



**BOROUGH OF COLWYN  
DELAWARE COUNTY  
23-406**

**LIQUID FUELS TAX FUND  
EXAMINATION REPORT**

**FOR THE PERIOD  
JANUARY 1, 2010 TO DECEMBER 31, 2012**

**COMMONWEALTH OF PENNSYLVANIA**

**EUGENE A. DEPASQUALE - AUDITOR GENERAL**

**DEPARTMENT OF THE AUDITOR GENERAL**





Commonwealth of Pennsylvania  
Department of the Auditor General  
Harrisburg, PA 17120-0018  
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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 Borough of Colwyn, Delaware County, for the period January 1, 2010 to December 31, 2012. 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 Borough of Colwyn, Delaware County's Forms MS-965 for the period January 1, 2010 to December 31, 2012 and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

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

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

## Independent Auditor's Report (Continued)

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

- The municipality expended \$8,070.30 during 2011 from the Liquid Fuels Tax Fund for payroll. However, the municipality did not maintain daily payroll time sheets identifying the nature of work performed and the location of work assignments (Finding No. 1).
- The borough loaned \$49,000.00 during 2011 and \$49,350.00 during 2012 from the Liquid Fuels Tax Fund to the General Fund. A total of \$48,000.00 was reimbursed during our examination period, leaving a balance of \$50,350.00 due to the Liquid Fuels Tax Fund (Finding No. 2).
- The municipality expended \$23,000.00 during 2010 from the Liquid Fuels Tax Fund for engineering services not related to roads, which are nonpermissible expenditures (Finding No. 3).

In our opinion, except for the bulleted items discussed above, 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 Borough of Colwyn, Delaware County, for the period January 1, 2010 to December 31, 2012, 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 Borough of Colwyn, Delaware County's ability

Independent Auditor's Report (Continued)

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 Borough of Colwyn, Delaware County's Forms MS-965 that is more than inconsequential will not be prevented or detected by the Borough of Colwyn, Delaware 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:

- Documentation Supporting Payroll Expenditures Was Not Available For Examination.

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 Borough of Colwyn, Delaware 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 material weaknesses.

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

- Liquid Fuels Money Loaned To General Fund - Recurring.
- Nonpermissible Expenditure.
- Liquid Fuels Money Overexpended On Project.

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.

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



**EUGENE A. DEPASQUALE**  
Auditor General

May 20, 2013

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BOROUGH OF COLWYN  
DELAWARE COUNTY  
LIQUID FUELS TAX FUND  
BACKGROUND  
FOR THE PERIOD  
JANUARY 1, 2010 TO DECEMBER 31, 2012

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.

BOROUGH OF COLWYN  
 DELAWARE COUNTY  
 LIQUID FUELS TAX FUND  
 2010 FORM MS-965 – SECTION 1  
 WITH ADJUSTMENTS

<u>Expenditure Summary</u>	<u>Reported</u>	<u>Adjustments (Note 4)</u>	<u>Adjusted Amount</u>
Major equipment purchases	\$ -	\$ -	\$ -
Minor equipment purchases	-	-	-
Computer/Computer related training	-	-	-
Agility projects	-	-	-
Cleaning streets and gutters	801.88	(801.88)	-
Winter maintenance services	23,879.74	(7,129.74)	16,750.00
Traffic control devices	556.49	(556.49)	-
Street lighting	16,599.51	(6,986.10)	9,613.41
Storm sewers and drains	511.56	(511.56)	-
Repairs of tools and machinery	4,374.79	(3,479.79)	895.00
Maintenance and repair of roads and bridges	370.44	658.96	1,029.40
Highway construction and rebuilding projects	29,217.60	(569.60)	28,648.00
Miscellaneous (Note 6)	-	23,000.00	23,000.00
	<u>-</u>	<u>23,000.00</u>	<u>23,000.00</u>
Total (To Section 2, Line 5)	<u>\$ 76,312.01</u>	<u>\$ 3,623.80</u>	<u>\$ 79,935.81</u>

