

ATTESTATION ENGAGEMENT

Borough of Phoenixville

Chester County, Pennsylvania

15-411

Liquid Fuels Tax Fund

For the Period

January 1, 2010 to December 31, 2013

October 2014



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



Commonwealth of Pennsylvania
Department of the Auditor General
Harrisburg, PA 17120-0018
Facebook: Pennsylvania Auditor General
Twitter: @PAAuditorGen

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 Phoenixville, Chester County, for the period January 1, 2010 to December 31, 2013. 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 Phoenixville, Chester County's Forms MS-965 for the period January 1, 2010 to December 31, 2013 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)

In our opinion, 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 Phoenixville, Chester County, for the period January 1, 2010 to December 31, 2013, 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 Phoenixville, Chester 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 Borough of Phoenixville, Chester County's Forms MS-965 that is more than inconsequential will not be prevented or detected by the Borough of Phoenixville, Chester 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:

- Vendor Overcharge.

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 Phoenixville, Chester 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 believe that the significant deficiency described above is not a material weakness.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we did note an other matter that, while not required to be included in this report by *Government Auditing Standards*, has been included in the finding below:

- Nonpermissible Expenditures.

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 Borough of Phoenixville, Chester County, and is not intended to be and should not be used by anyone other than these specified parties.

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



Eugene A. DePasquale
Auditor General

June 11, 2014

CONTENTS

	<u>Page</u>
Background.....	1
Financial Section:	
2010 Form MS-965 With Adjustments	2
2011 Form MS-965 With Adjustments	5
2012 Form MS-965 With Adjustments	8
2013 Form MS-965 With Adjustments	11
Notes To Forms MS-965 With Adjustments.....	14
Findings And Recommendations:	
Finding No. 1 - Vendor Overcharge	22
Finding No. 2 - Nonpermissible Expenditures	24
Comments	26
Summary Of Exit Conference.....	27
Report Distribution	28

BOROUGH OF PHOENIXVILLE
CHESTER COUNTY
LIQUID FUELS TAX FUND
BACKGROUND
FOR THE PERIOD
JANUARY 1, 2010 TO DECEMBER 31, 2013

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 PHOENIXVILLE
 CHESTER 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	\$ 114,968.60	\$ 38,987.59	\$ 153,956.19
Minor equipment purchases	1,025.50	-	1,025.50
Computer/Computer related training	-	-	-
Agility projects	-	-	-
Cleaning streets and gutters	-	-	-
Winter maintenance services	81,891.75	(4,814.00)	77,077.75
Traffic control devices	73,277.97	-	73,277.97
Street lighting	-	-	-
Storm sewers and drains	3,911.50	-	3,911.50
Repairs of tools and machinery	12,572.89	-	12,572.89
Maintenance and repair of roads and bridges	49,927.38	(34,173.59)	15,753.79
Highway construction and rebuilding projects	215,639.11	-	215,639.11
Miscellaneous	-	-	-
	<u> </u>	<u> </u>	<u> </u>
Total (To Section 2, Line 5)	<u>\$ 553,214.70</u>	<u>\$ -</u>	<u>\$ 553,214.70</u>

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

BOROUGH OF PHOENIXVILLE
 CHESTER COUNTY
 LIQUID FUELS TAX FUND
 2010 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, 2010	\$ 588,556.43	\$ (2,743.21)	\$ 585,813.22
Receipts:			
2. State allocation	279,449.79	-	279,449.79
2a. Turnback allocation	1,320.00	-	1,320.00
2b. Interest on investments (Note 3)	6,713.36	-	6,713.36
2c. Miscellaneous (Note 5)	16,148.94	2,753.21	18,902.15
3. Total receipts	<u>303,632.09</u>	<u>2,753.21</u>	<u>306,385.30</u>
4. Total funds available	<u>892,188.52</u>	<u>10.00</u>	<u>892,198.52</u>
5. Expenditures (Section 1)	<u>553,214.70</u>	<u>-</u>	<u>553,214.70</u>
6. Balance, December 31, 2010	<u><u>\$ 338,973.82</u></u>	<u><u>\$ 10.00</u></u>	<u><u>\$ 338,983.82</u></u>

