



**TOWNSHIP OF RANDOLPH
CRAWFORD COUNTY
20-216**

**LIQUID FUELS TAX FUND
EXAMINATION REPORT**

**FOR THE PERIOD
JANUARY 1, 2009 TO DECEMBER 31, 2011**

COMMONWEALTH OF PENNSYLVANIA

EUGENE A. DEPASQUALE - AUDITOR GENERAL

DEPARTMENT OF THE AUDITOR GENERAL





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EUGENE A. DePASQUALE
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 Randolph, Crawford County, for the period January 1, 2009 to December 31, 2011. 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 Randolph, Crawford County's Forms MS-965 for the period January 1, 2009 to December 31, 2011 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 Finding No. 1, the adjustments included on the Forms MS-965 With Adjustments are made by the Department of the Auditor General.

Independent Auditor's Report (Continued)

As discussed in the Findings and Recommendations section of this report:

- The township's 2009 Liquid Fuels Tax Fund allocation of \$133,288.07 was electronically deposited into the General Fund on June 25, 2009. On July 22, 2009 and September 15, 2009, the municipality reimbursed \$100,000.00 and \$25,000.00, respectively, to its Liquid Fuels Tax Fund. The remaining \$8,288.07 was due the Liquid Fuels Tax Fund as of the date of this report (Finding No. 2).
- The township expended \$20,741.92 during 2010 from the Liquid Fuels Tax Fund for the purchase of fuel without advertising for bids (Finding No. 3).
- The township expended \$7,155.07 during 2011 from its Liquid Fuels Tax Fund for the purchase of 2A and 2RC gravel. However, documentation for price quotations was not maintained (Finding No. 4).

In our opinion, except for the matters discussed in the above bullets, 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 Randolph, Crawford County, for the period January 1, 2009 to December 31, 2011, 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.

Independent Auditor's Report (Continued)

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 Randolph, Crawford 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 Randolph, Crawford County's Forms MS-965 that is more than inconsequential will not be prevented or detected by the Township of Randolph, Crawford 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 Randolph, Crawford 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*:

- Liquid Fuels Allocation was Received Late And Deposited Into The General Fund.
- Purchases Over \$10,000.00 In Noncompliance With Advertising And Bidding Requirements.
- Documentation For Price Quotations Was Not Available For Examination - Recurring.

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

A handwritten signature in black ink, appearing to read "Eugene A. DePasquale", with a long horizontal flourish extending to the right.

March 7, 2013

EUGENE A. DEPASQUALE
Auditor General

CONTENTS

	<u>Page</u>
Background.....	1
Financial Section:	
2009 Form MS-965 With Adjustments	2
2010 Form MS-965 With Adjustments	5
2011 Form MS-965 With Adjustments	8
Notes To Forms MS-965 With Adjustments.....	11
Findings And Recommendations:	
Finding No. 1 - Failure To Properly Prepare Forms MS-965	16
Finding No. 2 - Liquid Fuels Allocation Was Received Late And Deposited Into The General Fund	19
Finding No. 3 - Purchases Over \$10,000.00 In Noncompliance With Advertising And Bidding Requirements	21
Finding No. 4 - Documentation For Price Quotations Was Not Available For Examination - Recurring	23
Comment.....	26
Summary Of Exit Conference.....	27
Report Distribution	28

TOWNSHIP OF RANDOLPH
CRAWFORD COUNTY
LIQUID FUELS TAX FUND
BACKGROUND
FOR THE PERIOD
JANUARY 1, 2009 TO DECEMBER 31, 2011

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 RANDOLPH
CRAWFORD COUNTY
LIQUID FUELS TAX FUND
2009 FORM MS-965 – SECTION 1
WITH ADJUSTMENTS

