

TOWNSHIP OF LOWER MAKEFIELD
BUCKS COUNTY

09-211

LIQUID FUELS TAX FUND
EXAMINATION REPORT

FOR THE TWO YEARS ENDED
DECEMBER 31, 2009

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TOWNSHIP OF LOWER MAKEFIELD
BUCKS 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.

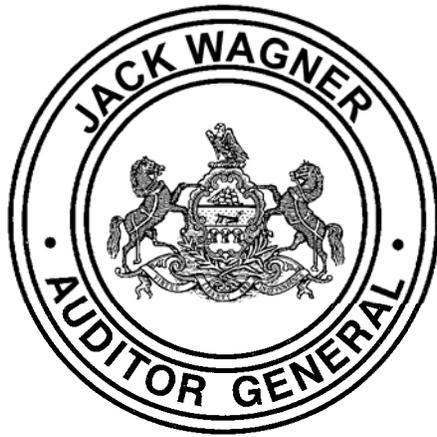
The Vehicle Code, Title 75 P.S. § 9511, provides municipalities with annual maintenance payments to be received from the Motor License Fund for functionally local highways that were transferred to a municipality from the Commonwealth of Pennsylvania.

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 Lower Makefield, Bucks 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 Lower Makefield, Bucks 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.

As discussed in Finding No. 2, the township expended \$13,582.50 during 2008 and \$37,175.00 during 2009 from the Liquid Fuels Tax Fund for snow removal without advertising for bids.

Independent Auditor's Report (Continued)

In our opinion, except for the matter 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 Lower Makefield, Bucks 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 Lower Makefield, Bucks 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 Lower Makefield, Bucks County's Forms MS-965 that is more than inconsequential will not be prevented or detected by the Township of Lower Makefield, Bucks 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.

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 Lower Makefield, Bucks 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 consider the significant deficiency described above to be a material weakness.

Independent Auditor's Report (Continued)

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 Bidding And Advertising Requirements.
- Liquid Fuels Money Deposited Into The General Fund.

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

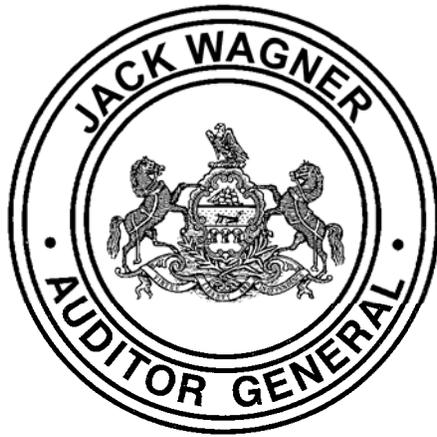
- Late Receipt Of Allocation.

We are concerned in light of the municipality's failure to correct a previously reported finding regarding the failure to properly prepare its Forms MS-965. During our current examination, we noted that the municipality failed to properly prepare its Forms MS-965, made purchases over \$10,000.00 without advertising for bids, deposited Liquid Fuels Tax Funds into the General Fund, and received its 2008 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 Lower Makefield, Bucks County, and is not intended to be and should not be used by anyone other than these specified parties.

January 31, 2011

JACK WAGNER
Auditor General



TOWNSHIP OF LOWER MAKEFIELD
BUCKS 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	\$ 190,805.36	\$ 13.00	\$ 190,818.36
Minor equipment purchases	5,696.00	-	5,696.00
Computer/Computer related training	-	-	-
Agility projects	-	-	-
Cleaning streets and gutters	14,854.54	-	14,854.54
Winter maintenance services	25,396.48	44,542.03	69,938.51
Traffic control devices	28,805.90	2,015.08	30,820.98
Street lighting	-	-	-
Storm sewers and drains	41,309.17	-	41,309.17
Repairs of tools and machinery	33,727.00	3,839.12	37,566.12
Maintenance and repair of roads and bridges	117,144.45	(60,188.19)	56,956.26
Highway construction and rebuilding projects	343,314.02	17,102.84	360,416.86
Miscellaneous	-	-	-
 Total (To Section 2, Line 5)	 <u>\$ 801,052.92</u>	 <u>\$ 7,323.88</u>	 <u>\$ 808,376.80</u>

