



CITY OF COATESVILLE
CHESTER COUNTY
15-301

LIQUID FUELS TAX FUND
EXAMINATION REPORT

FOR THE PERIOD
JANUARY 1, 2008 TO DECEMBER 31, 2010

Released *March 2013*

COMMONWEALTH OF PENNSYLVANIA

EUGENE A. DEPASQUALE - AUDITOR GENERAL

DEPARTMENT OF THE AUDITOR GENERAL



CITY OF COATESVILLE
CHESTER COUNTY
15-301

LIQUID FUELS TAX FUND
EXAMINATION REPORT

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CITY OF COATESVILLE
CHESTER COUNTY
LIQUID FUELS TAX FUND
BACKGROUND
FOR THE PERIOD
JANUARY 1, 2008 TO DECEMBER 31, 2010

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.





Commonwealth of Pennsylvania
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EUGENE A. DePASQUALE
AUDITOR GENERAL

Independent Auditor's Report

The Honorable Barry J. Schoch, P.E.
Secretary
Department of Transportation
Harrisburg, PA 17120

We examined the accompanying Forms MS-965 With Adjustments for the Liquid Fuels Tax Fund of the City of Coatesville, Chester County, for the period January 1, 2008 to December 31, 2010. 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 City of Coatesville, Chester County's Forms MS-965 for the period January 1, 2008 to December 31, 2010 and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

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

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

Independent Auditor's Report (Continued)

As discussed in Finding No. 2, the city transferred \$158,050.98 from its Liquid Fuels Tax Fund to its General Fund on October 20, 2009. However, the municipality had only expended \$61,655.49 for eligible Liquid Fuels Tax Fund expenditures from its General Fund. Therefore, the amount transferred from the Liquid Fuels Tax Fund to the General Fund exceeded eligible expenditures by \$96,395.49.

In our opinion, except for the matter discussed in the preceding paragraph, 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 City of Coatesville, Chester County, for the period January 1, 2008 to December 31, 2010, 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 City of Coatesville, 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 City of Coatesville, Chester County's Forms MS-965 that is more than inconsequential will not be prevented or detected by the City of Coatesville, 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:

- Failure To Properly Prepare Forms MS-965.

Independent Auditor's Report (Continued)

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 City of Coatesville, 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. We consider the significant deficiency described above to be a material weakness.

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

- Amount Transferred From The Liquid Fuels Tax Fund To The General Fund Exceeded Eligible Expenditures.

We also noted an other matter that, while not required to be included in this report by *Government Auditing Standards*, has been included in the finding below:

- Late Receipt Of Allocations.

We are concerned in light of the city's failure to correct a previously reported finding regarding the failure to properly prepare its Forms MS-965. During our current examination period the municipality failed to properly prepare its Forms MS-965, transferred more than the liquid fuels eligible amount from the Liquid Fuels Tax Fund to the General Fund, and received its 2008 and 2009 Liquid Fuels Tax Fund allocations late. The municipality should strive to implement the recommendations and corrective actions noted in this report.

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



EUGENE A. DEPASQUALE
Auditor General

April 27, 2011



CITY OF COATESVILLE
 CHESTER COUNTY
 LIQUID FUELS TAX FUND
 2008 FORM MS-965 – SECTION 1
 WITH ADJUSTMENTS

<u>Expenditure Summary</u>	<u>Reported</u>	<u>Adjustments (Note 4)</u>	<u>Adjusted Amount</u>
Major equipment purchases	\$ -	\$ -	\$ -
Minor equipment purchases	-	-	-
Computer/Computer related training	-	-	-
Agility projects	-	-	-
Cleaning streets and gutters	69,092.25	-	69,092.25
Winter maintenance services	8,946.08	2,614.27	11,560.35
Traffic control devices	14,297.44	254.37	14,551.81
Street lighting	85,627.94	10,654.43	96,282.37
Storm sewers and drains	-	-	-
Repairs of tools and machinery	-	-	-
Maintenance and repair of roads and bridges	-	628.30	628.30
Highway construction and rebuilding projects	-	-	-
Miscellaneous	-	-	-
	<hr/>	<hr/>	<hr/>
Total (To Section 2, Line 5)	<u>\$ 177,963.71</u>	<u>\$ 14,151.37</u>	<u>\$ 192,115.08</u>