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

BOROUGH OF COLWYN  
 DELAWARE 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	\$ 1,558.24	\$ -	\$ 1,558.24
Receipts:			
2. State allocation	38,863.54	-	38,863.54
2a. Turnback allocation	-	-	-
2b. Interest on investments (Note 3)	15.63	-	15.63
2c. Miscellaneous (Note 5)	<u>73,555.00</u>	<u>-</u>	<u>73,555.00</u>
3. Total receipts	<u>112,434.17</u>	<u>-</u>	<u>112,434.17</u>
4. Total funds available	<u>113,992.41</u>	<u>-</u>	<u>113,992.41</u>
5. Expenditures (Section 1)	<u>76,312.01</u>	<u>3,623.80</u>	<u>79,935.81</u>
6. Balance, December 31, 2010	<u><u>\$ 37,680.40</u></u>	<u><u>\$ (3,623.80)</u></u>	<u><u>\$ 34,056.60</u></u>

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



BOROUGH OF COLWYN  
 DELAWARE COUNTY  
 LIQUID FUELS TAX FUND  
 2010 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	\$ 1,558.24	\$ -	\$ 1,558.24
2. Add: Current year equipment allocation (20% of Lines 2 + 2a, Section 2)	7,772.71	-	7,772.71
3. PENNDOT approved adjustments	<u>-</u>	<u>-</u>	<u>-</u>
4. Total funds available for equipment acquisition	9,330.95	-	9,330.95
5. Less: Major equipment expenditures	<u>-</u>	<u>-</u>	<u>-</u>
6. Remainder	<u>9,330.95</u>	<u>-</u>	<u>9,330.95</u>
7. Equipment balance available for subsequent year (Lesser of Line 6 or Section 2 balance, but not less than zero)	<u>\$ 9,330.95</u>	<u>\$ -</u>	<u>\$ 9,330.95</u>

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

BOROUGH OF COLWYN  
 DELAWARE COUNTY  
 LIQUID FUELS TAX FUND  
 2011 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	675.00	-	675.00
Computer/Computer related training	-	-	-
Agility projects	-	-	-
Cleaning streets and gutters	-	-	-
Winter maintenance services	2,443.25	-	2,443.25
Traffic control devices	-	-	-
Street lighting	11,359.71	-	11,359.71
Storm sewers and drains	-	-	-
Repairs of tools and machinery	1,197.00	-	1,197.00
Maintenance and repair of roads and bridges	209.86	1,019.20	1,229.06
Highway construction and rebuilding projects	-	-	-
Miscellaneous (Note 6)	<u>66,589.50</u>	<u>(1,019.20)</u>	<u>65,570.30</u>
 Total (To Section 2, Line 5)	 <u><u>\$ 82,474.32</u></u>	 <u><u>\$ -</u></u>	 <u><u>\$ 82,474.32</u></u>

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

BOROUGH OF COLWYN  
 DELAWARE COUNTY  
 LIQUID FUELS TAX FUND  
 2011 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, 2011	\$ 37,680.40	\$ (3,623.80)	\$ 34,056.60
Receipts:			
2. State allocation	40,132.73	-	40,132.73
2a. Turnback allocation	-	-	-
2b. Interest on investments (Note 3)	9.40	-	9.40
2c. Miscellaneous (Note 5)	8,500.00	-	8,500.00
3. Total receipts	48,642.13	-	48,642.13
4. Total funds available	86,322.53	(3,623.80)	82,698.73
5. Expenditures (Section 1)	82,474.32	-	82,474.32
6. Balance, December 31, 2011	\$ 3,848.21	\$ (3,623.80)	\$ 224.41