<u>Expenditure Summary</u>	<u>Reported</u>	<u>Adjustments (Finding No. 1)</u>	<u>Adjusted Amount</u>
Major equipment purchases	\$ -	\$ -	\$ -
Minor equipment purchases	-	1,086.40	1,086.40
Computer/Computer related training	-	-	-
Agility projects	-	-	-
Cleaning streets and gutters	-	-	-
Winter maintenance services	-	-	-
Traffic control devices	-	-	-
Street lighting	-	-	-
Storm sewers and drains	-	-	-
Repairs of tools and machinery	-	-	-
Maintenance and repair of roads and bridges	124,494.54	(1,086.40)	123,408.14
Highway construction and rebuilding projects	-	-	-
Miscellaneous	-	-	-
 Total (To Section 2, Line 5)	 <u>\$ 124,494.54</u>	 <u>\$ -</u>	 <u>\$ 124,494.54</u>

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

TOWNSHIP OF RANDOLPH
CRAWFORD COUNTY
LIQUID FUELS TAX FUND
2009 FORM MS-965 – SECTION 2
WITH ADJUSTMENTS

<u>Fund Balance</u>	<u>Reported</u>	<u>Adjustments (Finding No. 1)</u>	<u>Adjusted Amount</u>
1. Balance, January 1, 2009	\$ 218,458.59	\$ 230.57	\$ 218,689.16
Receipts:			
2. State allocation	133,288.07	(8,288.07)	125,000.00
2a. Turnback allocation	17,480.00	-	17,480.00
2b. Interest on investments (Note 3)	10,049.49	74.12	10,123.61
2c. Miscellaneous	-	-	-
3. Total receipts	<u>160,817.56</u>	<u>(8,213.95)</u>	<u>152,603.61</u>
4. Total funds available	<u>379,276.15</u>	<u>(7,983.38)</u>	<u>371,292.77</u>
5. Expenditures (Section 1)	<u>124,494.54</u>	<u>-</u>	<u>124,494.54</u>
6. Balance, December 31, 2009	<u><u>\$ 254,781.61</u></u>	<u><u>\$ (7,983.38)</u></u>	<u><u>\$ 246,798.23</u></u>

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

TOWNSHIP OF RANDOLPH
CRAWFORD COUNTY
LIQUID FUELS TAX FUND
2009 FORM MS-965 – SECTION 3
WITH ADJUSTMENTS

<u>Equipment Balance</u>	<u>Reported</u>	<u>Adjustments (Finding No. 1)</u>	<u>Adjusted Amount</u>
1. Prior year equipment balance	\$ 180,054.84	\$ -	\$ 180,054.84
2. Add: Current year equipment allocation (20% of Lines 2 + 2a, Section 2)	30,153.61	(1,657.61)	28,496.00
3. PENNDOT approved adjustments	<u>-</u>	<u>-</u>	<u>-</u>
4. Total funds available for equipment acquisition	210,208.45	(1,657.61)	208,550.84
5. Less: Major equipment expenditures	<u>-</u>	<u>-</u>	<u>-</u>
6. Remainder	<u>210,208.45</u>	<u>(1,657.61)</u>	<u>208,550.84</u>
7. Equipment balance available for subsequent year (Lesser of Line 6 or Section 2 balance, but not less than zero)	<u>\$ 210,208.45</u>	<u>\$ (1,657.61)</u>	<u>\$ 208,550.84</u>

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

TOWNSHIP OF RANDOLPH
CRAWFORD COUNTY
LIQUID FUELS TAX FUND
2010 FORM MS-965 – SECTION 1
WITH ADJUSTMENTS

<u>Expenditure Summary</u>	<u>Reported</u>	<u>Adjustments (Finding No. 1)</u>	<u>Adjusted Amount</u>
Major equipment purchases	\$ 35,080.11	\$ 15,418.87	\$ 50,498.98
Minor equipment purchases	-	3,984.00	3,984.00
Computer/Computer related training	-	-	-
Agility projects	-	-	-
Cleaning streets and gutters	-	-	-
Winter maintenance services	12,724.24	20,259.88	32,984.12
Traffic control devices	-	-	-
Street lighting	-	-	-
Storm sewers and drains	-	3,946.23	3,946.23
Repairs of tools and machinery	48,795.04	(19,365.10)	29,429.94
Maintenance and repair of roads and bridges	150,161.74	(24,243.88)	125,917.86
Highway construction and rebuilding projects	-	-	-
Miscellaneous (Early redemption penalty)	470.16	(159.15)	311.01
 Total (To Section 2, Line 5)	 <u>\$ 247,231.29</u>	 <u>\$ (159.15)</u>	 <u>\$ 247,072.14</u>