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

CITY OF COATESVILLE
 CHESTER COUNTY
 LIQUID FUELS TAX FUND
 2008 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, 2008	\$ 110,102.50	\$ 13,236.15	\$ 123,338.65
Receipts:			
2. State allocation	199,770.29	-	199,770.29
2a. Turnback allocation	-	-	-
2b. Interest on investments (Note 3)	1,074.22	-	1,074.22
2c. Miscellaneous (Note 5)	-	8,025.92	8,025.92
3. Total receipts	<u>200,844.51</u>	<u>8,025.92</u>	<u>208,870.43</u>
4. Total funds available	<u>310,947.01</u>	<u>21,262.07</u>	<u>332,209.08</u>
5. Expenditures (Section 1)	<u>177,963.71</u>	<u>14,151.37</u>	<u>192,115.08</u>
6. Balance, December 31, 2008	<u><u>\$ 132,983.30</u></u>	<u><u>\$ 7,110.70</u></u>	<u><u>\$ 140,094.00</u></u>

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

CITY OF COATESVILLE
 CHESTER COUNTY
 LIQUID FUELS TAX FUND
 2008 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	\$ 92,940.86	\$ 2,991.73	\$ 95,932.59
2. Add: Current year equipment allocation (20% of Lines 2 + 2a, Section 2)	39,954.06	-	39,954.06
3. PENNDOT approved adjustments	-	-	-
4. Total funds available for equipment acquisition	132,894.92	2,991.73	135,886.65
5. Less: Major equipment expenditures	-	-	-
6. Remainder	<u>132,894.92</u>	<u>2,991.73</u>	<u>135,886.65</u>
7. Equipment balance available for subsequent year (Lesser of Line 6 or Section 2 balance, but not less than zero)	<u>\$ 132,894.92</u>	<u>\$ 2,991.73</u>	<u>\$ 135,886.65</u>

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

CITY OF COATESVILLE
 CHESTER COUNTY
 LIQUID FUELS TAX FUND
 2009 FORM MS-965 – SECTION 1
 WITH ADJUSTMENTS

<u>Expenditure Summary</u>	<u>Reported</u>	<u>Adjustments (Note 4)</u>	<u>Adjusted Amount</u>
Major equipment purchases	\$ -	\$ -	\$ -
Minor equipment purchases	-	-	-
Computer/Computer related training	-	-	-
Agility projects	-	-	-
Cleaning streets and gutters	7,519.73	(3,422.07)	4,097.66
Winter maintenance services	44,086.65	(8,782.35)	35,304.30
Traffic control devices	18,725.26	702.50	19,427.76
Street lighting	179,096.10	25,056.08	204,152.18
Storm sewers and drains	-	-	-
Repairs of tools and machinery	22,198.55	(21,792.11)	406.44
Maintenance and repair of roads and bridges	-	61,655.49	61,655.49
Highway construction and rebuilding projects	-	-	-
Miscellaneous (Finding No. 2)	-	96,395.49	96,395.49
	<u> </u>	<u> </u>	<u> </u>
Total (To Section 2, Line 5)	<u>\$ 271,626.29</u>	<u>\$ 149,813.03</u>	<u>\$ 421,439.32</u>

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

CITY OF COATESVILLE
 CHESTER COUNTY
 LIQUID FUELS TAX FUND
 2009 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, 2009	\$ 132,983.30	\$ 7,110.70	\$ 140,094.00
Receipts:			
2. State allocation	192,446.67	-	192,446.67
2a. Turnback allocation	-	-	-
2b. Interest on investments (Note 3)	280.72	-	280.72
2c. Miscellaneous (Note 5)	53,802.42	98,023.71	151,826.13
3. Total receipts	<u>246,529.81</u>	<u>98,023.71</u>	<u>344,553.52</u>
4. Total funds available	<u>379,513.11</u>	<u>105,134.41</u>	<u>484,647.52</u>
5. Expenditures (Section 1)	<u>271,626.29</u>	<u>149,813.03</u>	<u>421,439.32</u>
6. Balance, December 31, 2009	<u>\$ 107,886.82</u>	<u>\$ (44,678.62)</u>	<u>\$ 63,208.20</u>