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

BOROUGH OF COLWYN  
 DELAWARE COUNTY  
 LIQUID FUELS TAX FUND  
 2011 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	\$ 9,330.95	\$ -	\$ 9,330.95
2. Add: Current year equipment allocation (20% of Lines 2 + 2a, Section 2)	8,026.55	-	8,026.55
3. PENNDOT approved adjustments	-	-	-
4. Total funds available for equipment acquisition	17,357.50	-	17,357.50
5. Less: Major equipment expenditures	-	-	-
6. Remainder	<u>17,357.50</u>	<u>-</u>	<u>17,357.50</u>
7. Equipment balance available for subsequent year (Lesser of Line 6 or Section 2 balance, but not less than zero)	<u>\$ 3,848.21</u>	<u>\$ (3,623.80)</u>	<u>\$ 224.41</u>

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

BOROUGH OF COLWYN  
 DELAWARE COUNTY  
 LIQUID FUELS TAX FUND  
 2012 FORM MS-965 – SECTION 1  
 WITH ADJUSTMENTS

<u>Expenditure Summary</u>	<u>Reported</u>	<u>Adjustments</u>	<u>Adjusted Amount</u>
Major equipment purchases	\$ -	\$ -	\$ -
Minor equipment purchases	-	-	-
Computer/Computer related training	-	-	-
Agility projects	-	-	-
Cleaning streets and gutters	-	-	-
Winter maintenance services	1,795.59	-	1,795.59
Traffic control devices	-	-	-
Street lighting	37,122.17	-	37,122.17
Storm sewers and drains	-	-	-
Repairs of tools and machinery	1,040.50	-	1,040.50
Maintenance and repair of roads and bridges	-	-	-
Highway construction and rebuilding projects	-	-	-
Miscellaneous (Note 6)	49,350.00	-	49,350.00
 Total (To Section 2, Line 5)	 <u>\$ 89,308.26</u>	 <u>\$ -</u>	 <u>\$ 89,308.26</u>

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

BOROUGH OF COLWYN  
 DELAWARE COUNTY  
 LIQUID FUELS TAX FUND  
 2012 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, 2012	\$ 224.41	\$ -	\$ 224.41
Receipts:			
2. State allocation	41,102.89	-	41,102.89
2a. Turnback allocation	-	-	-
2b. Interest on investments (Note 3)	8.71	-	8.71
2c. Miscellaneous (Note 5)	48,000.00	-	48,000.00
3. Total receipts	<u>89,111.60</u>	<u>-</u>	<u>89,111.60</u>
4. Total funds available	<u>89,336.01</u>	<u>-</u>	<u>89,336.01</u>
5. Expenditures (Section 1)	<u>89,308.26</u>	<u>-</u>	<u>89,308.26</u>
6. Balance, December 31, 2012	<u>\$ 27.75</u>	<u>\$ -</u>	<u>\$ 27.75</u>

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

BOROUGH OF COLWYN  
 DELAWARE COUNTY  
 LIQUID FUELS TAX FUND  
 2012 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	\$ 224.41	\$ -	\$ 224.41
2. Add: Current year equipment allocation (20% of Lines 2 + 2a, Section 2)	8,220.58	-	8,220.58
3. PENNDOT approved adjustments	<u>-</u>	<u>-</u>	<u>-</u>
4. Total funds available for equipment acquisition	8,444.99	-	8,444.99
5. Less: Major equipment expenditures	<u>-</u>	<u>-</u>	<u>-</u>
6. Remainder	<u>8,444.99</u>	<u>-</u>	<u>8,444.99</u>
7. Equipment balance available for subsequent year (Lesser of Line 6 or Section 2 balance, but not less than zero)	<u>\$ 27.75</u>	<u>\$ -</u>	<u>\$ 27.75</u>

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

BOROUGH OF COLWYN  
DELAWARE COUNTY  
LIQUID FUELS TAX FUND  
NOTES TO FORMS MS-965 WITH ADJUSTMENTS  
FOR THE PERIOD  
JANUARY 1, 2010 TO DECEMBER 31, 2012

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 prior to 2012 and in excess of \$10,000.00 during 2012 and subsequent years.
- Minor equipment purchases are purchases of road machinery and road equipment that cost \$4,000.00 or less prior to 2012 and \$10,000.00 or less during 2012 and subsequent years.
- 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



BOROUGH OF COLWYN  
DELAWARE COUNTY  
LIQUID FUELS TAX FUND  
NOTES TO FORMS MS-965 WITH ADJUSTMENTS  
FOR THE PERIOD  
JANUARY 1, 2010 TO DECEMBER 31, 2012

1. Criteria (Continued)

Section 3 (Continued)

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.