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

BOROUGH OF PHOENIXVILLE
 CHESTER COUNTY
 LIQUID FUELS TAX FUND
 2010 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	\$ 278,515.55	\$ (69,513.24)	\$ 209,002.31
2. Add: Current year equipment allocation (20% of Lines 2 + 2a, Section 2)	56,153.96	-	56,153.96
3. PENNDOT approved adjustments	<u>-</u>	<u>-</u>	<u>-</u>
4. Total funds available for equipment acquisition	334,669.51	(69,513.24)	265,156.27
5. Less: Major equipment expenditures	<u>114,968.60</u>	<u>38,987.59</u>	<u>153,956.19</u>
6. Remainder	<u>219,700.91</u>	<u>(108,500.83)</u>	<u>111,200.08</u>
7. Equipment balance available for subsequent year (Lesser of Line 6 or Section 2 balance, but not less than zero)	<u>\$ 219,700.91</u>	<u>\$ (108,500.83)</u>	<u>\$ 111,200.08</u>

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

BOROUGH OF PHOENIXVILLE
 CHESTER 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	\$ 78,050.00	\$ 34,173.59	\$ 112,223.59
Minor equipment purchases	-	-	-
Computer/Computer related training	-	-	-
Agility projects	-	-	-
Cleaning streets and gutters	13,627.30	-	13,627.30
Winter maintenance services	82,075.27	-	82,075.27
Traffic control devices	47,705.08	-	47,705.08
Street lighting	-	-	-
Storm sewers and drains	270.91	-	270.91
Repairs of tools and machinery	19,386.95	-	19,386.95
Maintenance and repair of roads and bridges	42,959.74	(34,173.59)	8,786.15
Highway construction and rebuilding projects	-	-	-
Miscellaneous	-	-	-
	<hr/>	<hr/>	<hr/>
Total (To Section 2, Line 5)	<u>\$ 284,075.25</u>	<u>\$ -</u>	<u>\$ 284,075.25</u>

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

BOROUGH OF PHOENIXVILLE
 CHESTER 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	\$ 338,973.82	\$ 10.00	\$ 338,983.82
Receipts:			
2. State allocation	291,207.69	-	291,207.69
2a. Turnback allocation	1,320.00	-	1,320.00
2b. Interest on investments (Note 3)	3,831.16	-	3,831.16
2c. Miscellaneous (Note 5)	83,621.33	-	83,621.33
3. Total receipts	<u>379,980.18</u>	<u>-</u>	<u>379,980.18</u>
4. Total funds available	<u>718,954.00</u>	<u>10.00</u>	<u>718,964.00</u>
5. Expenditures (Section 1)	<u>284,075.25</u>	<u>-</u>	<u>284,075.25</u>
6. Balance, December 31, 2011	<u>\$ 434,878.75</u>	<u>\$ 10.00</u>	<u>\$ 434,888.75</u>

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

BOROUGH OF PHOENIXVILLE
 CHESTER COUNTY
 LIQUID FUELS TAX FUND
 2011 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	\$ 150,187.67	\$ (38,987.59)	\$ 111,200.08
2. Add: Current year equipment allocation (20% of Lines 2 + 2a, Section 2)	58,505.54	-	58,505.54
3. PENNDOT approved adjustments	-	-	-
4. Total funds available for equipment acquisition	208,693.21	(38,987.59)	169,705.62
5. Less: Major equipment expenditures	<u>78,050.00</u>	<u>34,173.59</u>	<u>112,223.59</u>
6. Remainder	<u>130,643.21</u>	<u>(73,161.18)</u>	<u>57,482.03</u>
7. Equipment balance available for subsequent year (Lesser of Line 6 or Section 2 balance, but not less than zero)	<u>\$ 130,643.21</u>	<u>\$ (73,161.18)</u>	<u>\$ 57,482.03</u>