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

CITY OF COATESVILLE
 CHESTER COUNTY
 LIQUID FUELS TAX FUND
 2009 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	\$ 132,894.92	\$ 2,991.73	\$ 135,886.65
2. Add: Current year equipment allocation (20% of Lines 2 + 2a, Section 2)	38,489.33	-	38,489.33
3. PENNDOT approved adjustments	-	-	-
4. Total funds available for equipment acquisition	171,384.25	2,991.73	174,375.98
5. Less: Major equipment expenditures	-	-	-
6. Remainder	<u>171,384.25</u>	<u>2,991.73</u>	<u>174,375.98</u>
7. Equipment balance available for subsequent year (Lesser of Line 6 or Section 2 balance, but not less than zero)	<u>\$ 107,886.82</u>	<u>\$ (44,678.62)</u>	<u>\$ 63,208.20</u>

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

CITY OF COATESVILLE
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	\$ -	\$ -	\$ -
Minor equipment purchases	2,003.51	-	2,003.51
Computer/Computer related training	-	-	-
Agility projects	-	-	-
Cleaning streets and gutters	930.82	-	930.82
Winter maintenance services	29,145.02	-	29,145.02
Traffic control devices	26,090.08	916.15	27,006.23
Street lighting	139,781.96	-	139,781.96
Storm sewers and drains	-	-	-
Repairs of tools and machinery	57,107.00	(2,335.70)	54,771.30
Maintenance and repair of roads and bridges	1,230.00	(630.00)	600.00
Highway construction and rebuilding projects	-	-	-
Miscellaneous	916.15	(916.15)	-
	<u>916.15</u>	<u>(916.15)</u>	<u>-</u>
Total (To Section 2, Line 5)	<u>\$ 257,204.54</u>	<u>\$ (2,965.70)</u>	<u>\$ 254,238.84</u>

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

CITY OF COATESVILLE
 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	\$ 107,886.82	\$ (44,678.62)	\$ 63,208.20
Receipts:			
2. State allocation	185,023.07	-	185,023.07
2a. Turnback allocation	-	-	-
2b. Interest on investments (Note 3)	183.15	-	183.15
2c. Miscellaneous (Note 5)	-	6,000.00	6,000.00
3. Total receipts	<u>185,206.22</u>	<u>6,000.00</u>	<u>191,206.22</u>
4. Total funds available	<u>293,093.04</u>	<u>(38,678.62)</u>	<u>254,414.42</u>
5. Expenditures (Section 1)	<u>257,204.54</u>	<u>(2,965.70)</u>	<u>254,238.84</u>
6. Balance, December 31, 2010	<u>\$ 35,888.50</u>	<u>\$ (35,712.92)</u>	<u>\$ 175.58</u>

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

CITY OF COATESVILLE
 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	\$ 107,886.82	\$ (44,678.62)	\$ 63,208.20
2. Add: Current year equipment allocation (20% of Lines 2 + 2a, Section 2)	37,004.61	-	37,004.61
3. PENNDOT approved adjustments	-	-	-
4. Total funds available for equipment acquisition	144,891.43	(44,678.62)	100,212.81
5. Less: Major equipment expenditures	-	-	-
6. Remainder	<u>144,891.43</u>	<u>(44,678.62)</u>	<u>100,212.81</u>
7. Equipment balance available for subsequent year (Lesser of Line 6 or Section 2 balance, but not less than zero)	<u>\$ 35,888.50</u>	<u>\$ (35,712.92)</u>	<u>\$ 175.58</u>

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

CITY OF COATESVILLE
CHESTER COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE PERIOD
JANUARY 1, 2008 TO DECEMBER 31, 2010

1. Criteria

Section 1

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

- Major equipment purchases are purchases of road machinery and road equipment that cost in excess of \$4,000.00.
- Minor equipment purchases are purchases of road machinery and road equipment that cost \$4,000.00 or less.
- Agility projects are exchanges of services with the Department of Transportation.

Section 2

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

- The state allocation is generally received from the Department of Transportation during the first week in April of each year. The amount the municipality receives is based half on its population and half on its road mileage.
- The turnback allocation is generally received from the Department of Transportation during the first week in April of each year. A municipality receives a yearly turnback allocation based on road mileage for all roads that were transferred to the municipality from the Commonwealth of Pennsylvania through the Highway Transfer Program.
- Expenditures include the total transferred from Section 1.