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

TOWNSHIP OF LOWER MAKEFIELD
 BUCKS 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	\$ 234,767.84	\$ (1,839.72)	\$ 232,928.12
Receipts:			
2. State allocation	741,250.50	-	741,250.50
2a. Turnback allocation	17,240.00	-	17,240.00
2b. Interest on investments (Note 3)	7,681.00	1,610.95	9,291.95
2c. Miscellaneous	-	-	-
3. Total receipts	<u>766,171.50</u>	<u>1,610.95</u>	<u>767,782.45</u>
4. Total funds available	<u>1,000,939.34</u>	<u>(228.77)</u>	<u>1,000,710.57</u>
5. Expenditures (Section 1)	<u>801,052.92</u>	<u>7,323.88</u>	<u>808,376.80</u>
6. Balance, December 31, 2008	<u><u>\$ 199,886.42</u></u>	<u><u>\$ (7,552.65)</u></u>	<u><u>\$ 192,333.77</u></u>

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

TOWNSHIP OF LOWER MAKEFIELD
 BUCKS 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	\$ 228,404.14	\$ 4,523.98	\$ 232,928.12
2. Add: Current year equipment allocation (20% of Lines 2 + 2a, Section 2)	151,698.10	-	151,698.10
3. PENNDOT approved adjustments	<u>-</u>	<u>-</u>	<u>-</u>
4. Total funds available for equipment acquisition	380,102.24	4,523.98	384,626.22
5. Less: Major equipment expenditures	<u>190,805.36</u>	<u>13.00</u>	<u>190,818.36</u>
6. Remainder	<u>189,296.88</u>	<u>4,510.98</u>	<u>193,807.86</u>
7. Equipment balance available for subsequent year (Lesser of Line 6 or Section 2 balance, but not less than zero)	<u>\$ 189,296.88</u>	<u>\$ 3,036.89</u>	<u>\$ 192,333.77</u>

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

TOWNSHIP OF LOWER MAKEFIELD
BUCKS 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	\$ 150,368.00	\$ -	\$ 150,368.00
Minor equipment purchases	5,429.42	-	5,429.42
Computer/Computer related training	-	-	-
Agility projects	-	-	-
Cleaning streets and gutters	13,405.03	-	13,405.03
Winter maintenance services	164,485.19	28,931.36	193,416.55
Traffic control devices	8,407.67	-	8,407.67
Street lighting	-	-	-
Storm sewers and drains	61,723.70	-	61,723.70
Repairs of tools and machinery	35,123.81	-	35,123.81
Maintenance and repair of roads and bridges	48,532.44	-	48,532.44
Highway construction and rebuilding projects	31,432.45	(7,552.36)	23,880.09
Miscellaneous (Note 6)	-	70,165.00	70,165.00
	<u>-</u>	<u>70,165.00</u>	<u>70,165.00</u>
Total (To Section 2, Line 5)	<u>\$ 518,907.71</u>	<u>\$ 91,544.00</u>	<u>\$ 610,451.71</u>

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

TOWNSHIP OF LOWER MAKEFIELD
 BUCKS 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	\$ 199,886.42	\$ (7,552.65)	\$ 192,333.77
Receipts:			
2. State allocation	718,470.49	-	718,470.49
2a. Turnback allocation	17,240.00	-	17,240.00
2b. Interest on investments (Note 3)	715.90	-	715.90
2c. Miscellaneous (Note 5)	-	70,165.00	70,165.00
3. Total receipts	<u>736,426.39</u>	<u>70,165.00</u>	<u>806,591.39</u>
4. Total funds available	<u>936,312.81</u>	<u>62,612.35</u>	<u>998,925.16</u>
5. Expenditures (Section 1)	<u>518,907.71</u>	<u>91,544.00</u>	<u>610,451.71</u>
6. Balance, December 31, 2009	<u><u>\$ 417,405.10</u></u>	<u><u>\$ (28,931.65)</u></u>	<u><u>\$ 388,473.45</u></u>