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

BOROUGH OF PHOENIXVILLE
 CHESTER COUNTY
 LIQUID FUELS TAX FUND
 2012 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	\$ 45,918.50	\$ (5,038.00)	\$ 40,880.50
Minor equipment purchases	1,085.00	5,038.00	6,123.00
Computer/Computer related training	-	-	-
Agility projects	-	-	-
Cleaning streets and gutters	15,915.56	-	15,915.56
Winter maintenance services	23,680.30	-	23,680.30
Traffic control devices	43,169.59	-	43,169.59
Street lighting	-	-	-
Storm sewers and drains	1,517.50	-	1,517.50
Repairs of tools and machinery	22,936.54	-	22,936.54
Maintenance and repair of roads and bridges	29,675.85	-	29,675.85
Highway construction and rebuilding projects	311,012.21	-	311,012.21
Miscellaneous	-	-	-
	<u> </u>	<u> </u>	<u> </u>
Total (To Section 2, Line 5)	<u>\$ 494,911.05</u>	<u>\$ -</u>	<u>\$ 494,911.05</u>

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

BOROUGH OF PHOENIXVILLE
 CHESTER COUNTY
 LIQUID FUELS TAX FUND
 2012 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, 2012	\$ 434,878.75	\$ 10.00	\$ 434,888.75
Receipts:			
2. State allocation	315,519.85	-	315,519.85
2a. Turnback allocation	1,320.00	-	1,320.00
2b. Interest on investments (Note 3)	3,458.06	-	3,458.06
2c. Miscellaneous (Note 5)	7,880.33	-	7,880.33
3. Total receipts	<u>328,178.24</u>	<u>-</u>	<u>328,178.24</u>
4. Total funds available	<u>763,056.99</u>	<u>10.00</u>	<u>763,066.99</u>
5. Expenditures (Section 1)	<u>494,911.05</u>	<u>-</u>	<u>494,911.05</u>
6. Balance, December 31, 2012	<u><u>\$ 268,145.94</u></u>	<u><u>\$ 10.00</u></u>	<u><u>\$ 268,155.94</u></u>

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

BOROUGH OF PHOENIXVILLE
 CHESTER COUNTY
 LIQUID FUELS TAX FUND
 2012 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	\$ 130,643.21	\$ (73,161.18)	\$ 57,482.03
2. Add: Current year equipment allocation (20% of Lines 2 + 2a, Section 2)	63,367.97	-	63,367.97
3. PENNDOT approved adjustments	<u>(73,161.18)</u>	<u>73,161.18</u>	<u>-</u>
4. Total funds available for equipment acquisition	120,850.00	-	120,850.00
5. Less: Major equipment expenditures	<u>45,918.50</u>	<u>(5,038.00)</u>	<u>40,880.50</u>
6. Remainder	<u>74,931.50</u>	<u>5,038.00</u>	<u>79,969.50</u>
7. Equipment balance available for subsequent year (Lesser of Line 6 or Section 2 balance, but not less than zero)	<u>\$ 74,931.50</u>	<u>\$ 5,038.00</u>	<u>\$ 79,969.50</u>

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

BOROUGH OF PHOENIXVILLE
 CHESTER COUNTY
 LIQUID FUELS TAX FUND
 2013 FORM MS-965 – SECTION 1
 WITH ADJUSTMENTS

<u>Expenditure Summary</u>	<u>Reported</u>	<u>Adjustments</u>	<u>Adjusted Amount</u>
Major equipment purchases	\$ 34,173.59	\$ -	\$ 34,173.59
Minor equipment purchases	1,961.33	-	1,961.33
Computer/Computer related training	-	-	-
Agility projects	-	-	-
Cleaning streets and gutters	7,851.85	-	7,851.85
Winter maintenance services	55,675.71	-	55,675.71
Traffic control devices	34,040.71	-	34,040.71
Street lighting	-	-	-
Storm sewers and drains	1,500.56	-	1,500.56
Repairs of tools and machinery	25,910.65	-	25,910.65
Maintenance and repair of roads and bridges	31,941.53	-	31,941.53
Highway construction and rebuilding projects	-	-	-
Miscellaneous	-	-	-
	<hr/>	<hr/>	<hr/>
Total (To Section 2, Line 5)	<u>\$ 193,055.93</u>	<u>\$ -</u>	<u>\$ 193,055.93</u>