Section 3

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

CITY OF COATESVILLE
CHESTER COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE PERIOD
JANUARY 1, 2008 TO DECEMBER 31, 2010

1. Criteria (Continued)

Section 3 (Continued)

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

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

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

Basis Of Presentation

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

Basis Of Accounting

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

CITY OF COATESVILLE
CHESTER COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE PERIOD
JANUARY 1, 2008 TO DECEMBER 31, 2010

1. Criteria (Continued)

General Fixed Assets

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

2. Deposits

The Third Class City Code, Title 53 P.S § 36804.1, authorizes the city to deposit its funds in the following:

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

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

There were no deposits exposed to custodial credit risk as of December 31, 2010. 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.

CITY OF COATESVILLE
CHESTER COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE PERIOD
JANUARY 1, 2008 TO DECEMBER 31, 2010

2. Deposits (Continued)

Fund Balance

The fund balance as of December 31, 2010 consists of the following:

Cash	\$175.58
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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 \$1,074.22 during 2008, \$280.72 during 2009, and \$183.15 during 2010, thus providing additional funds for road maintenance and repairs.

4. Adjustments

2008 - Section 1

An adjustment of \$2,614.27 was made to “Winter maintenance services” because a transfer to the General Fund was not reported.

An adjustment of \$254.37 was made to “Traffic control devices” because check No. 31991 for \$895.63 was issued from the General Fund but was reported as a Liquid Fuels Tax Fund expenditure and a transfer of \$1,150.00 to the General Fund was not reported.

An adjustment of \$10,654.43 was made to “Street lighting” because these expenditures were overstated by \$1,290.60, check No. 1007 was reported as \$575.00 but was issued for \$954.00, and a transfer to the General Fund of \$11,566.03 was not reported.

An adjustment of \$628.30 was made to “Maintenance and repair of roads and bridges” because a transfer to the General Fund was not reported.

2008 - Section 2

An adjustment of \$13,236.15 was made to “Balance, January 1, 2008” because of a prior report adjustment that was not carried forward in the fund balance.

CITY OF COATESVILLE
CHESTER COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE PERIOD
JANUARY 1, 2008 TO DECEMBER 31, 2010

4. Adjustments (Continued)

2008 - Section 2 (Continued)

An adjustment of \$8,025.92 was made to "Miscellaneous" because a receipt was not reported (Note 5).

2008 - Section 3

An adjustment of \$2,991.73 was made to "Prior year equipment balance" because an incorrect equipment balance was carried forward.

2009 - Section 1

An adjustment of \$(3,422.07) was made to "Cleaning streets and gutters" because these expenditures were overstated.

An adjustment of \$(8,782.35) was made to "Winter maintenance services" because check No. 10062 for \$5,592.58 was reported in 2009 but was issued in 2010. Also, check No. 40411 was reported as \$6,365.74 but was issued for \$3,175.97.

An adjustment of \$702.50 was made to "Traffic control devices" because check No. 10027 for \$230.00 and check No. 10054 for \$472.50 were not reported.

An adjustment of \$25,056.08 was made to "Street lighting" because check No. 10026 was issued for \$43,929.32 but reported as \$31,174.99, check No. 10032 was issued for \$6,952.50 but reported as \$1,673.84, check No. 10024 was issued for \$66,945.78 but reported as \$61,821.50, and check No. 10043 was issued for \$3,700.81 but was reported as \$1,802.00.

An adjustment of \$(21,792.11) was made to "Repairs of tools and machinery" because check No. 10054 for \$406.44 was not reported and these expenditures were overstated by \$22,198.55.

An adjustment of \$61,655.49 was made to "Maintenance and repair of roads and bridges" because a transfer for payroll was not reported.

An adjustment of \$96,395.49 was made to "Miscellaneous" because a transfer for payroll was not reported.

CITY OF COATESVILLE
CHESTER COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE PERIOD
JANUARY 1, 2008 TO DECEMBER 31, 2010

4. Adjustments (Continued)

2009 - Section 2

An adjustment of \$7,110.70 was made to “Balance, January 1, 2009” to reflect the adjustments made in 2008 - Section 1 and 2008 - Section 2.

An adjustment of \$98,023.71 was made to “Miscellaneous” because grants from the General Fund were not reported.

2009 - Section 3

An adjustment of \$2,991.73 was made to “Prior year equipment balance” to reflect the adjustment made to the equipment balance in 2008 - Section 3.

2010 - Section 1

Adjustments were made to “Traffic control devices” and “Miscellaneous” because expenditures of \$916.15 were misclassified.