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.

BOROUGH OF COLWYN  
DELAWARE COUNTY  
LIQUID FUELS TAX FUND  
NOTES TO FORMS MS-965 WITH ADJUSTMENTS  
FOR THE PERIOD  
JANUARY 1, 2010 TO DECEMBER 31, 2012

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 Borough Code*, Title 53 P.S § 46316, authorizes the borough 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, 2012. 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.

BOROUGH OF COLWYN  
DELAWARE COUNTY  
LIQUID FUELS TAX FUND  
NOTES TO FORMS MS-965 WITH ADJUSTMENTS  
FOR THE PERIOD  
JANUARY 1, 2010 TO DECEMBER 31, 2012

2. Deposits (Continued)

Fund Balance

The fund balance as of December 31, 2012 consists of the following:

Cash	<u>\$27.75</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 \$15.63 during 2010, \$9.40 during 2011, and \$8.71 during 2012, thus providing additional funds for road maintenance and repairs.

4. Adjustments

2010 - Section 1

An adjustment of \$(801.88) was made to "Cleaning streets and gutters" because these expenditures were overstated.

An adjustment of \$(7,129.74) was made to "Winter maintenance services" because these expenditures were overstated.

An adjustment of \$(556.49) was made to "Traffic control devices" because these expenditures were overstated.

An adjustment of \$(6,986.10) was made to "Street lighting" because these expenditures were overstated.

An adjustment of \$(511.56) was made to "Storm sewers and drains" because these expenditures were overstated.

An adjustment of \$(3,479.79) was made to "Repairs of tools and machinery" because these expenditures were overstated.

An adjustment of \$658.96 was made to "Maintenance and repair of roads and bridges" because these expenditures were understated.

BOROUGH OF COLWYN  
 DELAWARE COUNTY  
 LIQUID FUELS TAX FUND  
 NOTES TO FORMS MS-965 WITH ADJUSTMENTS  
 FOR THE PERIOD  
 JANUARY 1, 2010 TO DECEMBER 31, 2012

4. Adjustments (Continued)

2010 - Section 1 (Continued)

An adjustment of \$(569.60) was made to “Highway construction and rebuilding projects” because these expenditures were overstated.

An adjustment of \$23,000.00 was made to “Miscellaneous” because a payment for a nonpermissible expenditure was not reported.

2011 - Section 1

Adjustments made to “Maintenance and repair of roads and bridges” and “Miscellaneous” because expenditures of \$1,019.20 were misclassified.

2011 - Section 2

An adjustment of \$(3,623.80) was made to “Balance, January 1, 2011” to reflect the adjustment made to the fund balance in 2010 - Section 2.

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>2010</u>	<u>2011</u>	<u>2012</u>
General Fund	Reimbursement (Comment)	\$56,395.00	\$ -	\$ -
General Fund	Grant	2,750.00	-	-
Delaware County	County aid (Finding No. 4)	14,410.00	-	-
General Fund	Correction of transfer in error (Note 7)	-	8,500.00	-
General Fund	Repayment of loans (Finding No. 2)	-	-	48,000.00
Total		<u>\$73,555.00</u>	<u>\$8,500.00</u>	<u>\$48,000.00</u>

BOROUGH OF COLWYN  
 DELAWARE COUNTY  
 LIQUID FUELS TAX FUND  
 NOTES TO FORMS MS-965 WITH ADJUSTMENTS  
 FOR THE PERIOD  
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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>2010</u>	<u>2011</u>	<u>2012</u>
Vendor	Nonpermissible expenditure (Finding No. 3)	\$23,000.00	\$ -	\$ -
General Fund	Loans (Finding No. 2)	-	49,000.00	49,350.00
General Fund	Unsupported payroll (Finding No. 1)	-	8,070.30	-
General Fund	Transfer in error (Note 7)	<u>-</u>	<u>8,500.00</u>	<u>-</u>
Total		<u>\$23,000.00</u>	<u>\$65,570.30</u>	<u>\$49,350.00</u>

7. Transfer In Error

On February 4, 2011, the municipality transferred \$8,500.00 from its Liquid Fuels Tax Fund to its General Fund in error. On April 27, 2011, the municipality transferred \$8,500.00 from its General Fund to its Liquid Fuels Tax Fund to correct the error.