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

TOWNSHIP OF RANDOLPH
CRAWFORD COUNTY
LIQUID FUELS TAX FUND
2010 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, 2010	\$ 246,798.23	\$ -	\$ 246,798.23
Receipts:			
2. State allocation	129,420.19	-	129,420.19
2a. Turnback allocation	17,480.00	-	17,480.00
2b. Interest on investments (Note 3)	3,760.44	-	3,760.44
2c. Miscellaneous (Comment)	65,820.43	-	65,820.43
3. Total receipts	<u>216,481.06</u>	<u>-</u>	<u>216,481.06</u>
4. Total funds available	<u>463,279.29</u>	<u>-</u>	<u>463,279.29</u>
5. Expenditures (Section 1)	<u>247,231.29</u>	<u>(159.15)</u>	<u>247,072.14</u>
6. Balance, December 31, 2010	<u><u>\$ 216,048.00</u></u>	<u><u>\$ 159.15</u></u>	<u><u>\$ 216,207.15</u></u>

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

TOWNSHIP OF RANDOLPH
CRAWFORD COUNTY
LIQUID FUELS TAX FUND
2010 FORM MS-965 – SECTION 3
WITH ADJUSTMENTS

<u>Equipment Balance</u>	<u>Reported</u>	<u>Adjustments (Finding No. 1)</u>	<u>Adjusted Amount</u>
1. Prior year equipment balance	\$ 210,208.35	\$ (1,657.51)	\$ 208,550.84
2. Add: Current year equipment allocation (20% of Lines 2 + 2a, Section 2)	29,380.04	-	29,380.04
3. PENNDOT approved adjustments	-	-	-
4. Total funds available for equipment acquisition	239,588.39	(1,657.51)	237,930.88
5. Less: Major equipment expenditures	35,080.11	15,418.87	50,498.98
6. Remainder	<u>204,508.28</u>	<u>(17,076.38)</u>	<u>187,431.90</u>
7. Equipment balance available for subsequent year (Lesser of Line 6 or Section 2 balance, but not less than zero)	<u>\$ 204,508.28</u>	<u>\$ (17,076.38)</u>	<u>\$ 187,431.90</u>

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

TOWNSHIP OF RANDOLPH
CRAWFORD COUNTY
LIQUID FUELS TAX FUND
2011 FORM MS-965 – SECTION 1
WITH ADJUSTMENTS

<u>Expenditure Summary</u>	<u>Reported</u>	<u>Adjustments (Finding No. 1)</u>	<u>Adjusted Amount</u>
Major equipment purchases	\$ 35,080.11	\$ 15,418.87	\$ 50,498.98
Minor equipment purchases	-	-	-
Computer/Computer related training	946.25	-	946.25
Agility projects	-	-	-
Cleaning streets and gutters	-	-	-
Winter maintenance services	-	9,630.15	9,630.15
Traffic control devices	-	-	-
Street lighting	-	-	-
Storm sewers and drains	-	3,462.00	3,462.00
Repairs of tools and machinery	23,430.03	-	23,430.03
Maintenance and repair of roads and bridges	129,428.00	(28,511.02)	100,916.98
Highway construction and rebuilding projects	-	-	-
Miscellaneous	-	-	-
 Total (To Section 2, Line 5)	 <u>\$ 188,884.39</u>	 <u>\$ -</u>	 <u>\$ 188,884.39</u>

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

TOWNSHIP OF RANDOLPH
CRAWFORD COUNTY
LIQUID FUELS TAX FUND
2011 FORM MS-965 – SECTION 2
WITH ADJUSTMENTS

<u>Fund Balance</u>	<u>Reported</u>	<u>Adjustments (Finding No. 1)</u>	<u>Adjusted Amount</u>
1. Balance, January 1, 2011	\$ 216,048.00	\$ 159.15	\$ 216,207.15
Receipts:			
2. State allocation	132,417.33	-	132,417.33
2a. Turnback allocation	17,480.00	-	17,480.00
2b. Interest on investments (Note 3)	781.78	111.94	893.72
2c. Miscellaneous	-	-	-
3. Total receipts	<u>150,679.11</u>	<u>111.94</u>	<u>150,791.05</u>
4. Total funds available	<u>366,727.11</u>	<u>271.09</u>	<u>366,998.20</u>
5. Expenditures (Section 1)	<u>188,884.39</u>	-	<u>188,884.39</u>
6. Balance, December 31, 2011	<u><u>\$ 177,842.72</u></u>	<u><u>\$ 271.09</u></u>	<u><u>\$ 178,113.81</u></u>

