

ATTESTATION ENGAGEMENT

Township of Upper Pottsgrove Montgomery County, Pennsylvania 46-114

Liquid Fuels Tax Fund

For the Period

January 1, 2012 to December 31, 2013

July 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
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 Upper Pottsgrove, Montgomery 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 Upper Pottsgrove, Montgomery 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 Findings And Recommendations and Summary Of Prior Examination Recommendations sections of this report:

- The township expended \$5,300.00 during 2012 and \$5,308.50 during 2013 from its Liquid Fuels Tax Fund for vegetation control, which is a nonpermissible expenditure (see Finding No. 2).
- The township expended \$599.79 during 2012 and \$2,730.93 during 2013 from its Liquid Fuels Tax Fund for Turnback project No. 164305. However, Liquid Fuels Tax Fund money was not approved to be expended for this project (see Finding No. 3).
- In our prior examination period the municipality expended \$9,440.78 without maintaining supporting documentation and \$15,953.00 for nonpermissible expenditures from its Liquid Fuels Tax Fund. The municipality reimbursed its Liquid Fuels Tax Fund for these expenditures with payments of \$2,478.82 on January 8, 2012, \$5,353.00 on January 18, 2012, and with the remaining \$17,561.96 reimbursed on January 10, 2014, which was subsequent to our examination period (see 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 March 18, 2015, 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 effects of 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 Upper Pottsgrove, Montgomery 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 a 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 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 - Recurring.

As part of obtaining reasonable assurance about whether the Forms MS-965 are free from material misstatement, we performed tests of the Township of Upper Pottsgrove, Montgomery 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*:

- Nonpermissible Expenditures - Recurring.
- Liquid Fuels Money Improperly Expended On Turnback Project.

We are concerned that the municipality failed to correct our prior examination findings regarding the failure to properly prepare its Forms MS-965 and nonpermissible expenditures. During our current examination the municipality failed to properly prepare its Forms MS-965, made nonpermissible expenditures, and improperly expended liquid fuels money on a turnback project. The failure to properly complete Forms MS-965 increases the risk that errors or misappropriations may occur and remain undetected. Additionally, the failure to comply with the Liquid Fuels Tax Municipal Allocation Law, the Department of Transportation's Regulations, and the Department of Transportation's *Publication 9* could result in the municipality having to reimburse \$13,939.22 to its Liquid Fuels Tax Fund. The municipality should strive to comply with 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 Upper Pottsgrove, Montgomery 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 Upper Pottsgrove, Montgomery 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.

A handwritten signature in black ink, appearing to read "Eugene A. DePasquale". The signature is fluid and cursive, with a long horizontal stroke at the end.

March 31, 2015

Eugene A. DePasquale
Auditor General

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TOWNSHIP OF UPPER POTTS GROVE
MONTGOMERY 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 UPPER POTTS GROVE
MONTGOMERY 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	\$ 23,265.69	\$ (23,265.69)	\$ -
Minor equipment purchases	149.87	-	149.87
Computer/Computer related training	-	-	-
Agility projects	-	-	-
Cleaning streets and gutters	-	-	-
Winter maintenance services	5,702.25	-	5,702.25
Traffic control devices	30.06	-	30.06
Street lighting	-	-	-
Storm sewers and drains	-	-	-
Repairs of tools and machinery	18.60	-	18.60
Maintenance and repair of roads and bridges	18,867.20	64.10	18,931.30
Highway construction and rebuilding projects	158,375.00	-	158,375.00
Miscellaneous (Note 5)	-	119,005.79	119,005.79
 Total (To Section 2, Line 5)	 <u>\$ 206,408.67</u>	 <u>\$ 95,804.20</u>	 <u>\$ 302,212.87</u>

