

ATTESTATION ENGAGEMENT

Township of Lower Makefield

Bucks County, Pennsylvania

09-211

Liquid Fuels Tax Fund

For the Period

January 1, 2014 to December 31, 2014

July 2016



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



Commonwealth of Pennsylvania
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EUGENE A. DePASQUALE
AUDITOR GENERAL

Independent Auditor's Report

The Honorable Leslie Richards
Secretary
Department of Transportation
Harrisburg, PA 17120

We attempted to examine the accompanying Form MS-965 With Adjustments for the Liquid Fuels Tax Fund of the Township of Lower Makefield, Bucks County, for the period January 1, 2014 to December 31, 2014. The municipality's management is responsible for the Form MS-965. Our responsibility is to express an opinion on the Form MS-965 With Adjustments based on our examination.

The management of the municipality refused to provide written representations, which is a statement provided by management to the auditor to confirm certain matters or to support other audit evidence, because they disagreed with an oral finding that does not appear in our report.

Because the matter discussed in the preceding paragraph was deemed significant, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the accompanying Forms MS-965 With Adjustments for Township of Lower Makefield, Bucks County.

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

Independent Auditor's Report (Continued)

In accordance with *Government Auditing Standards*, we are required to report all deficiencies that are considered to be significant deficiencies or material weaknesses in internal control; fraud and noncompliance with provisions of laws or regulations that have a material effect on the Form MS-965; and any other instances that warrant the attention of those charged with governance; noncompliance with provisions of contracts or grant agreements, and abuse that has a material effect on the Form MS-965. We are also required to obtain and report the views of responsible officials concerning the findings, conclusions, and recommendations, as well as any planned corrective actions. We attempted to perform our examination to express an opinion on whether the Form 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 Form MS-965 or on compliance and other matters; accordingly, we express no such opinions.

A *deficiency in internal control* 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 and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Form MS-965 will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose of attempting to express an opinion on whether the Form MS-965 is presented in accordance with the criteria described above and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our engagement we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the finding listed below, that we consider to be a significant deficiency in internal control:

- Duplicate Payment Of Invoice.

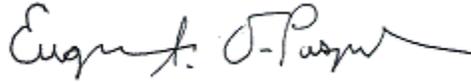
As part of attempting to obtain reasonable assurance about whether the Form MS-965 is free from material misstatement, we performed tests of the Township of Lower Makefield, Bucks County's compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of amounts on the Form MS-965. However, providing an opinion on compliance with those provisions was not an objective of our engagement, and accordingly, we do not express such an opinion. The results of our tests disclosed the following instance of noncompliance that is required to be reported under *Government Auditing Standards*:

- Liquid Fuels Money Over Expended On Project.

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 Lower Makefield, Bucks County, and is not intended to be and should not be used by anyone other than these specified parties.

We appreciate the courtesy extended by the Township of Lower Makefield, Bucks County, to us during the course of our examination. If you have any questions, please feel free to contact Michael B. Kashishian, CPA, CGAP, CFE, Director, Bureau of County Audits, at 717-787-1363.

A handwritten signature in black ink, appearing to read "Eugene A. DePasquale". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Eugene A. DePasquale
Auditor General

June 22, 2016

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TOWNSHIP OF LOWER MAKEFIELD
BUCKS COUNTY
LIQUID FUELS TAX FUND
BACKGROUND
FOR THE PERIOD
JANUARY 1, 2014 TO DECEMBER 31, 2014

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.

TOWNSHIP OF LOWER MAKEFIELD
BUCKS COUNTY
LIQUID FUELS TAX FUND
2014 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	2,118.34	-	2,118.34
Computer/Computer related training	-	-	-
Agility projects	-	-	-
Cleaning streets and gutters	316.88	-	316.88
Winter maintenance services	406,030.24	(1,710.00)	404,320.24
Traffic control devices	1,748.38	-	1,748.38
Street lighting	-	-	-
Storm sewers and drains	355.16	-	355.16
Repairs of tools and machinery	38,066.17	-	38,066.17
Maintenance and repair of roads and bridges	4,517.96	-	4,517.96
Highway construction and rebuilding projects	852,057.02	-	852,057.02
Miscellaneous (Note 6)	194.05	1,710.00	1,904.05
 Total (To Section 2, Line 5)	 <u>\$ 1,305,404.20</u>	 <u>\$ -</u>	 <u>\$ 1,305,404.20</u>