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

BOROUGH OF PHOENIXVILLE
 CHESTER COUNTY
 LIQUID FUELS TAX FUND
 2013 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, 2013	\$ 268,145.94	\$ 10.00	\$ 268,155.94
Receipts:			
2. State allocation	310,423.18	-	310,423.18
2a. Turnback allocation	1,320.00	-	1,320.00
2b. Interest on investments (Note 3)	504.95	-	504.95
2c. Miscellaneous (Note 5)	660.00	(10.00)	650.00
3. Total receipts	<u>312,908.13</u>	<u>(10.00)</u>	<u>312,898.13</u>
4. Total funds available	<u>581,054.07</u>	<u>-</u>	<u>581,054.07</u>
5. Expenditures (Section 1)	<u>193,055.93</u>	<u>-</u>	<u>193,055.93</u>
6. Balance, December 31, 2013	<u><u>\$ 387,998.14</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 387,998.14</u></u>

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

BOROUGH OF PHOENIXVILLE
 CHESTER COUNTY
 LIQUID FUELS TAX FUND
 2013 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	\$ 74,931.50	\$ 5,038.00	\$ 79,969.50
2. Add: Current year equipment allocation (20% of Lines 2 + 2a, Section 2)	62,348.64	-	62,348.64
3. PENNDOT approved adjustments	-	-	-
4. Total funds available for equipment acquisition	137,280.14	5,038.00	142,318.14
5. Less: Major equipment expenditures	34,173.59	-	34,173.59
6. Remainder	<u>103,106.55</u>	<u>5,038.00</u>	<u>108,144.55</u>
7. Equipment balance available for subsequent year (Lesser of Line 6 or Section 2 balance, but not less than zero)	<u>\$ 103,106.55</u>	<u>\$ 5,038.00</u>	<u>\$ 108,144.55</u>

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

BOROUGH OF PHOENIXVILLE
 CHESTER COUNTY
 LIQUID FUELS TAX FUND
 NOTES TO FORMS MS-965 WITH ADJUSTMENTS
 FOR THE PERIOD
 JANUARY 1, 2010 TO DECEMBER 31, 2013

1. Criteria

Section 1

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

- Major equipment purchases are purchases of road machinery and road equipment with varying yearly costs in excess of the amounts indicated below:

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

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

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

- Agility projects are exchanges of services with the Department of Transportation.

Section 2

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

- The state allocation 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.

BOROUGH OF PHOENIXVILLE
CHESTER COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE PERIOD
JANUARY 1, 2010 TO DECEMBER 31, 2013

1. Criteria (Continued)

Section 2 (Continued)

- Expenditures include the total transferred from Section 1.

Section 3

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

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

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

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

Basis Of Presentation

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

BOROUGH OF PHOENIXVILLE
CHESTER COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE PERIOD
JANUARY 1, 2010 TO DECEMBER 31, 2013

1. Criteria (Continued)

Section 3 (Continued)

Basis Of Accounting

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

General Fixed Assets

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

2. Deposits

The 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.

BOROUGH OF PHOENIXVILLE
CHESTER COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE PERIOD
JANUARY 1, 2010 TO DECEMBER 31, 2013

2. Deposits (Continued)

There were no deposits exposed to custodial credit risk as of December 31, 2013. Custodial credit risk, as defined by GASB No. 40, includes deposits that are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the municipality's name.

Fund Balance

The fund balance as of December 31, 2013 consists of the following:

Cash	<u>\$387,998.14</u>
------	---------------------

3. Interest On Investments

Our examination disclosed that the municipality deposited idle liquid fuels tax money in an interest-bearing account which earned \$6,713.36 during 2010, \$3,831.16 during 2011, \$3,458.06 during 2012, and \$504.95 during 2013 thus providing additional funds for road maintenance and repairs.

4. Adjustments

2010 - Section 1

Adjustments were made to "Major equipment purchases," "Winter Maintenance services," and "Maintenance and repair of roads and bridges" because expenditures of \$38,987.59 were misclassified.