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

TOWNSHIP OF UPPER POTTS GROVE
MONTGOMERY COUNTY
LIQUID FUELS TAX FUND
2012 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, 2012	\$ 17,965.83	\$ 31,669.20	\$ 49,635.03
Receipts:			
2. State allocation	123,727.53	-	123,727.53
2a. Turnback allocation	17,600.00	-	17,600.00
2b. Interest on investments (Note 3)	130.42	-	130.42
2c. Miscellaneous (Note 4)	76,209.82	133,207.26	209,417.08
3. Total receipts	<u>217,667.77</u>	<u>133,207.26</u>	<u>350,875.03</u>
4. Total funds available	<u>235,633.60</u>	<u>164,876.46</u>	<u>400,510.06</u>
5. Expenditures (Section 1)	<u>206,408.67</u>	<u>95,804.20</u>	<u>302,212.87</u>
6. Balance, December 31, 2012	<u>\$ 29,224.93</u>	<u>\$ 69,072.26</u>	<u>\$ 98,297.19</u>

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

TOWNSHIP OF UPPER POTTS GROVE
MONTGOMERY 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	\$ 17,965.83	\$ 12,455.90	\$ 30,421.73
2. Add: Current year equipment allocation (20% of Lines 2 + 2a, Section 2)	28,265.51	-	28,265.51
3. PENNDOT approved adjustments	-	2,508.50	2,508.50
4. Total funds available for equipment acquisition	46,231.34	14,964.40	61,195.74
5. Less: Major equipment expenditures	23,265.69	(23,265.69)	-
6. Remainder	<u>22,965.65</u>	<u>38,230.09</u>	<u>61,195.74</u>
7. Equipment balance available for subsequent year (Lesser of Line 6 or Section 2 balance, but not less than zero)	<u>\$ 22,965.65</u>	<u>\$ 38,230.09</u>	<u>\$ 61,195.74</u>

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

TOWNSHIP OF UPPER POTTS GROVE
MONTGOMERY 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	\$ 23,635.00	\$ -	\$ 23,635.00
Minor equipment purchases	310.13	-	310.13
Computer/Computer related training	-	-	-
Agility projects	-	-	-
Cleaning streets and gutters	-	-	-
Winter maintenance services	28,407.45	-	28,407.45
Traffic control devices	-	-	-
Street lighting	-	-	-
Storm sewers and drains	-	-	-
Repairs of tools and machinery	-	-	-
Maintenance and repair of roads and bridges	22,280.38	-	22,280.38
Highway construction and rebuilding projects	81,991.00	-	81,991.00
Miscellaneous (Note 5)	-	60,394.43	60,394.43
 Total (To Section 2, Line 5)	 <u>\$ 156,623.96</u>	 <u>\$ 60,394.43</u>	 <u>\$ 217,018.39</u>

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

TOWNSHIP OF UPPER POTTS GROVE
MONTGOMERY 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	\$ 29,224.93	\$ 69,072.26	\$ 98,297.19
Receipts:			
2. State allocation	122,576.21	-	122,576.21
2a. Turnback allocation	17,600.00	-	17,600.00
2b. Interest on investments (Note 3)	168.87	-	168.87
2c. Miscellaneous (Note 4)	13,598.42	47,369.71	60,968.13
3. Total receipts	<u>153,943.50</u>	<u>47,369.71</u>	<u>201,313.21</u>
4. Total funds available	<u>183,168.43</u>	<u>116,441.97</u>	<u>299,610.40</u>
5. Expenditures (Section 1)	<u>156,623.96</u>	<u>60,394.43</u>	<u>217,018.39</u>
6. Balance, December 31, 2013	<u><u>\$ 26,544.47</u></u>	<u><u>\$ 56,047.54</u></u>	<u><u>\$ 82,592.01</u></u>