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

TOWNSHIP OF RANDOLPH
CRAWFORD COUNTY
LIQUID FUELS TAX FUND
2011 FORM MS-965 – SECTION 3
WITH ADJUSTMENTS

<u>Equipment Balance</u>	<u>Reported</u>	<u>Adjustments (Finding No. 1)</u>	<u>Adjusted Amount</u>
1. Prior year equipment balance	\$ 204,508.28	\$ (17,076.38)	\$ 187,431.90
2. Add: Current year equipment allocation (20% of Lines 2 + 2a, Section 2)	29,979.47	-	29,979.47
3. PENNDOT approved adjustments	-	-	-
4. Total funds available for equipment acquisition	234,487.75	(17,076.38)	217,411.37
5. Less: Major equipment expenditures	35,080.11	15,418.87	50,498.98
6. Remainder	<u>199,407.64</u>	<u>(32,495.25)</u>	<u>166,912.39</u>
7. Equipment balance available for subsequent year (Lesser of Line 6 or Section 2 balance, but not less than zero)	<u>\$ 177,842.72</u>	<u>\$ (10,930.33)</u>	<u>\$ 166,912.39</u>

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

TOWNSHIP OF RANDOLPH
CRAWFORD COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE PERIOD
JANUARY 1, 2009 TO DECEMBER 31, 2011

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 RANDOLPH
CRAWFORD COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE PERIOD
JANUARY 1, 2009 TO DECEMBER 31, 2011

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 RANDOLPH
CRAWFORD COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE PERIOD
JANUARY 1, 2009 TO DECEMBER 31, 2011

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 financial institutions. 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, 2011. 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 RANDOLPH
CRAWFORD COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE PERIOD
JANUARY 1, 2009 TO DECEMBER 31, 2011

2. Deposits (Continued)

Fund Balance

The fund balance as of December 31, 2011 consists of the following:

Cash	\$178,113.81
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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 \$10,123.61 during 2009, \$3,760.44 during 2010, and \$893.72 during 2011, thus providing additional funds for road maintenance and repairs.

4. Lease-Purchase Agreement

On May 2, 2007, the municipality entered into a lease-purchase agreement with Caterpillar Financial Services Corporation to purchase a motor grader for \$83,453.00. The agreement was for a term of seven years at an interest rate of 5.5 percent. Principal and interest payments of \$14,684.64 are due annually. Prior years' principal and interest payments from the Liquid Fuels Tax Fund were \$10,094.72 and \$4,589.92, respectively.

During the current examination period the municipality paid principal of \$23,089.59, interest of \$6,279.96, and late fees of \$1,468.19 from the Liquid Fuels Tax Fund. These amounts are reflected in major equipment purchases on the 2010 and 2011 Forms MS-965 - Section 1. Additionally, the municipality paid principal of \$10,650.06 and interest of \$4,034.70 from the General Fund. The outstanding balance of the lease-purchase agreement as of December 31, 2011 was \$39,618.63, plus interest.

TOWNSHIP OF RANDOLPH
CRAWFORD COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE PERIOD
JANUARY 1, 2009 TO DECEMBER 31, 2011

5. Bank Loan

On February 12, 2009, the municipality borrowed \$157,000.00 from Mercer County State Bank to purchase a 2009 Peterbilt dump truck. The term of the loan was for five years at an interest rate of 3.75 percent. Principal and interest payments of \$35,080.11 are due annually.

During the current examination period the municipality paid principal of \$59,194.93 and interest of \$10,965.29 from the Liquid Fuels Tax Fund. These amounts are reflected in major equipment purchases on the 2010 and 2011 Forms MS-965 - Section 1. The outstanding balance of the loan as of December 31, 2011 was \$97,805.07, plus interest.