2010 - Section 2

An adjustment of \$(2,743.21) was made to "Balance, January 1, 2010" because an incorrect fund balance was carried forward.

An adjustment of \$2,753.21 was made to "Miscellaneous" because these receipts were understated.

BOROUGH OF PHOENIXVILLE
CHESTER COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE PERIOD
JANUARY 1, 2010 TO DECEMBER 31, 2013

4. Adjustments (Continued)

2010 - Section 3

An adjustment of \$(69,513.24) was made to “Prior year equipment balance” because prior report adjustments were not carried forward in the equipment balance.

An adjustment of \$38,987.59 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” and “Maintenance and repair of roads and bridges” because expenditures of \$34,173.59 were misclassified.

2011 - Section 2

An adjustment of \$10.00 was made to “Balance, January 1, 2011” to reflect the adjustment made to the fund balance in 2010 - Section 2.

2011 - Section 3

An adjustment of \$(38,987.59) was made to “Prior year equipment balance” because an incorrect equipment balance was carried forward.

An adjustment of \$34,173.59 was made to “Major equipment expenditures” to reflect the adjustment made to major equipment purchases in 2011 - Section 1.

2012 - Section 1

Adjustments were made to “Major equipment purchases” and “Minor equipment purchases” because expenditures of \$5,038.00 were misclassified.

2012 - Section 2

An adjustment of \$10.00 was made to “Balance, January 1, 2012” to reflect the adjustment made to the fund balance in 2011 - Section 2.

BOROUGH OF PHOENIXVILLE
CHESTER COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE PERIOD
JANUARY 1, 2010 TO DECEMBER 31, 2013

4. Adjustments (Continued)

2012 - Section 3

An adjustment of \$(73,161.18) was made to "Prior year equipment balance" to reflect the adjustment made to the equipment balance in 2011 - Section 3.

An adjustment of \$73,161.18 was made to "PENNDOT approved adjustments" because approved adjustments were understated.

An adjustment of \$(5,038.00) was made to "Major equipment expenditures" to reflect the adjustment made to major equipment purchases in 2012 - Section 1.

2013 - Section 2

An adjustment of \$10.00 was made to "Balance, January 1, 2013" to reflect the adjustment made to the fund balance in 2012 - Section 2.

An adjustment of \$(10.00) was made to "Miscellaneous" because these receipts were overstated.

2013 - Section 3

An adjustment of \$5,038.00 was made to "Prior year equipment balance" to reflect the adjustment made to the equipment balance in 2012 - Section 3.

BOROUGH OF PHOENIXVILLE
 CHESTER COUNTY
 LIQUID FUELS TAX FUND
 NOTES TO FORMS MS-965 WITH ADJUSTMENTS
 FOR THE PERIOD
 JANUARY 1, 2010 TO DECEMBER 31, 2013

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>	<u>2013</u>
General Fund	Reimbursement (Comment No. 1)	\$12,244.26	\$ -	\$ -	\$ -
General Fund	Reimbursement (Finding No. 2)	5,420.95	-	-	-
General Fund	Reimbursement for materials	1,236.94	-	-	-
Vendors	Reimbursement for damages	-	3,908.47	-	-
Insurance companies	Reimbursement for damages	-	41,386.85	7,880.33	-
Vendor	Refund for duplicate payment	-	285.28	-	-
Commonwealth of Pennsylvania	Severe weather assistance	-	25,159.28	-	-
General Fund	Reimbursement (Comment No. 2)	-	11,123.59	-	-
General Fund	Reimbursement (Finding No. 1)	-	1,757.86	-	-
Chester County Probation	Reimbursement for damages	-	-	-	<u>650.00</u>
Totals		<u>\$18,902.15</u>	<u>\$83,621.33</u>	<u>\$7,880.33</u>	<u>\$650.00</u>

6. Lease-Purchase Agreement

On April 15, 2009, the municipality entered into a lease-purchase agreement with Wells Fargo Equipment Finance to purchase an Allianz broom sweeper for \$154,500.00. The proceeds of the lease-purchase agreement were deposited into the Liquid Fuels Tax Fund. The agreement was for a term of five years at an interest rate of 4.85 percent. Principal and interest payments of \$34,173.59 are due annually. Prior years' principal and interest payments from the Liquid Fuels Tax Fund were \$32,903.46 and \$1,270.13, respectively.