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

TOWNSHIP OF UPPER POTTS GROVE
MONTGOMERY 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	\$ 22,965.65	\$ 38,230.09	\$ 61,195.74
2. Add: Current year equipment allocation (20% of Lines 2 + 2a, Section 2)	28,035.24	-	28,035.24
3. PENNDOT approved adjustments	-	-	-
4. Total funds available for equipment acquisition	51,000.89	38,230.09	89,230.98
5. Less: Major equipment expenditures	23,635.00	-	23,635.00
6. Remainder	<u>27,365.89</u>	<u>38,230.09</u>	<u>65,595.98</u>
7. Equipment balance available for subsequent year (Lesser of Line 6 or Section 2 balance, but not less than zero)	<u>\$ 26,544.47</u>	<u>\$ 39,051.51</u>	<u>\$ 65,595.98</u>

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

TOWNSHIP OF UPPER POTTS GROVE
MONTGOMERY 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 UPPER POTTS GROVE
MONTGOMERY 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 UPPER POTTS GROVE
MONTGOMERY 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 UPPER POTTS GROVE
MONTGOMERY 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	\$82,592.01
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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 \$130.42 during 2012, and \$168.87 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	Grant	\$ 68,378.00	\$ -
Turnback Account	Reimbursement for road materials	-	1,055.91
General Fund	Deposit in error (Note 7)	118,378.00	57,143.50
General Fund	Reimbursement for transfer in error (Note 8)	-	500.00
General Fund	Reimbursement (Summary of prior examination recommendations)	7,831.82	-
General Fund	Reimbursement for road materials	80.05	-
Turnback Account	Unexpended balance	12,542.51	-
Department of Transportation	Winter maintenance agreement	2,206.70	2,248.72
Financial institution	Refund for bank service charges	-	20.00
Totals		\$209,417.08	\$60,968.13

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

5. Miscellaneous Expenditures

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

Payee	Description	2012	2013
Vendors	Turnback project costs (Finding No. 3)	\$ 599.79	\$ 2,730.93
General Fund	Correction of deposit in error (Note 7)	118,378.00	57,143.50
Financial institution	Bank service charges	28.00	20.00
General Fund	Transfer in error (Note 8)	-	500.00
Totals		<u>\$119,005.79</u>	<u>\$60,394.43</u>

6. Lease-Purchase Agreement

On June 6, 2013, the municipality entered into a lease-purchase agreement with Mercedes Benz Financial Services to purchase a 2014 Freightliner dump truck with snow plow for \$126,682.42. The agreement was for a term of five years at an interest rate of 2.68 percent. Principal and interest payments of \$26,693.85 are due annually.

During the current examination period the municipality paid principal of \$23,635.00 from the Liquid Fuels Tax Fund. This amount is reflected in major equipment purchases on the 2013 Form MS-965 - Section 1. Additionally, the municipality paid principal of \$3,058.85 from the General Fund. The outstanding balance of the lease-purchase agreement as of December 31, 2013 was \$99,988.57, plus interest.

7. Deposit In Error

On September 21, 2012, the municipality deposited \$118,378.00 into its Liquid Fuels Tax Fund in error. On September 24, 2012 the municipality transferred this amount from its Liquid Fuels Tax Fund to its General Fund to correct the deposit in error.

On April 12, 2013, the municipality deposited \$57,143.50 into its Liquid Fuels Tax Fund in error. On April 15, 2013 the municipality transferred this amount from its Liquid Fuels Tax Fund to its General Fund to correct the deposit in error.

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

8. Transfer In Error

On September 10, 2013, the municipality transferred \$500.00 from its Liquid Fuels Tax Fund to its General Fund in error. On September 23, 2013, the municipality transferred this amount from its General Fund to its Liquid Fuels Tax Fund to correct the transfer in error.