TOWNSHIP OF RANDOLPH
CRAWFORD COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2009 TO DECEMBER 31, 2011

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 2009, 2010, and 2011 Forms MS-965. These adjustments, which are disclosed in Note 4, are as follows:

2009 - Section 1

- Adjustments were made to "Minor equipment purchases" and "Maintenance and repair of roads and bridges" because expenditures of \$1,086.40 were misclassified.

2009 - Section 2

- An adjustment of \$230.57 was made to "Balance, January 1, 2009" because of a prior report adjustment that was not carried forward in the fund balance.
- An adjustment of \$(8,288.07) was made to "State allocation" because the municipality only deposited \$125,000.00 of the state allocation of \$133,288.07 into its Liquid Fuels Tax Fund.
- An adjustment of \$74.12 was made to "Interest on investments" because interest earned on a savings account was not reported.

2009 - Section 3

- An adjustment of \$(1,657.61) was made to "Current year equipment allocation" because the state allocation from 2009 - Section 2, which is used to calculate this figure, was overstated.

2010 - Section 1

- Adjustments were made to "Major equipment purchases," "Storm sewers and drains," and "Repairs of tools and machinery" because expenditures of \$19,365.10 were misclassified.

TOWNSHIP OF RANDOLPH
CRAWFORD COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2009 TO DECEMBER 31, 2011

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

2010 - Section 1 (Continued)

- Adjustments were made to “Minor equipment purchases,” “Winter maintenance services,” and “Maintenance and repair of roads and bridges” because expenditures of \$24,243.88 were misclassified.
- An adjustment of \$(159.15) was made to “Miscellaneous” because an early redemption penalty for a certificate of deposit was overstated.

2010 - Section 3

- An adjustment of \$(1,657.51) was made to “Prior year equipment balance” because an incorrect equipment balance was carried forward.
- An adjustment of \$15,418.87 was made to “Major equipment expenditures” to reflect the adjustment made to major equipment purchases in 2010 - Section 1.

2011 - Section 1

- Adjustments were made to “Major equipment purchases,” “Winter maintenance services,” “Storm sewers and drains,” and “Maintenance and repair of roads and bridges” because expenditures of \$28,511.02 were misclassified.

2011 - Section 2

- An adjustment of \$159.15 was made to “Balance, January 1, 2011” to reflect the adjustment made to the fund balance 2010 - Section 2.
- An adjustment of \$111.94 was made to “Interest on investments” because interest earnings were understated.

TOWNSHIP OF RANDOLPH
CRAWFORD COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2009 TO DECEMBER 31, 2011

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

2011 - Section 3

- An adjustment of \$(17,076.38) was made to “Prior year equipment balance” to reflect the adjustment made to the equipment balance in 2010 - Section 3.
- An adjustment of \$15,418.87 was made to “Major equipment expenditures” to reflect the adjustment made to major equipment purchases in 2011 - Section 1.

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 offered no formal response at this time.

TOWNSHIP OF RANDOLPH
CRAWFORD COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2009 TO DECEMBER 31, 2011

Finding No. 2 - Liquid Fuels Allocation Was Received Late And Deposited Into The General Fund

Our examination disclosed that the 2009 Liquid Fuels Tax Fund allocation of \$133,288.07, which should have been distributed from the Department of Transportation to the municipality during the first week of April of that year, was not received until June 25, 2009, because the municipality failed to comply with the Department of Transportation's *Publication 9*, Chapter Two, Section 2.4, which states:

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

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

Because the municipality failed to file documents and information timely as noted above, the municipality did not have use of the 2009 allocation for almost three 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.

Additionally, the municipality's 2009 Liquid Fuels Tax Fund allocation was electronically deposited into the General Fund on June 25, 2009, which is in noncompliance with the Liquid Fuels Tax Municipal Allocation Law.

TOWNSHIP OF RANDOLPH
CRAWFORD COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2009 TO DECEMBER 31, 2011

Finding No. 2 - Liquid Fuels Allocation Was Received Late And Deposited Into The General Fund (Continued)

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 July 22, 2009 and September 15, 2009, the municipality reimbursed \$100,000.00 and \$25,000.00, respectively, to its Liquid Fuels Tax Fund.

