

# ATTESTATION ENGAGEMENT

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Township of Darby  
Delaware County, Pennsylvania  
23-102  
Liquid Fuels Tax Fund  
For the Period  
January 1, 2012 to December 31, 2013

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April 2015



Commonwealth of Pennsylvania  
Department of the Auditor General  
Eugene A. DePasquale • Auditor General



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EUGENE A. DePASQUALE  
AUDITOR GENERAL

### Independent Auditor's Report

The Honorable Leslie Richards  
Acting 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 Darby, Delaware County, for the period January 1, 2012 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 Township of Darby, Delaware County's Forms MS-965 for the period January 1, 2012 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 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 Finding and Recommendations and Summary of Prior Examination Recommendations sections of this report:

- The municipality expended \$27,879.82 on March 8, 2012 and \$11,472.24 on March 29, 2012 from its Liquid Fuels Tax Fund for expenditures incurred during 2011. Additionally, the municipality expended \$3,366.10 on April 24, 2013 and \$11,947.00 on June 20, 2013 from its Liquid Fuels Tax Fund for expenditures incurred during 2012. On October 22, 2013, the municipality reimbursed \$11,947.00 to its Liquid Fuels Tax Fund, leaving \$42,718.26 due the Liquid Fuels Tax Fund. (Finding No. 2).
- In our prior examination period the municipality expended \$3,653.32 without maintaining documentation to support a transfer, \$7,302.64 for retroactive expenditures, and \$7,269.97 in excess of the approved amount for road construction projects. The municipality reimbursed \$18,255.93 to its Liquid Fuels Tax Fund on October 8, 2013, which was subsequent to our examination period (Summary Of Prior Examination Recommendations).

Although management of the municipality provided us with a management representation letter on the date of our exit conference of October 8, 2014, held at the municipality, they did not respond to our request for an updated management representation letter including the disclosure of any subsequent events that affected the Forms MS-965 through the date of this report.

In our opinion, except for the bulleted matters discussed above and the possible effects of the municipality's failure to provide an updated management representation letter, 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 Darby, Delaware County, for the period January 1, 2012 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 all deficiencies that are considered to be significant deficiencies or material weaknesses in internal control; fraud and noncompliance with provisions of laws or regulations that have a material effect on the Forms MS-965; and any other instances that warrant the attention of those charged with governance; noncompliance with provisions of contracts or grant agreements, and abuse that has a material effect on the Forms MS-965. We are also required to obtain and report the views of responsible officials concerning the findings, conclusions, and recommendations, as well as any planned corrective actions. We 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 *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Forms MS-965 will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of the internal control was for the limited purpose of expressing an opinion on whether the Forms MS-965 are presented in accordance with the criteria described above and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify a certain deficiency in internal control, described in the finding listed below, that we consider to be a material weakness in internal control:

- Failure To Properly Prepare Forms MS-965.

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

- Retroactive Expenditures - Recurring.
- Liquid Fuels Money Over Expended On Project - Recurring.

We are concerned that the municipality failed to correct our previously reported finding for making retroactive expenditures and over expending Liquid Fuels Tax Fund money on a road project. During our current examination the municipality failed to properly prepare Forms MS-965, made retroactive expenditures, and over expended Liquid Fuels Tax Fund money on a road project. The municipality lacked adequate internal controls to ensure that the Forms MS-965 were completed accurately and completely, and this increases the risk that errors or misappropriations may occur and remain undetected. Additionally, the failure to follow the Department of Transportation's *Publication 9* as noted above could result in the municipality having to reimburse \$42,718.26 to its Liquid Fuels Tax Fund. The municipality should strive to implement the recommendations and corrective actions noted in this report.

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

We appreciate the courtesy extended by the Township of Darby, Delaware 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

November 19, 2014

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TOWNSHIP OF DARBY  
DELAWARE COUNTY  
LIQUID FUELS TAX FUND  
BACKGROUND  
FOR THE PERIOD  
JANUARY 1, 2012 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.