BOROUGH OF PHOENIXVILLE
CHESTER COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE PERIOD
JANUARY 1, 2010 TO DECEMBER 31, 2013

6. Lease-Purchase Agreement (Continued)

During the current examination period the municipality paid principal of \$121,596.54 and interest of \$15,097.82 from the Liquid Fuels Tax Fund. These amounts are reflected in major equipment purchases on the 2010, 2011, 2012, and 2013 Forms MS-965 – Section 1. The lease-purchase agreement was paid-in-full on June 6, 2013.

BOROUGH OF PHOENIXVILLE
 CHESTER COUNTY
 LIQUID FUELS TAX FUND
 FINDINGS AND RECOMMENDATIONS
 FOR THE PERIOD
 JANUARY 1, 2010 TO DECEMBER 31, 2013

Finding No. 1 - Vendor Overcharge

Our examination disclosed that the municipality was overcharged a total of \$1,757.83 during 2010 for the purchase of 9.5MM asphalt as follows:

<u>Tons</u>	<u>Invoice Price/Ton</u>	<u>Total</u>	<u>Contract Price Price/Ton</u>	<u>Total</u>	<u>Difference</u>
2.00	\$43.50	\$ 87.00	\$42.90	\$ 85.80	\$ 1.20
370.79	43.50	16,129.37	42.90	15,906.90	222.47
390.78	43.50	16,998.93	42.90	16,764.47	234.46
253.62	43.50	11,032.47	42.90	10,880.30	152.17
625.25	43.50	27,198.38	42.90	26,823.23	375.15
277.86	43.50	12,086.91	42.90	11,920.20	166.71
275.15	43.50	11,969.03	42.90	11,803.94	165.09
507.28	43.50	22,066.68	42.90	21,762.32	304.36
218.60	43.50	9,509.10	42.90	9,377.94	131.16
2.13	43.50	92.66	42.90	91.38	1.28
<u>6.30</u>	43.50	<u>274.05</u>	42.90	<u>270.27</u>	<u>3.78</u>
<u>2,929.76</u>		<u>\$127,444.58</u>		<u>\$125,686.75</u>	<u>\$1,757.83</u>

Good internal controls ensure that invoice prices are compared to contract prices before payments are made on vendor invoices. The failure to follow this procedure increases the possibility that overpayments can be made on vendor invoices and go undetected for long periods of time.

On November 11, 2011 the municipality reimbursed \$1,757.86 to the Liquid Fuels Tax Fund, which was \$.03 more than the required amount.

We did not note any vendor overcharges in 2011, 2012, or 2013.

BOROUGH OF PHOENIXVILLE
CHESTER COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2010 TO DECEMBER 31, 2013

Finding No. 1 - Vendor Overcharge (Continued)

Recommendations

We recommend that the municipality compare invoice prices to contract prices prior to making payments on vendor invoices.

We further recommend that the municipal officials contact the vendor as soon as possible to obtain reimbursement.

Management's Response

The municipal officials offered no formal response at this time.

Auditor's Conclusion

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

BOROUGH OF PHOENIXVILLE
 CHESTER COUNTY
 LIQUID FUELS TAX FUND
 FINDINGS AND RECOMMENDATIONS
 FOR THE PERIOD
 JANUARY 1, 2010 TO DECEMBER 31, 2013

Finding No. 2 - Nonpermissible Expenditures

Our examination disclosed that the municipality expended \$5,420.95 during 2010, \$1,120.09 during 2012 and \$5,261.75 during 2013 from the Liquid Fuels Tax Fund for the following nonpermissible items:

<u>Description</u>	<u>Amount</u>	<u>Totals</u>
Signs for parking lots	\$1,669.45	
Friendship Field repairs	<u>3,751.50</u>	
2010 Total		\$ 5,420.95
Pressure washer	<u>\$1,120.09</u>	
2012 Total		1,120.09
Spill absorbent	<u>\$5,261.75</u>	
2013 Total		<u>5,261.75</u>
Three Year Total		<u><u>\$11,802.79</u></u>

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 signs for parking lots, repairs to a municipal field, pressure washing, and spill absorbents, which are outside the scope of permissible expenditures.