The failure to follow the Liquid Fuels Tax Municipal Allocation Law as noted above could result in the municipality having to reimburse the remaining \$8,288.07 to its Liquid Fuels Tax Fund.

The municipality's 2010 and 2011 Liquid Fuels Tax Fund allocations were received on time and were deposited directly into the Liquid Fuels Tax Fund.

Recommendations

We recommend that the municipality reimburse \$8,288.07 to its Liquid Fuels Tax Fund upon official notification by the Department of Transportation.

We further 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.

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

Management's Response

The municipal officials offered no formal response at this time.

TOWNSHIP OF RANDOLPH
 CRAWFORD COUNTY
 LIQUID FUELS TAX FUND
 FINDINGS AND RECOMMENDATIONS
 FOR THE PERIOD
 JANUARY 1, 2009 TO DECEMBER 31, 2011

Finding No. 3 - Purchases Over \$10,000.00 In Noncompliance With Advertising And Bidding Requirements

Our examination disclosed that the township expended \$20,741.92 during 2010 from the Liquid Fuels Tax Fund for the purchase of fuel without advertising for bids. These expenditures were as follows:

<u>Statement Date</u>	<u>Check Number</u>	<u>Check Date</u>	<u>Amount</u>
02/28/10	266	03/29/10	\$ 2,325.44
04/30/10	288	05/12/10	1,199.36
05/31/10	300	06/10/10	2,904.01
06/30/10	305	07/07/10	2,285.43
07/31/10	311	08/11/10	3,113.63
08/31/10	313	09/08/10	1,980.17
11/30/10	332	12/07/10	2,855.12
12/31/10	341	01/11/11	4,078.76
			<u>\$20,741.92</u>

The above expenditures 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.

TOWNSHIP OF RANDOLPH
CRAWFORD COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2009 TO DECEMBER 31, 2011

Finding No. 3 - Purchases Over \$10,000.00 In Noncompliance With Advertising And Bidding Requirements (Continued)

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

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 \$20,741.92 to its Liquid Fuels Tax Fund.

A similar finding was also written in our prior report. However, the township did comply with advertising and bidding requirements during 2011.

Recommendations

We recommend that the township reimburse \$20,741.92 to its Liquid Fuels Tax Fund upon official notification by the Department of Transportation.

We further recommend that, in the future, the township continue to comply with *The Second Class Township Code* and the Department of Transportation's *Publication 9*. For 2012, the bidding threshold was increased to purchases over \$18,500.00.

Management's Response

The township officials offered no formal response at this time.

TOWNSHIP OF RANDOLPH
 CRAWFORD COUNTY
 LIQUID FUELS TAX FUND
 FINDINGS AND RECOMMENDATIONS
 FOR THE PERIOD
 JANUARY 1, 2009 TO DECEMBER 31, 2011

Finding No. 4 - Documentation For Price Quotations Was Not Available For Examination -
 Recurring

We cited the municipality for failing to maintain documentation for price quotations in our prior examination report for the period ending December 31, 2008. However, our examination disclosed that the township expended \$7,155.07 during 2011 from the Liquid Fuels Tax Fund for the purchase of 2A and 2RC gravel. The township was required to obtain three written or telephonic price quotations for these expenditures. However, documentation for price quotations was not available for examination. The 2A and 2RC gravel purchases were as follows:

<u>Invoice Number</u>	<u>Invoice Date</u>	<u>Check Number</u>	<u>Check Date</u>	<u>Amount</u>
2158	02/28/11	353	03/22/11	\$3,381.47
2178	03/16/11	358	04/07/11	2,429.12
2234	04/26/11	366	05/04/11	387.24
2292	05/24/11	375	06/08/11	427.43
2314	06/02/11	376	06/22/11	398.18
2556	09/29/11	402	10/12/11	131.63
Total				\$7,155.07