TOWNSHIP OF DARBY  
 DELAWARE COUNTY  
 LIQUID FUELS TAX FUND  
 2012 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	\$ 21,907.92	\$ -	\$ 21,907.92
Minor equipment purchases	-	-	-
Computer/Computer related training	-	-	-
Agility projects	-	-	-
Cleaning streets and gutters	-	-	-
Winter maintenance services	1,919.38	-	1,919.38
Traffic control devices	7,317.09	-	7,317.09
Street lighting	33,818.25	-	33,818.25
Storm sewers and drains	-	-	-
Repairs of tools and machinery	23,669.26	-	23,669.26
Maintenance and repair of roads and bridges	533.95	-	533.95
Highway construction and rebuilding projects	103,189.46	1.00	103,190.46
Miscellaneous	-	-	-
 Total (To Section 2, Line 5)	 <u>\$ 192,355.31</u>	 <u>\$ 1.00</u>	 <u>\$ 192,356.31</u>

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

TOWNSHIP OF DARBY  
 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	\$ 42,999.45	\$ -	\$ 42,999.45
Receipts:			
2. State allocation	151,099.28	-	151,099.28
2a. Turnback allocation	-	-	-
2b. Interest on investments (Note 3)	27.61	-	27.61
2c. Miscellaneous (Note 4)	7,654.73	-	7,654.73
3. Total receipts	<u>158,781.62</u>	<u>-</u>	<u>158,781.62</u>
4. Total funds available	<u>201,781.07</u>	<u>-</u>	<u>201,781.07</u>
5. Expenditures (Section 1)	<u>192,355.31</u>	<u>1.00</u>	<u>192,356.31</u>
6. Balance, December 31, 2012	<u>\$ 9,425.76</u>	<u>\$ (1.00)</u>	<u>\$ 9,424.76</u>

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

TOWNSHIP OF DARBY  
 DELAWARE COUNTY  
 LIQUID FUELS TAX FUND  
 2012 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	\$ 6,090.89	\$ (1.79)	\$ 6,089.10
2. Add: Current year equipment allocation (20% of Lines 2 + 2a, Section 2)	30,219.86	-	30,219.86
3. PENNDOT approved adjustments	-	-	-
4. Total funds available for equipment acquisition	36,310.75	(1.79)	36,308.96
5. Less: Major equipment expenditures	21,907.92	-	21,907.92
6. Remainder	14,402.83	(1.79)	14,401.04
7. Equipment balance available for subsequent year (Lesser of Line 6 or Section 2 balance, but not less than zero)	\$ 9,424.76	\$ -	\$ 9,424.76

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

TOWNSHIP OF DARBY  
 DELAWARE COUNTY  
 LIQUID FUELS TAX FUND  
 2013 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	\$ -	\$ 21,907.92	\$ 21,907.92
Minor equipment purchases	-	-	-
Computer/Computer related training	-	-	-
Agility projects	-	-	-
Cleaning streets and gutters	-	-	-
Winter maintenance services	1,700.00	1,350.98	3,050.98
Traffic control devices	10,446.60	(1,350.98)	9,095.62
Street lighting	21,038.36	-	21,038.36
Storm sewers and drains	-	-	-
Repairs of tools and machinery	29,596.43	-	29,596.43
Maintenance and repair of roads and bridges	15,313.10	(15,313.10)	-
Highway construction and rebuilding projects	-	15,313.10	15,313.10
Miscellaneous	78,907.92	(78,907.92)	-
 Total (To Section 2, Line 5)	 <u>\$ 157,002.41</u>	 <u>\$ (57,000.00)</u>	 <u>\$ 100,002.41</u>

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

TOWNSHIP OF DARBY  
 DELAWARE COUNTY  
 LIQUID FUELS TAX FUND  
 2013 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, 2013	\$ 9,424.76	\$ -	\$ 9,424.76
Receipts:			
2. State allocation	148,677.92	-	148,677.92
2a. Turnback allocation	-	-	-
2b. Interest on investments (Note 3)	13.72	1.92	15.64
2c. Miscellaneous (Note 4)	22,721.40	-	22,721.40
3. Total receipts	<u>171,413.04</u>	<u>1.92</u>	<u>171,414.96</u>
4. Total funds available	<u>180,837.80</u>	<u>1.92</u>	<u>180,839.72</u>
5. Expenditures (Section 1)	<u>157,002.41</u>	<u>(57,000.00)</u>	<u>100,002.41</u>
6. Balance, December 31, 2013	<u><u>\$ 23,835.39</u></u>	<u><u>\$ 57,001.92</u></u>	<u><u>\$ 80,837.31</u></u>

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

TOWNSHIP OF DARBY  
 DELAWARE COUNTY  
 LIQUID FUELS TAX FUND  
 2013 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	\$ 9,424.76	\$ -	\$ 9,424.76
2. Add: Current year equipment allocation (20% of Lines 2 + 2a, Section 2)	29,735.58	-	29,735.58
3. PENNDOT approved adjustments	<u>-</u>	<u>-</u>	<u>-</u>
4. Total funds available for equipment acquisition	39,160.34	-	39,160.34
5. Less: Major equipment expenditures	<u>-</u>	<u>21,907.92</u>	<u>21,907.92</u>
6. Remainder	<u>39,160.34</u>	<u>(21,907.92)</u>	<u>17,252.42</u>
7. Equipment balance available for subsequent year (Lesser of Line 6 or Section 2 balance, but not less than zero)	<u>\$ 23,835.39</u>	<u>\$ (6,582.97)</u>	<u>\$ 17,252.42</u>

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

TOWNSHIP OF DARBY  
 DELAWARE COUNTY  
 LIQUID FUELS TAX FUND  
 NOTES TO FORMS MS-965 WITH ADJUSTMENTS  
 FOR THE PERIOD  
 JANUARY 1, 2012 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.