On August 23, 2010, October 6, 2010, and December 29, 2010, the municipality reimbursed \$1,669.45, \$2,728.00, and \$1,023.50, respectively, to the Liquid Fuels Tax Fund.

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 \$6,381.84 to its Liquid Fuels Tax Fund.

BOROUGH OF PHOENIXVILLE
CHESTER COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2010 TO DECEMBER 31, 2013

Finding No. 2 - Nonpermissible Expenditures (Continued)

Recommendations

We recommend that the municipality reimburse \$6,381.84 to its Liquid Fuels Tax Fund upon official notification by the Department of Transportation.

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

Management's Response

The municipal officials offered no formal response at this time.

Auditor's Conclusion

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

BOROUGH OF PHOENIXVILLE
CHESTER COUNTY
LIQUID FUELS TAX FUND
COMMENTS
FOR THE PERIOD
JANUARY 1, 2010 TO DECEMBER 31, 2013

Comment No. 1 - Summary Of 2007 Examination Recommendation

In our 2007 report we recommended that the Department of Transportation review our examination finding to determine if the municipality should reimburse \$33,610.22 to its Liquid Fuels Tax Fund. This amount consisted of \$21,365.96 for liquid fuels money over expended on a project, \$10,624.24 for a failure to maintain documentation for price quotations, and \$1,620.02 for retroactive expenditures.

During our current examination we reviewed a letter dated May 4, 2010, from the Department of Transportation informing the municipality to reimburse \$12,244.26 to its Liquid Fuels Tax Fund and that the reimbursement of the remaining \$21,365.96 would not be required. We noted that the municipality reimbursed \$12,244.26 to its Liquid Fuels Tax Fund on August 30, 2010.

Comment No. 2 - Summary Of 2008-2009 Examination Recommendations

In our 2008-2009 report we recommended that the Department of Transportation review our examination finding to determine if the municipality should reimburse \$11,123.59 to its Liquid Fuels Tax Fund for a failure to maintain documentation for price quotations.

During our current examination we reviewed a letter dated October 7, 2011, from the Department of Transportation informing the municipality to reimburse \$11,123.59 to its Liquid Fuels Tax Fund. We noted that the municipality reimbursed this amount to its Liquid Fuels Tax Fund on November 15, 2011.

In our prior report we also recommended that the municipality comply with *The Borough Code* and the Department of Transportation's *Publication 9* by obtaining price quotations for purchases between \$4,000.00 and \$10,000.00. The thresholds for obtaining price quotations were increased to purchases between \$10,000.00 and \$18,500.00 for 2012, \$10,200.00 and \$18,900.00 for 2013, and \$10,300.00 and \$19,100.00 for 2014.

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

BOROUGH OF PHOENIXVILLE
CHESTER COUNTY
LIQUID FUELS TAX FUND
SUMMARY OF EXIT CONFERENCE
FOR THE PERIOD
JANUARY 1, 2010 TO DECEMBER 31, 2013

An exit conference was held May 1, 2014. Those participating were:

BOROUGH OF PHOENIXVILLE

Mr. Stephen M. Nease, Director of Finance

DEPARTMENT OF THE AUDITOR GENERAL

Mr. Stephen P. Stoppie, Auditor

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

BOROUGH OF PHOENIXVILLE
CHESTER COUNTY
LIQUID FUELS TAX FUND
REPORT DISTRIBUTION
FOR THE PERIOD
JANUARY 1, 2010 TO DECEMBER 31, 2013

This report was initially distributed to:

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

Borough of Phoenixville
Chester County
351 Bridge Street 2nd floor
Phoenixville, PA 19460

The Honorable James Kovaleski

President of Council

Mr. Stephen M. Nease

Director of Finance

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