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

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

TOWNSHIP OF RANDOLPH
CRAWFORD COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2009 TO DECEMBER 31, 2011

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

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

...For material estimates between \$4,000 and \$10,000, three telephone price quotes shall be obtained prior to the selection of a supplier. In lieu of the price quotations, a memorandum shall be kept on file showing that fewer than three qualified contractors service the market area within which it is practicable to obtain quotations. If the cost during the year of an unadvertised item or group of like items ordinarily supplied by a single supplier exceeds \$10,000 or if the cost was between \$4,000 and \$10,000 and three price quotes were not obtained, the entire cost shall be ineligible for payment from the Liquid Fuels Tax Fund unless it can be shown to the satisfaction of the Secretary [of the Department of Transportation] that it was reasonably believed that the cost of the year's requirements of that item or group of like items would not exceed \$10,000 or be between \$4,000 and \$10,000 as specified above.

This condition existed because the municipality failed to comply with our prior examination recommendation to comply with *The Second Class Township Code* and the Department of Transportation's *Publication 9* by maintaining price quotations for purchases between \$4,000.00 and \$10,000.00.

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 \$7,155.07 to its Liquid Fuels Tax Fund.

Recommendations

We recommend that the township reimburse \$7,155.07 to its Liquid Fuels Tax Fund upon official notification by the Department of Transportation.

We strongly recommend that, in the future, the township comply with *The Second Class Township Code* and the Department of Transportation's *Publication 9*. For 2012, the threshold for obtaining price quotations was increased to purchases between \$10,000.00 and \$18,500.00.

TOWNSHIP OF RANDOLPH
CRAWFORD COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2009 TO DECEMBER 31, 2011

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

Management's Response

The township officials offered no formal response at this time.

Auditor's Conclusion

This is a recurring finding. We strongly recommend that the township comply with our recommendations.

TOWNSHIP OF RANDOLPH
CRAWFORD COUNTY
LIQUID FUELS TAX FUND
COMMENT
FOR THE PERIOD
JANUARY 1, 2009 TO DECEMBER 31, 2011

Comment - Summary Of Prior Examination Recommendations

In our prior report we recommended that the Department of Transportation review our examination finding to determine if the municipality should reimburse \$65,820.43 to its Liquid Fuels Tax Fund. This amount consists of \$39,189.46 for failing to maintain fuel dispensation records, \$21,575.97 for purchases over \$10,000.00 without advertising for bids, and \$5,055.00 for a failure to maintain documentation for price quotations.

During our current examination we reviewed a letter dated November 5, 2010, from the Department of Transportation informing the municipality to reimburse \$65,820.43 to its Liquid Fuels Tax Fund. We noted that the municipality reimbursed this amount to its Liquid Fuels Tax Fund on December 28, 2010.

In our prior report we also recommended that the municipality prepare detailed fuel usage reports to ensure good internal controls over fuel purchases and usage.

During our current examination we noted that the municipality complied with our recommendation.

TOWNSHIP OF RANDOLPH
CRAWFORD COUNTY
LIQUID FUELS TAX FUND
SUMMARY OF EXIT CONFERENCE
FOR THE PERIOD
JANUARY 1, 2009 TO DECEMBER 31, 2011

An exit conference was held March 7, 2013. Those participating were:

TOWNSHIP OF RANDOLPH

Mrs. Joi D. Fultz, Secretary/Treasurer

DEPARTMENT OF THE AUDITOR GENERAL

Mr. Joel S. Schwartz, Auditor

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

TOWNSHIP OF RANDOLPH
CRAWFORD COUNTY
LIQUID FUELS TAX FUND
REPORT DISTRIBUTION
FOR THE PERIOD
JANUARY 1, 2009 TO DECEMBER 31, 2011

This report was initially distributed to:

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

Township of Randolph
Crawford County
P. O. Box 143
28631 Guys Mills Road
Guys Mills, PA 16327

The Honorable Glen Armstrong

Chairman of the Board of Supervisors

Mrs. Joi D. Fultz

Secretary/Treasurer

This report is a matter of public record and is available online at <http://www.auditorgen.state.pa.us>. Media questions about the report can be directed to the Pennsylvania Department of the Auditor General, Office of Communications, 231 Finance Building, Harrisburg, PA 17120; via email to: news@auditorgen.state.pa.us.