An adjustment of \$(2,335.70) was made to “Repairs of tools and machinery” because General Fund check Nos. 41441 for \$1,569.43 and 41575 for \$766.27 were incorrectly reported as Liquid Fuels Tax Fund expenditures.

An adjustment of \$(630.00) was made to “Maintenance and repair of roads and bridges” because General Fund check No. 41782 was incorrectly reported as a Liquid Fuels Tax Fund expenditure.

An adjustment of \$(916.15) was made to “Miscellaneous” because there were no miscellaneous expenditures.

2010 - Section 2

An adjustment of \$(44,678.62) was made to “Balance, January 1, 2010” to reflect the adjustments made in 2009 - Section 1 and 2009 - Section 2.

An adjustment of \$6,000.00 was made to “Miscellaneous” because a loan from the General Fund was not reported.

2010 - Section 3

An adjustment of \$(44,678.62) was made to “Balance, January 1, 2010” to reflect the adjustments made in 2009 - Section 1 and 2009 - Section 2.

CITY OF COATESVILLE
 CHESTER COUNTY
 LIQUID FUELS TAX FUND
 NOTES TO FORMS MS-965 WITH ADJUSTMENTS
 FOR THE PERIOD
 JANUARY 1, 2008 TO DECEMBER 31, 2010

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>2008</u>	<u>2009</u>	<u>2010</u>
Commonwealth of Pennsylvania General Fund	Gas tax refund Reimbursement (Comment)	\$8,025.92	\$ -	\$ -
General Fund	Temporary loans (Note 6)	-	53,802.42	-
		<u>-</u>	<u>98,023.71</u>	<u>6,000.00</u>
Totals		<u>\$8,025.92</u>	<u>\$151,826.13</u>	<u>\$6,000.00</u>

6. Temporary Loans

During 2009 and 2010 the municipality loaned \$98,023.71 and \$6,000.00, respectively, from its General Fund to its Liquid Fuels Tax Fund. As of the date of this report, \$104,023.71 was owed to the General Fund.

CITY OF COATESVILLE
CHESTER COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2008 TO DECEMBER 31, 2010

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 2008, 2009, and 2010 Forms MS-965. These adjustments, which are disclosed in Note 4, are as follows:

2008 - Section 1

- An adjustment of \$2,614.27 was made to "Winter maintenance services" because a transfer to the General Fund was not reported.
- An adjustment of \$254.37 was made to "Traffic control devices" because check No. 31991 for \$895.63 was issued from the General Fund but was reported as a Liquid Fuels Tax Fund expenditure and a transfer of \$1,150.00 to the General Fund was not reported.
- An adjustment of \$10,654.43 was made to "Street lighting" because these expenditures were overstated by \$1,290.60, check No. 1007 was reported as \$575.00 but was issued for \$954.00, and a transfer to the General Fund of \$11,566.03 was not reported.
- An adjustment of \$628.30 was made to "Maintenance and repair of roads and bridges" because a transfer to the General Fund was not reported.

2008 - Section 2

- An adjustment of \$13,236.15 was made to "Balance, January 1, 2008" because of a prior report adjustment that was not carried forward in the fund balance.
- An adjustment of \$8,025.92 was made to "Miscellaneous" because a receipt was not reported (Note 5).

2008 - Section 3

- An adjustment of \$2,991.73 was made to "Prior year equipment balance" because an incorrect equipment balance was carried forward.

CITY OF COATESVILLE
CHESTER COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
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Finding No. 1 - Failure To Properly Prepare Forms MS-965 (Continued)

2009 - Section 1

- An adjustment of \$(3,422.07) was made to “Cleaning streets and gutters” because these expenditures were overstated.
- An adjustment of \$(8,782.35) was made to “Winter maintenance services” because check No. 10062 for \$5,592.58 was reported in 2009 but was issued in 2010. Also, check No. 40411 was reported as \$6,365.74 but was issued for \$3,175.97.
- An adjustment of \$702.50 was made to “Traffic control devices” because check No. 10027 for \$230.00 and check No. 10054 for \$472.50 were not reported.
- An adjustment of \$25,056.08 was made to “Street lighting” because check No. 10026 was issued for \$43,929.32 but reported as \$31,174.99, check No. 10032 was issued for \$6,952.50 but reported as \$1,673.84, check No. 10024 was issued for \$66,945.78 but reported as \$61,821.50, and check No. 10043 was issued for \$3,700.81 but was reported as \$1,802.00.
- An adjustment of \$(21,792.11) was made to “Repairs of tools and machinery” because check No. 10054 for \$406.44 was not reported and these expenditures were overstated by \$22,198.55.
- An adjustment of \$61,655.49 was made to “Maintenance and repair of roads and bridges” because a transfer for payroll was not reported.
- An adjustment of \$96,395.49 was made to “Miscellaneous” because a transfer for payroll was not reported.