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

TOWNSHIP OF LOWER MAKEFIELD
BUCKS 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	\$ 189,296.88	\$ 3,036.89	\$ 192,333.77
2. Add: Current year equipment allocation (20% of Lines 2 + 2a, Section 2)	147,142.10	-	147,142.10
3. PENNDOT approved adjustments	<u>-</u>	<u>-</u>	<u>-</u>
4. Total funds available for equipment acquisition	336,438.98	3,036.89	339,475.87
5. Less: Major equipment expenditures	<u>150,368.00</u>	<u>-</u>	<u>150,368.00</u>
6. Remainder	<u>186,070.98</u>	<u>3,036.89</u>	<u>189,107.87</u>
7. Equipment balance available for subsequent year (Lesser of Line 6 or Section 2 balance, but not less than zero)	<u>\$ 186,070.98</u>	<u>\$ 3,036.89</u>	<u>\$ 189,107.87</u>

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

TOWNSHIP OF LOWER MAKEFIELD
BUCKS 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 LOWER MAKEFIELD
BUCKS 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 LOWER MAKEFIELD
BUCKS 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 LOWER MAKEFIELD
BUCKS 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	<u>\$388,473.45</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 \$9,291.95 during 2008, and \$715.90 during 2009, thus providing additional funds for road maintenance and repairs.

4. Adjustments

2008 - Section 1

An adjustment of \$13.00 was made to "Major equipment purchases" because these expenditures were understated.

An adjustment of \$44,542.03 was made to "Winter maintenance services" because expenditures of \$61,535.26 were misclassified as maintenance and repair of roads and bridges, check No. 5436 for \$18,893.46 was reported in 2008, but was issued in 2009, and these expenditures were understated by \$1,900.23.

An adjustment of \$2,015.08 was made to "Traffic control devices" because check No. 5419 was not reported.

An adjustment of \$3,839.12 was made to "Repairs of tools and machinery" because check Nos. 5385 for \$239.98, 5387 for \$654.63, 5389 for \$309.20, 5390 for \$53.76, 5391 for \$63.05, 5393 for \$41.46, 5395 for \$67.48, 5404 for \$102.29, 5407 for 1,436.34, 5409 for \$324.76, 5410 for \$285.32, 5424 for \$75.72, and 5425 for \$185.13 were not reported.

An adjustment of \$(60,188.19) was made to "Maintenance and repair of roads and bridges" because expenditures of \$61,535.26 for winter maintenance services were misclassified, check No. 5412 was reported as \$9,789.28, but was issued for \$10,151.29, check Nos. 5386 for \$315.00, 5388 for \$1,864.17, and 5423 for \$307.50 were not reported, and these expenditures were overstated by \$1,501.61.

TOWNSHIP OF LOWER MAKEFIELD
BUCKS 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 1 (Continued)

An adjustment of \$17,102.84 was made to “Highway construction and rebuilding projects” because check Nos. 5384 for \$9,370.89 and 5388 for \$7,731.95 were not reported.

2008 - Section 2

An adjustment of \$(1,839.72) was made to “Balance, January 1, 2008” because of prior report adjustments that were not carried forward in the fund balance.

An adjustment of \$1,610.95 was made to “Interest on investments” because interest earnings were understated.

2008 - Section 3

An adjustment of \$4,523.98 was made to “Prior year equipment balance” because of prior report adjustments that were not carried forward in the equipment balance.

An adjustment of \$13.00 was made to “Major equipment expenditures” to reflect the adjustment made to major equipment purchases in 2008 - Section 1.

2009 - Section 1

An adjustment of \$28,931.36 was made to “Winter maintenance services” because check No. 5472 was not reported.

An adjustment of \$(7,552.36) was made to “Highway construction and rebuilding projects” because these expenditures were overstated.

An adjustment of \$70,165.00 was made to “Miscellaneous” because a reimbursement of \$70,000.00 for a temporary loan and bank service charges of \$165.00 were not reported.