TOWNSHIP OF UPPER POTTS GROVE
MONTGOMERY 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 - Recurring

We cited the municipality for failing to properly prepare Forms MS-965 in our prior report for the period January 1, 2009 to December 31, 2011. Our current examination again disclosed that there were numerous errors made in the preparation of the municipality's 2012 and 2013 Forms MS-965. These errors resulted in the following adjustments:

2012 - Section 1

- An adjustment of \$(23,265.69) was made to "Major equipment purchases" because there were no major equipment purchases.
- An adjustment of \$64.10 was made to "Maintenance and repairs of roads and bridges" because check No. 1345 for \$117.60 was not reported and these expenditures were overstated by \$53.50.
- An adjustment of \$119,005.79 was made to "Miscellaneous" because these expenditures were not reported.

2012 - Section 2

- An adjustment of \$31,669.20 was made to "Balance, January 1, 2012" because of prior report adjustments that were not carried forward in the fund balance.
- An adjustment of \$133,207.26 was made to "Miscellaneous" because these receipts were understated.

2012 - Section 3

- An adjustment of \$12,455.90 was made to "Prior year equipment balance" because of prior report adjustments that were not carried forward in the equipment balance.
- An adjustment of \$2,508.50 was made to "PENNDOT approved adjustments" because 20 percent of the unexpended balance of the Turnback Account of \$12,542.51 was not reported as an approved adjustment.

TOWNSHIP OF UPPER POTTS GROVE
MONTGOMERY 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 - Recurring (Continued)

2012 - Section 3 (Continued)

- An adjustment of \$(23,265.69) was made to “Major equipment expenditures” to reflect the adjustments made to major equipment purchases in 2012 - Section 1.

2013 - Section 1

- An adjustment of \$60,394.43 was made to “Miscellaneous” because these expenditures were not reported.

2013 - Section 2

- An adjustment of \$69,072.26 was made to “Balance, January 1, 2013” to reflect the adjustment made to the fund balance in 2012 - Section 2.
- An adjustment of \$47,369.71 was made to “Miscellaneous” because these receipts were understated.

2013 - Section 3

- An adjustment of \$38,230.09 was made to “Prior year equipment balance” to reflect the adjustment made to the equipment balance in 2012 - Section 3.

Good internal controls ensure that the municipality complete its Forms MS-965 accurately and completely. The failure to properly complete Forms MS-965 increases the risk that errors or misappropriations may occur and remain undetected.

This condition occurred because the municipality failed to comply with our prior examination recommendation to ensure that its Forms MS-965 are complete and accurate.

TOWNSHIP OF UPPER POTTS GROVE
MONTGOMERY 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 - Recurring (Continued)

Recommendation

We again recommend that the municipality ensure that its Forms MS-965 are complete and accurate.

Management's Response

The township manager stated:

Agreed and will improve and correct.

Auditor's Conclusion

This is a recurring finding. We strongly recommend that the municipality comply with our recommendation. During our next examination we will determine if the municipality complied with our recommendation.

TOWNSHIP OF UPPER POTTS GROVE
MONTGOMERY COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2012 TO DECEMBER 31, 2013

Finding No. 2 - Nonpermissible Expenditures - Recurring

We cited the municipality for nonpermissible expenditures in our prior report for the period January 1, 2009 to December 31, 2011. Our current examination disclosed that the municipality expended \$5,300.00 during 2012 and \$5,308.50 during 2013 from the Liquid Fuels Tax Fund for vegetation control, which is a nonpermissible expenditure.

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 vegetation control, 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 \$10,608.50 to its Liquid Fuels Tax Fund.

This condition occurred because the municipality failed to comply with our prior examination recommendation to comply with the Liquid Fuels Tax Municipal Allocation Law and the Department of Transportation's Regulations regarding permissible expenditures.

Recommendations

We recommend that the municipality reimburse \$10,608.50 to its Liquid Fuels Tax Fund upon official notification by the Department of Transportation.

We again 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.

TOWNSHIP OF UPPER POTTS GROVE
MONTGOMERY COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2012 TO DECEMBER 31, 2013

Finding No. 2 - Nonpermissible Expenditures - Recurring (Continued)

Management's Response

The township manager stated:

We are researching to determine the exact causes to prohibit this from happening again.