TOWNSHIP OF DARBY  
DELAWARE COUNTY  
LIQUID FUELS TAX FUND  
NOTES TO FORMS MS-965 WITH ADJUSTMENTS  
FOR THE PERIOD  
JANUARY 1, 2012 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.

TOWNSHIP OF DARBY  
DELAWARE COUNTY  
LIQUID FUELS TAX FUND  
NOTES TO FORMS MS-965 WITH ADJUSTMENTS  
FOR THE PERIOD  
JANUARY 1, 2012 TO DECEMBER 31, 2013

1. Criteria (Continued)

Basis Of Accounting

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

General Fixed Assets

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

2. Deposits

*The First Class Township Code*, Title 53 P.S § 56705.1, authorizes the township to deposit its funds in the following:

- Deposits in savings accounts or time deposits, other than certificates of deposit or share accounts of institutions having their principal place of business in the Commonwealth of Pennsylvania and insured by the Federal Deposit Insurance Corporation (FDIC) or other like insurance. For any amount above the insured maximum, the depository shall pledge approved collateral.
- Certificates of deposit purchased from institutions insured by the FDIC or other like insurance to the extent that such accounts are so insured. For any amounts in excess of the insured maximum, such deposits shall be collateralized by a pledge or assignment of assets. Certificates of deposit may not exceed 20 percent of a bank's total capital surplus or 20 percent of a savings and loan or savings bank's assets minus liabilities.

Deposits consist of receipts and deposits in a financial institution. Pennsylvania statutes require all deposits to be insured and, for any amount above the insured maximum, to be secured with approved collateral as defined.

TOWNSHIP OF DARBY  
 DELAWARE COUNTY  
 LIQUID FUELS TAX FUND  
 NOTES TO FORMS MS-965 WITH ADJUSTMENTS  
 FOR THE PERIOD  
 JANUARY 1, 2012 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	\$80,837.31
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3. Interest On Investments

Our examination disclosed that the municipality deposited idle liquid fuels tax money in interest-bearing accounts which earned \$27.61 during 2012, and \$15.64 during 2013, thus providing additional funds for road maintenance and repairs.

4. Miscellaneous Receipts

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

Source	Description	2012	2013
General Fund	Reimbursement for road materials	\$7,654.73	\$ -
General Fund	Reimbursement (Finding No. 2)	-	11,947.00
General Fund	Reimbursement (Finding No. 3)	-	10,096.82
General Fund	Grant	-	677.58
	Totals	\$7,654.73	\$22,721.40

TOWNSHIP OF DARBY  
DELAWARE COUNTY  
LIQUID FUELS TAX FUND  
NOTES TO FORMS MS-965 WITH ADJUSTMENTS  
FOR THE PERIOD  
JANUARY 1, 2012 TO DECEMBER 31, 2013

5. Bank Loan

On July 1, 2010, the municipality borrowed \$300,000.00 from Wachovia Bank to purchase a Ford F-350 truck for \$29,769.00, a Ford F-350 truck with plow and salt spreader for \$50,457.00, and a Ford F-350 truck with plow for \$46,353.00. The remaining \$173,421.00 was used to pay off an existing loan. Of the \$300,000.00, \$126,579.00, plus interest, is eligible to be repaid using Liquid Fuels Tax Fund money. The term of the loan was for seven years at an interest rate of 3.75 percent. Principal and interest payments of \$4,066.21 are due monthly. Prior years' principal and interest payments from the Liquid Fuels Tax Fund were \$20,228.54 and \$5,676.64, respectively. Additionally, the municipality paid principal of \$33,936.39 and interest of \$9,284.00 from the Sinking Fund.