2009 - Section 2

An adjustment of \$(7,552.65) was made to “Balance, January 1, 2009” to reflect the adjustment made to the fund balance in 2008 - Section 2.

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

4. Adjustments (Continued)

2009 - Section 2 (Continued)

An adjustment of \$70,165.00 was made to “Miscellaneous” receipts because a temporary loan of \$70,000.00 from the General Fund and reimbursement for bank service charges of \$165.00 were not reported.

2009 - Section 3

An adjustment of \$3,036.89 was made to “Prior year equipment balance” to reflect the adjustment made to the equipment balance 2008 - Section 3.

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>2009</u>
Financial institution	Refund of bank service charges	\$ 165.00
General Fund	Temporary loan (Note 7)	<u>70,000.00</u>
Total		<u>\$70,165.00</u>

6. Miscellaneous Expenditures

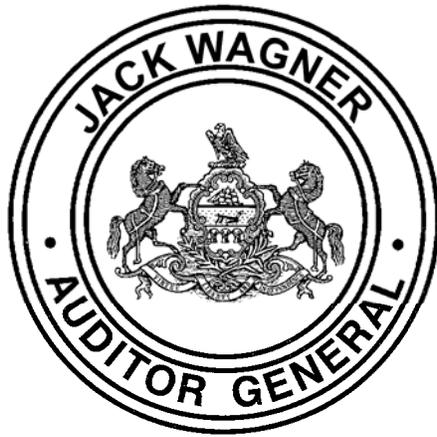
The following miscellaneous expenditures were paid from the Liquid Fuels Tax Fund during the examination period:

<u>Payee</u>	<u>Description</u>	<u>2009</u>
Financial institution	Bank service charges	\$ 165.00
General Fund	Reimbursement for temporary loan (Note 7)	<u>70,000.00</u>
Total		<u>\$70,165.00</u>

TOWNSHIP OF LOWER MAKEFIELD
BUCKS COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE TWO YEARS ENDED
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7. Temporary Loan

On March 26, 2009, the municipality loaned \$70,000.00 from its General Fund to its Liquid Fuels Tax Fund. On April 21, 2009, the municipality transferred \$70,000.00 from its Liquid Fuels Tax Fund to its General Fund to repay the temporary loan.



TOWNSHIP OF LOWER MAKEFIELD
BUCKS 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 \$13.00 was made to "Major equipment purchases" because these expenditures were understated.
- An adjustment of \$44,542.03 was made to "Winter maintenance services" because expenditures of \$61,535.26 were misclassified as maintenance and repair of roads and bridges, check No. 5436 for \$18,893.46 was reported in 2008, but was issued in 2009, and these expenditures were understated by \$1,900.23.
- An adjustment of \$2,015.08 was made to "Traffic control devices" because check No. 5419 was not reported.
- An adjustment of \$3,839.12 was made to "Repairs of tools and machinery" because check Nos. 5385 for \$239.98, 5387 for \$654.63, 5389 for \$309.20, 5390 for \$53.76, 5391 for \$63.05, 5393 for \$41.46, 5395 for \$67.48, 5404 for \$102.29, 5407 for 1,436.34, 5409 for \$324.76, 5410 for \$285.32, 5424 for \$75.72, and 5425 for \$185.13 were not reported.
- An adjustment of \$(60,188.19) was made to "Maintenance and repair of roads and bridges" because expenditures of \$61,535.26 for winter maintenance services were misclassified, check No. 5412 was reported as \$9,789.28, but was issued for \$10,151.29, check Nos. 5386 for \$315.00, 5388 for \$1,864.17, and 5423 for \$307.50 were not reported, and these expenditures were overstated by \$1,501.61.
- An adjustment of \$17,102.84 was made to "Highway construction and rebuilding projects" because check Nos. 5384 for \$9,370.89 and 5388 for \$7,731.85 were not reported.