Auditor's Conclusion

This is a recurring finding. We strongly recommend that the municipality comply with our recommendations. During our next examination we will determine if the municipality complied with our recommendations.

TOWNSHIP OF UPPER POTTS GROVE
MONTGOMERY COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2012 TO DECEMBER 31, 2013

Finding No. 3 - Liquid Fuels Money Improperly Expended On Turnback Project

Our examination disclosed that although Liquid Fuels Tax Fund money was not approved to be expended on Turnback construction project No. 164305, \$599.79 and \$2,730.93 of Liquid Fuels Tax Fund money was spent on the project during 2012 and 2013, respectively. The expenditures related to this project should have been paid directly from the Turnback Fund.

The Department of Transportation's *Publication 9* outlines the policies and procedures for the administration of the Liquid Fuels Tax Fund. *Publication 9*, Chapter Two, Section 2.7.2, states that nonpermissible expenditures include construction and reconstruction projects without prior approval from the Department of Transportation.

The failure to comply with the Department of Transportation's *Publication 9* could result in the municipality having to reimburse \$3,330.72 to its Liquid Fuels Tax Fund.

Recommendations

We recommend that the municipality reimburse \$3,330.72 to its Liquid Fuels Tax Fund upon official notification by the Department of Transportation.

We further recommend that, in the future, no liquid fuels tax funds be expended for construction projects without the prior approval of the Department of Transportation.

Management's Response

The township manager stated:

We understand the finding.

Auditor's Conclusion

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

TOWNSHIP OF UPPER POTTS GROVE
MONTGOMERY 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 examination period the municipality expended \$9,440.78 without maintaining supporting documentation and \$15,953.00 for nonpermissible expenditures from its Liquid Fuels Tax Fund. We further noted that the municipality reimbursed \$2,478.82 and \$5,353.00 to its Liquid Fuels Tax Fund on January 8, 2012 and January 18, 2012, respectively, for these expenditures.

We recommended that the Department of Transportation review our examination findings to determine if the municipality should reimburse the remaining \$17,561.96 to its Liquid Fuels Tax Fund.

During our current examination we reviewed a letter dated November 25, 2013, from the Department of Transportation informing the municipality to reimburse \$17,561.96 to its Liquid Fuels Tax Fund. We noted that the municipality reimbursed this amount to its Liquid Fuels Tax Fund on January 10, 2014, which was subsequent to our examination period.

In our prior report we recommended:

- That the municipality ensure that there are good internal controls over receipts and expenditures by maintaining adequate documentation to support all receipts and expenditures.
- That the municipality ensure that its Forms MS-965 are complete and accurate.
- That the municipality comply with the Liquid Fuels Tax Municipal Allocation Law and Department of Transportation Regulations regarding permissible expenditures.

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 recommendations (see Finding Nos. 1 and 2).

TOWNSHIP OF UPPER POTTS GROVE
MONTGOMERY COUNTY
LIQUID FUELS TAX FUND
SUMMARY OF EXIT CONFERENCE
FOR THE PERIOD
JANUARY 1, 2012 TO DECEMBER 31, 2013

An exit conference was held March 18, 2015. Those participating were:

TOWNSHIP OF UPPER POTTS GROVE

Ms. Carol R. Lewis, Township Manager

DEPARTMENT OF THE AUDITOR GENERAL

Mr. Matthew R. Hotchkiss, Auditor

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

TOWNSHIP OF UPPER POTTS GROVE
MONTGOMERY 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
Secretary
Department of Transportation

Township of Upper Pottsgrove
Montgomery County
1409 Farmington Avenue
Pottstown, PA 19464-1829

The Honorable Elwood A. Taylor

President of the Board of Commissioners

Ms. Carol R. Lewis

Township Manager

This report is a matter of public record and is available online at <http://www.PaAuditor.gov>. 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@PaAuditor.gov.