENOX  
SUSQUEHANNA COUNTY  
LIQUID FUELS TAX FUND  
FINDINGS AND RECOMMENDATIONS  
FOR THE TWO YEARS ENDED  
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Finding No. 3 - Nonpermissible Expenditure

Our examination disclosed that the municipality expended \$3,150.00 during 2008 from the Liquid Fuels Tax Fund for the hauling of salt brine, which is a nonpermissible expenditure.

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 the hauling of salt brine, 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 \$3,150.00 to its Liquid Fuels Tax Fund.

Recommendations

We recommend that the municipality reimburse \$3,150.00 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.

Management's Response

The municipal officials stated:

The township was not made aware that salt brine was nonpermissible until after this check was written. In the future we will not purchase salt brine.

Auditor's Conclusion

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

TOWNSHIP OF LENOX  
SUSQUEHANNA COUNTY  
LIQUID FUELS TAX FUND  
FINDINGS AND RECOMMENDATIONS  
FOR THE TWO YEARS ENDED  
DECEMBER 31, 2009

Finding No. 4 - Late Receipt Of Allocations

Our examination disclosed that the 2008 and 2009 Liquid Fuels Tax Fund allocations, which should have been distributed during the first week of April of each year, were not received until May 2, 2008, and July 14, 2009, respectively, because the municipality failed to comply with the Department of Transportation's *Publication 9*, Chapter Two, Section 2.4, which states:

To qualify for the annual liquid fuels tax allocation, a municipality shall:

- Submit annual reports (MS-965, Actual Use Report, MS-965P, Project and Miscellaneous Receipts, and MS-965S, Record of Checks)
- Make deposits and payments or expenditures in compliance with the Act 655. Failure to do so may result in not receiving allocations from PENNDOT until all discrepancies are resolved.
- Submit the Pennsylvania Department of Community and Economic Development's (DCED) Report of Elect and Appointed Officials by January 31<sup>st</sup> and the Survey of Financial Condition by March 15<sup>th</sup>.
- Ensure resolution of all Contractor Responsibility Program (CRP) holds and blocks imposed by the Department of Revenue and the Department of Labor and Industry.

Because the municipality failed to file documents and information timely as noted above, the municipality did not have use of the allocation for approximately one month during 2008 and more than three months during 2009. Furthermore, had the allocations been received timely, money may have been available for investment purposes, potentially earning interest income which could have been used for road maintenance and repairs.

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 LENOX  
SUSQUEHANNA COUNTY  
LIQUID FUELS TAX FUND  
FINDINGS AND RECOMMENDATIONS  
FOR THE TWO YEARS ENDED  
DECEMBER 31, 2009

Finding No. 4 - Late Receipt Of Allocations (Continued)

Management's Response

The municipal officials stated:

Forms were filed late.

Auditor's Conclusion

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

TOWNSHIP OF LENOX  
SUSQUEHANNA COUNTY  
LIQUID FUELS TAX FUND  
COMMENT  
FOR THE TWO YEARS ENDED  
DECEMBER 31, 2009

Comment - Summary Of 2005 Examination Recommendation

In our 2005 report we recommended that the Department of Transportation review our examination finding to determine if the municipality should reimburse \$22,770.00 to its Liquid Fuels Tax Fund. This amount consists of \$18,270.00 for the rental of equipment without advertising for bids and \$4,500.00 for the application of salt brine, which is a nonpermissible expenditure.

During our current examination we reviewed a letter dated February 22, 2008, from the Department of Transportation informing the municipality to reimburse \$22,770.00 to its Liquid Fuels Tax Fund. The municipality reimbursed this amount to its Liquid Fuels Tax Fund on June 2, 2009.

TOWNSHIP OF LENOX  
SUSQUEHANNA COUNTY  
LIQUID FUELS TAX FUND  
SUMMARY OF EXIT CONFERENCE  
FOR THE TWO YEARS ENDED  
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An exit conference was held June 28, 2010. Those participating were:

TOWNSHIP OF LENOX

The Honorable James Taylor, Chairman of the Board of Supervisors  
The Honorable Fred Benson, Supervisor

DEPARTMENT OF THE AUDITOR GENERAL

Mr. Martin Lawler, Auditor

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





TOWNSHIP OF LENOX  
SUSQUEHANNA COUNTY  
LIQUID FUELS TAX FUND  
REPORT DISTRIBUTION  
FOR THE TWO YEARS ENDED  
DECEMBER 31, 2009

This report was initially distributed to:

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

Township of Lenox  
Susquehanna County  
222 State Route 2016  
Nicholson, PA 18446

The Honorable James Taylor

Chairman of the Board of Supervisors

Mrs. Sharon Depew

Secretary/Treasurer

This report is a matter of public record. Copies of this report may be obtained from the Pennsylvania Department of the Auditor General, Office of Communications, 318 Finance Building, Harrisburg, PA 17120. To view this report online or to contact the Department of the Auditor General, please access our web site at [www.auditorgen.state.pa.us](http://www.auditorgen.state.pa.us).