During the current examination period, the municipality paid principal of \$36,854.57 and interest of \$6,961.27 from the Liquid Fuels Tax Fund. These amounts are reflected in major equipment purchases on the 2012 and 2013 Forms MS-965 - Section 1. Additionally, the municipality paid principal of \$45,230.49 and interest of \$8,542.71 from the Sinking Fund. The outstanding balance of the loan as of December 31, 2013, was \$163,750.01, plus interest. The balance of the loan eligible to be paid from the Liquid Fuels Tax Fund, as of December 31, 2013, was \$69,495.89, plus interest.

TOWNSHIP OF DARBY  
DELAWARE COUNTY  
LIQUID FUELS TAX FUND  
FINDINGS AND RECOMMENDATIONS  
FOR THE PERIOD  
JANUARY 1, 2012 TO DECEMBER 31, 2013

**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 2012 and 2013 Forms MS-965. These adjustments are as follows:

2012 - Section 1

- An adjustment of \$1.00 was made to "Highway construction and rebuilding projects" because check No. 1427 was reported as \$16,689.80 but was issued for \$16,690.80.

2012 - Section 3

- An adjustment of \$(1.79) was made to "Prior year equipment balance" because an incorrect equipment balance was carried forward.

2013 - Section 1

- An adjustment of \$21,907.92 was made to "Major equipment purchases" because these expenditures were misclassified as miscellaneous.
- Adjustments were made to "Winter maintenance services" and "Traffic control devices" because expenditures of \$1,350.98 were misclassified.
- Adjustments were made to "Maintenance and repair of roads and bridges" and "Highway construction and rebuilding projects" because expenditures of \$15,313.10 were misclassified.
- An adjustment of \$(78,907.92) was made to "Miscellaneous" because major equipment purchases of \$21,907.92 were misclassified and these expenditures were overstated by \$57,000.00.

2013 - Section 2

- An adjustment of \$1.92 was made to "Interest on investments" because interest earnings were understated.

2013 - Section 3

- An adjustment of \$21,907.92 was made to "Major equipment expenditures" to reflect the adjustment made to major equipment purchases in 2013 - Section 1.

TOWNSHIP OF DARBY  
DELAWARE COUNTY  
LIQUID FUELS TAX FUND  
FINDINGS AND RECOMMENDATIONS  
FOR THE PERIOD  
JANUARY 1, 2012 TO DECEMBER 31, 2013

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

Prudent business practice dictates that adequate internal controls should be implemented to ensure compliance with applicable requirements including completing its Forms MS-965 accurately and completely. The municipality lacked adequate internal controls to ensure that the Forms MS-965 were completed accurately and completely, and this increases the risk that errors or misappropriations may occur and remain undetected.

Recommendation

We recommend that the municipality implement internal controls to ensure that its Forms MS-965 are complete and accurate.

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.

TOWNSHIP OF DARBY  
DELAWARE COUNTY  
LIQUID FUELS TAX FUND  
FINDINGS AND RECOMMENDATIONS  
FOR THE PERIOD  
JANUARY 1, 2012 TO DECEMBER 31, 2013

**Finding No. 2 - Retroactive Expenditures - Recurring**

We cited the municipality for making retroactive expenditures in our prior report for the period January 1, 2008 to December 31, 2011. Retroactive expenditures are expenditures incurred that are paid in a subsequent year.

Our current examination disclosed that the municipality expended \$27,879.92 on March 8, 2012, and \$11,472.24 on March 29, 2012 from its Liquid Fuels Tax Fund for road project No. 11-23102-1CA. The final invoice for this road project was issued on November 21, 2011, making these expenditures retroactive. Additionally, the municipality expended \$3,366.10 on April 24, 2013 and \$11,947.00 on June 20, 2013, from its Liquid Fuels Tax Fund for road project No. 12-23102-1CA. The final invoice for this project was issued on November 15, 2012, making these expenditures retroactive.

The Department of Transportation's *Publication 9* contains the policies and procedures for the administration of the Liquid Fuels Tax Fund. *Publication 9*, Chapter Two, Section 2.7.2, states, in relevant part:

Examples of what Liquid Fuels Tax Fund monies may not be expended for are:

- 8. Repayments of prior year's expenditures.
- 17. Retroactive expenditures or repayment of other funds for prior period expenditures.

Because these expenditures were incurred in 2011 and 2012 and were not paid until 2012 and 2013, respectively, the expenditures incurred were not paid in a reasonable period of time. Therefore, the municipality did not comply with the Department of Transportation's *Publication 9*.

This condition occurred because the municipality failed to comply with our prior examination recommendation to comply with the Department of Transportation's *Publication 9* regarding permissible expenditures.

On October 22, 2013, the municipality reimbursed \$11,947.00 to the Liquid Fuels Tax Fund.