TOWNSHIP OF LOWER MAKEFIELD
BUCKS COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE TWO YEARS ENDED
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Finding No. 1 - Failure To Properly Prepare Forms MS-965 (Continued)

2008 - Section 2

- An adjustment of \$(1,839.72) was made to “Balance, January 1, 2008” because of prior report adjustments that were not carried forward in the fund balance.
- An adjustment of \$1,610.95 was made to “Interest on investments” because interest earnings were understated.

2008 - Section 3

- An adjustment of \$4,523.98 was made to “Prior year equipment balance” because of prior report adjustments that were not carried forward in the equipment balance.
- An adjustment of \$13.00 was made to “Major equipment expenditures” to reflect the adjustment made to major equipment purchases in 2008 - Section 1.

2009 - Section 1

- An adjustment of \$28,931.36 was made to “Winter maintenance services” because check No. 5472 was not reported.
- An adjustment of \$(7,552.36) was made to “Highway construction and rebuilding projects” because these expenditures were overstated.
- An adjustment of \$70,165.00 was made to “Miscellaneous” because a reimbursement of \$70,000.00 for a temporary loan and bank service charges of \$165.00 were not reported.

2009 - Section 2

- An adjustment of \$(7,552.65) was made to “Balance, January 1, 2009” to reflect the adjustment made to the fund balance in 2008 - Section 2.
- An adjustment of \$70,165.00 was made to “Miscellaneous” receipts because a temporary loan of \$70,000.00 from the General Fund and reimbursement for bank service charges of \$165.00 were not reported.

TOWNSHIP OF LOWER MAKEFIELD
BUCKS COUNTY
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Finding No. 1 - Failure To Properly Prepare Forms MS-965 (Continued)

2009 - Section 3

- An adjustment of \$3,036.89 was made to “Prior year equipment balance” to reflect the adjustment made to the equipment balance in 2008 - Section 3.

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 township manager stated:

Staff will receive additional training in preparation of 965 form.

Auditor’s Conclusion

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

TOWNSHIP OF LOWER MAKEFIELD
 BUCKS 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 audit disclosed that the township expended \$13,582.50 during 2008 and \$37,175.00 during 2009 from the Liquid Fuels Tax Fund for snow removal without advertising for bids. These expenditures were as follows:

<u>Invoice Number</u>	<u>Invoice Date</u>	<u>Check Number</u>	<u>Date Paid</u>	<u>Amount</u>	<u>Totals</u>
1053	02/25/08	5396	03/03/08	\$1,232.50	
7956	02/25/08	5401	03/17/08	3,000.00	
8971	03/04/08	5402	03/17/08	1,380.00	
9270	02/22/08	5403	03/17/08	2,075.00	
80221	02/28/08	5405	03/17/08	1,155.00	
32718	02/28/08	5406	03/17/08	3,300.00	
5948	03/09/08	5408	03/17/08	<u>1,440.00</u>	
2008 Total					\$13,582.50
09-056	01/30/09	5441	02/17/09	2,060.00	
8623	01/31/09	5442	02/17/09	1,725.00	
9719	01/29/09	5443	02/17/09	1,905.00	
#1	01/29/09	5444	02/17/09	1,145.00	
728	01/31/09	5445	02/17/09	1,370.00	
11385	01/28/09	5446	02/17/09	2,437.50	
70420	02/10/09	5450	03/02/09	2,087.50	
8665	03/04/09	5453	03/16/09	2,300.00	
9830	03/04/09	5454	03/16/09	1,475.00	
#2	03/02/09	5455	03/16/09	1,087.50	
828	03/03/09	5456	03/16/09	2,945.00	
71343	03/04/09	5457	03/16/09	3,312.50	
6936	02/26/09	5459	03/16/09	2,190.00	
09-107	04/06/09	5460	04/06/09	2,520.00	
11445	03/02/09	5461	04/06/09	5,520.00	
6958	03/11/09	5462	04/06/09	<u>3,095.00</u>	
2009 Total					<u>37,175.00</u>
Two Year Total					<u>\$50,757.50</u>

TOWNSHIP OF LOWER MAKEFIELD
BUCKS COUNTY
LIQUID FUELS TAX FUND
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Finding No. 2 - Purchases Over \$10,000.00 In Noncompliance With Advertising And Bidding Requirements (Continued)

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), and § 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 Department of Transportation, *Publication 9*, Appendix D, Section 449.7(d), which states, in relevant part:

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 \$10,000.00 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 . . .