BOROUGH OF COLWYN  
DELAWARE COUNTY  
LIQUID FUELS TAX FUND  
FINDINGS AND RECOMMENDATIONS  
FOR THE PERIOD  
JANUARY 1, 2010 TO DECEMBER 31, 2012

Finding No. 1 - Documentation Supporting Payroll Expenditures Was Not Available For Examination

Our examination disclosed that the municipality expended \$8,070.30 during 2011 from the Liquid Fuels Tax Fund for payroll. However, the municipality did not maintain daily payroll time sheets identifying the nature of work performed and the location of work assignments.

Good internal control procedures over payroll ensure that there is documentation identifying the nature of the work performed and location of work assignments.

The Liquid Fuels Tax Municipal Allocation Law, 72 P.S. § 2615.4, provides, in part, that monies herein allocated may be used only for construction, reconstruction, maintenance and repairs of such public roads or streets, including bridges, culverts and drainage structures, for which they are legally responsible. Also permitted are expenditures involving acquisition, maintenance, repairs and operation of street signs, traffic signs, traffic signal control systems, road equipment, and snow fences.

The Department of Transportation has been statutorily authorized to promulgate regulations concerning the administration of Liquid Fuels Tax Fund money and has determined that certain items, including expenditures made without supporting documentation, are outside the scope of permissible expenditures.

Without payroll documentation that includes daily time sheets that identify the nature of work performed and the location of work assignments, we could not determine if the payroll expenditures were permissible according to the Liquid Fuels Tax Municipal Allocation Law.

The failure to maintain documentation for payroll expenditures as noted above could result in the municipality having to reimburse \$8,070.30 to its Liquid Fuels Tax Fund.

Recommendations

We recommend that the municipality reimburse \$8,070.30 to its Liquid Fuels Tax Fund upon official notification by the Department of Transportation.

We further recommend that the municipality ensure good internal control over payroll by maintaining daily time sheets that identify the nature of work performed and the location of work assignments.

BOROUGH OF COLWYN  
DELAWARE COUNTY  
LIQUID FUELS TAX FUND  
FINDINGS AND RECOMMENDATIONS  
FOR THE PERIOD  
JANUARY 1, 2010 TO DECEMBER 31, 2012

Finding No. 1 - Documentation Supporting Payroll Expenditures Was Not Available For  
Examination (Continued)

Management's Response

The municipal officials offered no formal response at this time.

Auditor's Conclusion

The findings in this report create an environment conducive to Liquid Fuels Tax Fund money being misused. We strongly recommend that the borough take corrective action to comply with all of the recommendations in this report.

BOROUGH OF COLWYN  
 DELAWARE COUNTY  
 LIQUID FUELS TAX FUND  
 FINDINGS AND RECOMMENDATIONS  
 FOR THE PERIOD  
 JANUARY 1, 2010 TO DECEMBER 31, 2012

Finding No. 2 - Liquid Fuels Money Loaned To General Fund - Recurring

We cited the municipality for loaning Liquid Fuels Tax Fund money to the General Fund in our prior examination report for the period ending December 31, 2009. However, our current examination again disclosed that the municipality loaned \$49,000.00 during 2011 and \$49,350.00 during 2012 from the Liquid Fuels Tax Fund to the General Fund. The loans were as follows:

<u>Date Loaned</u>	<u>Amount</u>
June 24, 2011	\$10,000.00
August 26, 2011	10,000.00
September 6, 2011	13,800.00
September 9, 2011	15,000.00
December 2, 2011	200.00
October 1, 2012	5,000.00
October 9, 2012	18,000.00
November 1, 2012	20,000.00
November 29, 2012	6,000.00
December 13, 2012	<u>350.00</u>
 Total	 <u>\$98,350.00</u>

Liquid Fuels Tax Fund money appropriated to the municipality in accordance with 72 P.S. § 2615.4 of the Liquid Fuels Tax Municipal Allocation Law can only be expended for purposes authorized by 72 P.S. § 2615.4. The authorized purposes described by 72 P.S. § 2615.4 do not include loaning money from the municipality's Liquid Fuels Tax Fund to the General Fund or any other fund.

If the liquid fuels tax money was maintained in the Liquid Fuels Tax Fund during the entire examination period, money may have been available for investment purposes, potentially earning additional interest which could have been used for road maintenance and repairs. Additionally, 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 April 4, 2012, the municipality reimbursed \$48,000.00 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 \$50,350.00 to its Liquid Fuels Tax Fund.



BOROUGH OF COLWYN  
DELAWARE COUNTY  
LIQUID FUELS TAX FUND  
FINDINGS AND RECOMMENDATIONS  
FOR THE PERIOD  
JANUARY 1, 2010 TO DECEMBER 31, 2012

Finding No. 2 - Liquid Fuels Money Loaned To General Fund - Recurring (Continued)

This condition existed because the municipality failed to comply with our prior examination recommendation to discontinue the practice of loaning liquid fuels money to other funds or accounts.

Recommendations

We recommend that the municipality reimburse \$50,350.00 to its Liquid Fuels Tax Fund upon official notification by the Department of Transportation.

We further strongly recommend that, in the future, the municipality discontinue the practice of loaning liquid fuels money to other funds or accounts.

Management's Response

The municipal official offered no formal response at this time.

Auditor's Conclusion

The findings in this report create an environment conducive to Liquid Fuels Tax Fund money being misused. We strongly recommend that the borough take corrective action to comply with all of the recommendations in this report.

BOROUGH OF COLWYN  
DELAWARE COUNTY  
LIQUID FUELS TAX FUND  
FINDINGS AND RECOMMENDATIONS  
FOR THE PERIOD  
JANUARY 1, 2010 TO DECEMBER 31, 2012

Finding No. 3 - Nonpermissible Expenditure

Our examination disclosed that the municipality expended \$23,000.00 during 2010 from the Liquid Fuels Tax Fund for engineering services not related to roads, which are nonpermissible expenditures.

The Liquid Fuels Tax Municipal Allocation Law, 72 P.S. § 2615.4, provides, in part, that monies herein allocated may be used only for construction, reconstruction, maintenance, and repairs of such public roads or streets, including bridges, culverts and drainage structures, for which they are legally responsible. Also permitted are expenditures involving acquisition, maintenance, repairs and operation of street signs, traffic signs, traffic signal control systems, road equipment, and snow fences.

The Department of Transportation has been statutorily authorized to promulgate regulations concerning the administration of Liquid Fuels Tax Fund money and has determined that certain items, including engineering services not related to roads, are outside the scope of permissible expenditures.

The failure to follow the Liquid Fuels Tax Municipal Allocation Law and the Department of Transportation's Regulations as noted above could result in the municipality having to reimburse \$23,000.00 to its Liquid Fuels Tax Fund.

Recommendations

We recommend that the municipality reimburse \$23,000.00 to its Liquid Fuels Tax Fund upon official notification by the Department of Transportation.

We further recommend that, in the future, the municipality comply with the Liquid Fuels Tax Municipal Allocation Law and the Department of Transportation's Regulations regarding permissible expenditures.

Management's Response

The municipal official offered no formal response at this time.

Auditor's Conclusion

The findings in this report create an environment conducive to Liquid Fuels Tax Fund money being misused. We strongly recommend that the borough take corrective action to comply with all of the recommendations in this report.