2009 - Section 2

- An adjustment of \$7,110.70 was made to “Balance, January 1, 2009” to reflect the adjustments made in 2008 - Section 1 and 2008 - Section 2.
- An adjustment of \$98,023.71 was made to “Miscellaneous” because grants from the General Fund were not reported.

CITY OF COATESVILLE
CHESTER COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
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JANUARY 1, 2008 TO DECEMBER 31, 2010

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

2009 - Section 3

- An adjustment of \$2,991.73 was made to “Prior year equipment balance” to reflect the adjustment made to the equipment balance in 2008 - Section 3.

2010 - Section 1

- Adjustments were made to “Traffic control devices” and “Miscellaneous” because expenditures of \$916.15 were misclassified.
- An adjustment of \$(2,335.70) was made to “Repairs of tools and machinery” because General Fund check Nos. 41441 for \$1,569.43 and 41575 for \$766.27 were incorrectly reported as Liquid Fuels Tax Fund expenditures.
- An adjustment of \$(630.00) was made to “Maintenance and repair of roads and bridges” because General Fund check No. 41782 was incorrectly reported as a Liquid Fuels Tax Fund expenditure.
- An adjustment of \$(916.15) was made to “Miscellaneous” because there were no miscellaneous expenditures.

2010 - Section 2

- An adjustment of \$(44,678.62) was made to “Balance, January 1, 2010” to reflect the adjustments made in 2009 - Section 1 and 2009 - Section 2.
- An adjustment of \$6,000.00 was made to “Miscellaneous” because a loan from the General Fund was not reported.

2010 - Section 3

- An adjustment of \$(44,678.62) was made to “Balance, January 1, 2010” to reflect the adjustments made in 2009 - Section 1 and 2009 - Section 2.

Good internal controls ensure that the municipality completes 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.

A similar finding was also written in our prior report.

CITY OF COATESVILLE
CHESTER COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
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Finding No. 1 - Failure To Properly Prepare Forms MS-965 (Continued)

Recommendation

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

Management's Response

The finance director stated:

The auditor explained the Liquid Fuels reporting procedures in great detail. The staff will prepare Forms MS-965 reports as the auditor explained in all future reports.

Auditor's Conclusion

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

CITY OF COATESVILLE
CHESTER COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2008 TO DECEMBER 31, 2010

Finding No. 2 - Amount Transferred From The Liquid Fuels Tax Fund To The General Fund Exceeded Eligible Expenditures

Our examination disclosed that the municipality transferred \$158,050.98 from its Liquid Fuels Tax Fund to its General Fund on October 20, 2009. However, the municipality had only expended \$61,655.49 for eligible Liquid Fuels Tax Fund expenditures from its General Fund. Therefore, the amount transferred from the Liquid Fuels Tax Fund to the General Fund exceeded eligible expenditures by \$96,395.49.

The practice of transferring liquid fuels money in excess of the amount incurred for permissible liquid fuels expenditures into any account other than the Liquid Fuels Tax Fund account is contrary to the Liquid Fuels Tax Municipal Allocation Law, 72 P.S. § 2615.5, which states:

. . . each city, borough, town, and township, shall . . . Establish and maintain a special fund into which the moneys [liquid fuels tax funds] . . . shall be deposited and into which no other moneys may be deposited or commingled . . .

Good internal accounting controls ensure that disbursements are made from the Liquid Fuels Tax Fund only for expenditures incurred. When Liquid Fuels Tax Fund money is commingled with the General Fund or other funds, the potential for Liquid Fuels Tax Fund money to be used for unauthorized purposes increases significantly.

The failure to follow the Liquid Fuels Tax Municipal Allocation Law as noted above could result in the municipality having to reimburse \$96,395.49 to its Liquid Fuels Tax Fund.

Recommendations

We recommend that the municipality reimburse \$96,395.49 to its Liquid Fuels Tax Fund upon official notification by the Department of Transportation.