Recommendations

We recommend that the township reimburse \$50,757.50 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 township officials offered no formal response at this time.

TOWNSHIP OF LOWER MAKEFIELD
BUCKS COUNTY
LIQUID FUELS TAX FUND
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FOR THE TWO YEARS ENDED
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Finding No. 3 - Liquid Fuels Money Deposited Into The General Fund

Our examination disclosed that the municipality deposited \$741,250.50, \$17,240.00 and \$718,470.49 of Liquid Fuels Tax Fund money into the General Fund on June 9, 2008, April 1, 2009, and April 20, 2009, respectively, which is in noncompliance with the Liquid Fuels Tax Municipal Allocation Law.

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.

On June 18, 2008, the municipality reimbursed \$741,250.50 to the Liquid Fuels Tax Fund. Additionally, on April 21, 2009, and April 22, 2009, the municipality reimbursed \$718,470.49 and \$17,240.00, respectively, to the Liquid Fuels Tax Fund.

Recommendation

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 township manager stated:

We will instruct Sovereign to automatically put liquid fuels money into the Liquid Fuels Tax Fund and contact state to deposit to Liquid Fuels at our financial institution.

Auditor's Conclusion

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

TOWNSHIP OF LOWER MAKEFIELD
BUCKS COUNTY
LIQUID FUELS TAX FUND
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Finding No. 4 - Late Receipt Of Allocation

Our examination disclosed that the 2008 Liquid Fuels Tax Fund allocation, which should have been distributed by the Department of Transportation to the municipality during the first week of April of that year, was not received until June 9, 2008, 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 31st and the Survey of Financial Condition by March 15th.
- Ensure resolution of all Contractor Responsibility Program (CRP) holds and blocks imposed by the Department of Revenue and the Department of Labor and Industry.

Because the municipality failed to file documents and information timely as noted above, the municipality did not have use of the allocation for more than two 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.

A similar finding was also written in our prior report. However, the municipality did receive its allocation on time during 2009.

Recommendation

We recommend that, in the future, the municipality continue to 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 LOWER MAKEFIELD
BUCKS COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE TWO YEARS ENDED
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Finding No. 4 - Late Receipt Of Allocation (Continued)

Management's Response

The township manager stated:

We will make sure that all state forms are submitted on a timely basis.

Auditor's Conclusion

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

TOWNSHIP OF LOWER MAKEFIELD
BUCKS COUNTY
LIQUID FUELS TAX FUND
SUMMARY OF EXIT CONFERENCE
FOR THE TWO YEARS ENDED
DECEMBER 31, 2009

An exit conference was held January 31, 2011. Those participating were:

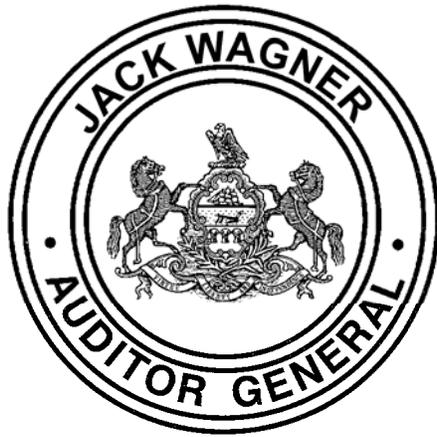
TOWNSHIP OF LOWER MAKEFIELD

Mr. Terry Fedorchak, Township Manager

DEPARTMENT OF THE AUDITOR GENERAL

Mr. Fred Casella, 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 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 Lower Makefield
Bucks County
1100 Edgewood Road
Yardley, PA 19067

The Honorable Greg Caiola

Chairman of the Board of Supervisors

Mr. Terry Fedorchak

Township Manager

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.