BOROUGH OF COLWYN  
DELAWARE COUNTY  
LIQUID FUELS TAX FUND  
FINDINGS AND RECOMMENDATIONS  
FOR THE PERIOD  
JANUARY 1, 2010 TO DECEMBER 31, 2012

Finding No. 4 - Liquid Fuels Money Overexpended On Project

Our examination disclosed that the municipality expended \$28,648.00 of Liquid Fuels Tax Fund money on construction project No. 10-23406-1CA. However, the amount approved to be expended from the Liquid Fuels Tax Fund for this project was \$14,238.00. The difference of \$14,410.00 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 December 31, 2010, the municipality reimbursed \$14,410.00 to the Liquid Fuels Tax Fund.

Recommendation

We 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.

Auditor's Conclusion

The findings in this report create an environment conducive to Liquid Fuels Tax Fund money being misused. We strongly recommend that the borough take corrective action to comply with all of the recommendations in this report.

BOROUGH OF COLWYN  
DELAWARE COUNTY  
LIQUID FUELS TAX FUND  
FINDINGS AND RECOMMENDATIONS  
FOR THE PERIOD  
JANUARY 1, 2010 TO DECEMBER 31, 2012

Finding No. 5 - Late Receipt Of Allocation

Our examination disclosed that the 2010 Liquid Fuels Tax Fund allocation of \$38,863.54, 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 November 19, 2010, 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 31<sup>st</sup> and the Survey of Financial Condition by March 15<sup>th</sup>.
- Ensure resolution of all Contractor Responsibility Program (CRP) holds and blocks imposed by the Department of Revenue and the Department of Labor and Industry.

Because the municipality failed to file documents and information timely as noted above, the municipality did not have use of the 2010 allocation for more than seven 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, we noted that the 2011 and 2012 allocations were received timely.

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.

BOROUGH OF COLWYN  
DELAWARE COUNTY  
LIQUID FUELS TAX FUND  
FINDINGS AND RECOMMENDATIONS  
FOR THE PERIOD  
JANUARY 1, 2010 TO DECEMBER 31, 2012

Finding No. 5 - Late Receipt Of Allocation (Continued)

Management's Response

The municipal official offered no formal response at this time.

Auditor's Conclusion

The findings in this report create an environment conducive to Liquid Fuels Tax Fund money being misused. We strongly recommend that the borough take corrective action to comply with all of the recommendations in this report.

BOROUGH OF COLWYN  
DELAWARE COUNTY  
LIQUID FUELS TAX FUND  
COMMENT  
FOR THE PERIOD  
JANUARY 1, 2010 TO DECEMBER 31, 2012

Comment - Summary Of Prior Examination Recommendations

In our prior examination the municipality loaned \$56,395.00 from its Liquid Fuels Tax Fund to its General Fund. This amount was reimbursed to its Liquid Fuels Tax Fund on April 20, 2010. A similar finding was also written in our current report (see Finding No. 2).

Additionally, in our prior report we recommended that the municipality ensure that its Forms MS-965 are complete and accurate.

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

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BOROUGH OF COLWYN  
DELAWARE COUNTY  
LIQUID FUELS TAX FUND  
SUMMARY OF EXIT CONFERENCE  
FOR THE PERIOD  
JANUARY 1, 2010 TO DECEMBER 31, 2012

An exit conference was held May 20, 2013. Those participating were:

BOROUGH OF COLWYN

The Honorable Tonette Pray, President of Council

DEPARTMENT OF THE AUDITOR GENERAL

Mr. Fred Casella, Auditor

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

BOROUGH OF COLWYN  
DELAWARE COUNTY  
LIQUID FUELS TAX FUND  
REPORT DISTRIBUTION  
FOR THE PERIOD  
JANUARY 1, 2010 TO DECEMBER 31, 2012

This report was initially distributed to:

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

Borough of Colwyn  
Delaware County  
221 Spruce Street  
Colwyn, PA 19023

Mrs. Martha Van Auken

Finance Chair

The Honorable Tonette Pray

President of Council

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](mailto:news@auditorgen.state.pa.us).