Further we recommend that the municipality establish and implement internal controls to ensure transfers are reviewed timely to avoid excess transfers.

CITY OF COATESVILLE
CHESTER COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
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Finding No. 2 - Amount Transferred From The Liquid Fuels Tax Fund To The General Fund
Exceeded Eligible Expenditures (Continued)

Management's Response

The finance director stated:

Payroll transfer from Liquid Fuels account to General Fund was performed with Liquid Fuels payroll reimbursement to General Fund. (All payroll paid out of General Fund). Excess transfer was not supported by pay records thought to be reimbursed by General Fund throughout the year with General Fund to Liquid Fuels transfers. Moving forward, all payroll will be supported by Liquid Fuels requirements.

Auditor's Conclusion

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

CITY OF COATESVILLE
CHESTER COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2008 TO DECEMBER 31, 2010

Finding No. 3 - Late Receipt Of Allocations

Our examination disclosed that the 2008 and 2009 Liquid Fuels Tax Fund allocations of \$199,770.29 and \$192,446.67, respectively, which should have been distributed from the Department of Transportation to the municipality during the first week of April of each year, were not received until December 30, 2008 and October 13, 2009, respectively, because the municipality failed to comply with the Department of Transportation's *Publication 9*, Chapter Two, Section 2.4, which states:

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

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

Because the municipality failed to file documents and information timely as noted above, the municipality did not have use of the 2008 allocation for almost nine months and the 2009 allocation for over six months. Furthermore, had the allocations been received timely, money may have been available for investment purposes, potentially earning interest income which could have been used for road maintenance and repairs.

Due to severe winter weather, on March 1, 2010, the governor released Liquid Fuels Tax Fund allocations to all municipalities except those with blocks imposed by the Department of Revenue or the Department of Labor and Industry. We will determine if the municipality complied with the requirements of the Department of Transportation's *Publication 9* during our next examination.

CITY OF COATESVILLE
CHESTER COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
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Finding No. 3 - Late Receipt Of Allocations(Continued)

Recommendation

We recommend that, in the future, the municipality comply with the Department of Transportation's *Publication 9* to ensure that the allocations are received during the first week in April as outlined above.

Management's Response

The finance director stated:

Staff rotation created a gap in the MS 965 mailing in 2009. Future reports to be mailed on time.

Auditor's Conclusion

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

CITY OF COATESVILLE
CHESTER COUNTY
LIQUID FUELS TAX FUND
COMMENT
FOR THE PERIOD
JANUARY 1, 2008 TO DECEMBER 31, 2010

Comment - 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 \$53,802.42 to its Liquid Fuels Tax Fund. This amount consists of \$26,298.04 for failing to maintain documentation supporting transfers and \$27,504.38 for nonpermissible expenditures.

During our current examination we reviewed a letter dated February 18, 2008, from the Department of Transportation informing the municipality to reimburse \$53,802.42 to its Liquid Fuels Tax Fund. We noted that the municipality reimbursed this amount to its Liquid Fuels Tax Fund on December 21, 2009.

In our prior report we also recommended that the municipality comply with the Liquid Fuels Tax Municipal Allocation Law and the Department of Transportation's Regulations regarding permissible expenditures.

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

CITY OF COATESVILLE
CHESTER COUNTY
LIQUID FUELS TAX FUND
SUMMARY OF EXIT CONFERENCE
FOR THE PERIOD
JANUARY 1, 2008 TO DECEMBER 31, 2010

An exit conference was held April 27, 2011. Those participating were:

CITY OF COATESVILLE

Ms. Stacy Bjorhus, Finance Director

DEPARTMENT OF THE AUDITOR GENERAL

Mr. Stephen P. Stoppie, Auditor

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

CITY OF COATESVILLE
CHESTER COUNTY
LIQUID FUELS TAX FUND
REPORT DISTRIBUTION
FOR THE PERIOD
JANUARY 1, 2008 TO DECEMBER 31, 2010

This report was initially distributed to:

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

City of Coatesville
Chester County
One City Hall Place
Coatesville, PA 19320

The Honorable Karl Marking

President of Council

Ms. Stacy Bjorhus

Finance Director

This report is a matter of public record. Copies of this report may be obtained from the Pennsylvania Department of the Auditor General, Office of Communications, 318 Finance Building, Harrisburg, PA 17120. To view this report online or to contact the Department of the Auditor General, please access our web site at www.auditorgen.state.pa.us.