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

TOWNSHIP OF LOWER MAKEFIELD
 BUCKS COUNTY
 LIQUID FUELS TAX FUND
 2014 FORM MS-965 – SECTION 2
 WITH ADJUSTMENTS

<u>Fund Balance</u>	<u>Reported</u>	<u>Adjustments</u>	<u>Adjusted Amount</u>
1. Balance, January 1, 2014	\$ 570,402.15	\$ -	\$ 570,402.15
Receipts:			
2. State allocation	759,383.47	-	759,383.47
2a. Turnback allocation	16,560.00	-	16,560.00
2b. Interest on investments (Note 3)	2,559.15	-	2,559.15
2c. Miscellaneous (Note 5)	61,620.07	-	61,620.07
3. Total receipts	840,122.69	-	840,122.69
4. Total funds available	1,410,524.84	-	1,410,524.84
5. Expenditures (Section 1)	1,305,404.20	-	1,305,404.20
6. Balance, December 31, 2014	\$ 105,120.64	\$ -	\$ 105,120.64

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

TOWNSHIP OF LOWER MAKEFIELD
BUCKS COUNTY
LIQUID FUELS TAX FUND
2014 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	\$ 393,071.43	\$ -	\$ 393,071.43
2. Add: Current year equipment allocation (20% of Lines 2 + 2a, Section 2)	155,188.69	-	155,188.69
3. PENNDOT approved adjustments	<u>-</u>	<u>-</u>	<u>-</u>
4. Total funds available for equipment acquisition	548,260.12	-	548,260.12
5. Less: Major equipment expenditures	<u>-</u>	<u>-</u>	<u>-</u>
6. Remainder	<u>548,260.12</u>	<u>-</u>	<u>548,260.12</u>
7. Equipment balance available for subsequent year (Lesser of Line 6 or Section 2 balance, but not less than zero)	<u>\$ 105,120.64</u>	<u>\$ -</u>	<u>\$ 105,120.64</u>

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

TOWNSHIP OF LOWER MAKEFIELD
 BUCKS COUNTY
 LIQUID FUELS TAX FUND
 NOTES TO FORM MS-965 WITH ADJUSTMENTS
 FOR THE PERIOD
 JANUARY 1, 2014 TO DECEMBER 31, 2014

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 with varying yearly costs in excess of the amounts indicated below:

Prior To 2012	2012	2013	2014
\$4,000.00	\$10,000.00	\$10,200.00	\$10,300.00

- Minor equipment purchases are purchases of road machinery and road equipment with varying yearly costs, or less, than the amounts indicated below:

Prior To 2012	2012	2013	2014
\$4,000.00	\$10,000.00	\$10,200.00	\$10,300.00

- 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 was received from the Department of Transportation in March of each year beginning in 2014. The amount the municipality receives is based half on its population and half on its road mileage.
- The turnback allocation was received from the Department of Transportation in March of each year beginning in 2014. 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.

TOWNSHIP OF LOWER MAKEFIELD
BUCKS COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORM MS-965 WITH ADJUSTMENTS
FOR THE PERIOD
JANUARY 1, 2014 TO DECEMBER 31, 2014

1. Criteria (Continued)

Section 2 (Continued)

- 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.

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.

TOWNSHIP OF LOWER MAKEFIELD
BUCKS COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORM MS-965 WITH ADJUSTMENTS
FOR THE PERIOD
JANUARY 1, 2014 TO DECEMBER 31, 2014

1. Criteria (Continued)

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.

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 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.

TOWNSHIP OF LOWER MAKEFIELD
 BUCKS COUNTY
 LIQUID FUELS TAX FUND
 NOTES TO FORM MS-965 WITH ADJUSTMENTS
 FOR THE PERIOD
 JANUARY 1, 2014 TO DECEMBER 31, 2014

2. Deposits (Continued)

There were no deposits exposed to custodial credit risk as of December 31, 2014. 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.

Fund Balance

The fund balance consists of the following:

Cash	\$105,120.64
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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 \$2,559.15 during 2014, thus providing additional funds for road maintenance and repairs.

4. Adjustments

Section 1

Adjustments were made to "Winter maintenance services" and "Miscellaneous" because expenditures of \$1,710.00 were misclassified.