The failure to follow the Department of Transportation's *Publication 9* as noted above could result in the municipality having to reimburse \$42,718.26 to its Liquid Fuels Tax Fund.

TOWNSHIP OF DARBY  
DELAWARE COUNTY  
LIQUID FUELS TAX FUND  
FINDINGS AND RECOMMENDATIONS  
FOR THE PERIOD  
JANUARY 1, 2012 TO DECEMBER 31, 2013

**Finding No. 2 - Retroactive Expenditures - Recurring (Continued)**

Recommendations

We recommend that the municipality reimburse \$42,718.26 to its Liquid Fuels Tax Fund upon official notification by the Department of Transportation.

We again strongly recommend that, in the future, the municipality comply with the Department of Transportation's *Publication 9* as noted above.

Management's Response

The municipal officials offered no formal response at this time.

Auditor's Conclusion

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

TOWNSHIP OF DARBY  
DELAWARE COUNTY  
LIQUID FUELS TAX FUND  
FINDINGS AND RECOMMENDATIONS  
FOR THE PERIOD  
JANUARY 1, 2012 TO DECEMBER 31, 2013

**Finding No. 3 - Liquid Fuels Money Over-Expended On Project - Recurring**

We cited the municipality for over-expending liquid fuels money on a project in our prior report for the period January 1, 2008 to December 31, 2011. Our current examination disclosed that the municipality expended \$79,150.40 of Liquid Fuels Tax Fund money on construction project No. 12-23102-1CA. The amount approved to be expended from the Liquid Fuels Tax Fund for this project was \$69,053.58. The difference of \$10,096.82 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 October 22, 2013, the municipality reimbursed \$10,096.82 to the Liquid Fuels Tax Fund.

This condition occurred because the municipality failed to comply with our prior examination recommendation to expend only the approved amount of Liquid Fuels Tax Fund money on road construction projects.

Recommendations

We again strongly 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

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

TOWNSHIP OF DARBY  
DELAWARE COUNTY  
LIQUID FUELS TAX FUND  
SUMMARY OF PRIOR EXAMINATION RECOMMENDATIONS  
FOR THE PERIOD  
JANUARY 1, 2012 TO DECEMBER 31, 2013

Summary Of Prior Examination Recommendations

In our prior report we recommended that the Department of Transportation review our examination findings to determine if the municipality should reimburse \$18,225.93 to its Liquid Fuels Tax Fund. This amount consists of \$3,653.32 for failure to maintain documentation to support a transfer, \$7,302.64 for retroactive expenditures, and \$7,269.97 for the expenditures in excess of approved amounts for road construction projects.

During our current examination we reviewed a letter dated October 8, 2013, from the Department of Transportation informing the municipality to reimburse \$18,225.93 to its Liquid Fuels Tax Fund. We noted that the municipality reimbursed these amounts to its Liquid Fuels Tax Fund on January 13, 2014, which was subsequent to this examination.

In our prior report we also recommended:

- That the municipality ensure good internal control over transfers by maintaining adequate documentation to support all transfers.
- That the municipality comply with the Department of Transportation's *Publication 9* regarding retroactive expenditures.
- That the municipality expend only the approved amount of Liquid Fuels Tax Fund money on road construction projects.

During our current examination we noted that the municipality complied with our first bulleted recommendation, but did not comply with our second and third bulleted recommendation (see Finding Nos. 2 and 3).

TOWNSHIP OF DARBY  
DELAWARE COUNTY  
LIQUID FUELS TAX FUND  
SUMMARY OF EXIT CONFERENCE  
FOR THE PERIOD  
JANUARY 1, 2012 TO DECEMBER 31, 2013

An exit conference was held October 8, 2014. Those participating were:

TOWNSHIP OF DARBY

Mr. John B. Ryan, Jr., Township Manager

DEPARTMENT OF THE AUDITOR GENERAL

Mr. Fred Casella, Auditor

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

TOWNSHIP OF DARBY  
DELAWARE COUNTY  
LIQUID FUELS TAX FUND  
REPORT DISTRIBUTION  
FOR THE PERIOD  
JANUARY 1, 2012 TO DECEMBER 31, 2013

This report was initially distributed to:

The Honorable Leslie Richards  
Acting Secretary  
Department of Transportation

Township of Darby  
Delaware County  
21 Bartram Avenue  
Glenolden, PA 19036

The Honorable Lawrence Patterson      President of the Board of Commissioners

Mr. John B. Ryan, Jr.      Township Manager

This report is a matter of public record and is available online at <http://www.PaAuditor.gov>.  
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[news@PaAuditor.gov](mailto:news@PaAuditor.gov).