5. Miscellaneous Receipts

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

Source	Description	Amount
General Fund	Reimbursement from 2012 paving project	\$ 848.00
General Fund	Reimbursement (Finding No. 2)	58,746.60
General Fund	Reimbursement for payroll	2,025.47
Total		\$61,620.07

TOWNSHIP OF LOWER MAKEFIELD
 BUCKS COUNTY
 LIQUID FUELS TAX FUND
 NOTES TO FORM MS-965 WITH ADJUSTMENTS
 FOR THE PERIOD
 JANUARY 1, 2014 TO DECEMBER 31, 2014

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>Amount</u>
Financial institution	Bank service charges	\$ 194.05
Vendor	Duplicate payment of invoice (Finding No. 1)	<u>1,710.00</u>
Total		<u>\$1,904.05</u>

TOWNSHIP OF LOWER MAKEFIELD
 BUCKS COUNTY
 LIQUID FUELS TAX FUND
 FINDINGS AND RECOMMENDATIONS
 FOR THE PERIOD
 JANUARY 1, 2014 TO DECEMBER 31, 2014

Finding No. 1 - Duplicate Payment Of Invoice

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

<u>Invoice Number</u>	<u>First Check No.</u>	<u>First Date Paid</u>	<u>Second Check No.</u>	<u>Second Date Paid</u>	<u>Invoice Amount</u>
121213	5693	01/06/14	5724	02/18/14	<u>\$1,710.00</u>

Although this money should be reimbursed to the Liquid Fuels Tax Fund the primary concern is the inadequate internal controls which enabled the duplicate payment of \$1,710.00 to remain undetected.

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

Recommendations

We recommend that the municipality reimburse \$1,710.00 to its Liquid Fuels Tax Fund upon official notification by the Department of Transportation. We also recommend that the municipal officials contact the vendor as soon as possible to obtain reimbursement.

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

Management's Response

The municipal officials offered no formal response at this time.

Auditors Conclusion

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

TOWNSHIP OF LOWER MAKEFIELD
BUCKS COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2014 TO DECEMBER 31, 2014

Finding No. 2 - Liquid Fuels Money Over Expended On Project

Our examination disclosed that the municipality expended \$237,370.66 of Liquid Fuels Tax Fund money on construction project No. 13-09-211.01. However, the amount of Liquid Fuels Tax Fund money approved by the Department of Transportation to be expended from the Liquid Fuels Tax Fund for this project was \$177,948.06. The difference of \$59,422.60 should have been paid directly from the General Fund.

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

On March 13, 2014, the municipality reimbursed \$58,746.60 to the Liquid Fuels Tax Fund, leaving \$676.00 due the Liquid Fuels Tax Fund.

The failure to comply with the Department of Transportation's Regulations could result in the municipality having to reimburse \$676.00 to its Liquid Fuels Tax Fund.

Recommendations

We recommend that the municipality reimburse \$676.00 to its Liquid Fuels Tax Fund upon official notification by the Department of Transportation.

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

Management's Response

The municipal officials offered no formal response at this time.

Auditors Conclusion

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

TOWNSHIP OF LOWER MAKEFIELD
BUCKS COUNTY
LIQUID FUELS TAX FUND
SUMMARY OF EXIT CONFERENCE
FOR THE PERIOD
JANUARY 1, 2014 TO DECEMBER 31, 2014

An exit conference was held May 13, 2016. Those participating were:

TOWNSHIP OF LOWER MAKEFIELD

Ms. Jacqueline La Torre, Senior Accountant

DEPARTMENT OF THE AUDITOR GENERAL

Ms. Anne Fota, Auditor

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

TOWNSHIP OF LOWER MAKEFIELD
BUCKS COUNTY
LIQUID FUELS TAX FUND
REPORT DISTRIBUTION
FOR THE PERIOD
JANUARY 1, 2014 TO DECEMBER 31, 2014

This report was initially distributed to:

The Honorable Leslie Richards
Secretary
Department of Transportation

Township of Lower Makefield
Bucks County
1100 Edgemont Road
Yardley, PA 19067

The Honorable Jeffery Benedetto
Chairman of the Board of Supervisors

Ms. Jacqueline La Torre
Senior Accountant

This report is a matter of public record and is available online at www.PaAuditor.gov. Media questions about the report can be directed to the Pennsylvania Department of the Auditor General, Office of Communications, 229 Finance Building, Harrisburg, PA 17120; via email to: news@PaAuditor.gov.