



**TOWNSHIP OF DARBY
DELAWARE COUNTY
23-102**

**LIQUID FUELS TAX FUND
EXAMINATION REPORT**

**FOR THE PERIOD
JANUARY 1, 2008 TO DECEMBER 31, 2011**

COMMONWEALTH OF PENNSYLVANIA

EUGENE A. DEPASQUALE - AUDITOR GENERAL

DEPARTMENT OF THE AUDITOR GENERAL



Commonwealth of Pennsylvania
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Harrisburg, PA 17120-0018
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EUGENE A. DePASQUALE
AUDITOR GENERAL

Independent Auditor's Report

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

We examined the accompanying Forms MS-965 With Adjustments for the Liquid Fuels Tax Fund of the Township of Darby, Delaware County, for the period January 1, 2008 to December 31, 2011. 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, 2008 to December 31, 2011 and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

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

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

Independent Auditor's Report (Continued)

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

- The municipality did not maintain documentation to support a transfer of \$3,653.32 from its Liquid Fuels Tax Fund to its General Fund on July 21, 2011. The municipality should have maintained invoices or payroll records to support this transfer. (Finding No. 1).
- On September 8, 2011, the municipality transferred \$20,082.26 from its Liquid Fuels Tax Fund to its General Fund for the reimbursement of expenditures paid on behalf of the Liquid Fuels Tax Fund. Included in this amount was \$7,302.64 for the reimbursement of loan payments paid during 2010, which are retroactive expenditures. (Finding No. 2).
- The municipality expended \$2,325.97 for project No. 08-23102-1CA and \$4,944.00 for project No. 09-23102-1CA in excess of the approved amount. (Finding No. 3).

In our opinion, except for the bulleted items discussed above, the Forms MS-965 With Adjustments present, in all material respects, the information required by the Pennsylvania Department of Transportation for the Liquid Fuels Tax Fund of the Township of Darby, Delaware County, for the period January 1, 2008 to December 31, 2011, 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.

Independent Auditor's Report (Continued)

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 Township of Darby, Delaware 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 Township of Darby, Delaware County's Forms MS-965 that are more than inconsequential will not be prevented or detected by the Township of Darby, Delaware County's internal control. We consider the deficiency described in the finding below to be a significant deficiency in internal control over reporting on the Forms MS-965:

- Documentation Supporting Transfer Was Not Available For Examination.

A material weakness is a significant deficiency or combination of significant deficiencies that results in more than a remote likelihood that a material misstatement of the Forms MS-965 will not be prevented or detected by Township of Darby, Delaware County's internal control. Our consideration of the internal control over reporting on the Forms MS-965 would not necessarily disclose all matters in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We consider the significant deficiency described above to be a material weakness.

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

- Retroactive Expenditures.
- Liquid Fuels Money Overexpended On Project.

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.

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.

May 3, 2012

EUGENE A. DEPASQUALE
Auditor General

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DELAWARE COUNTY
LIQUID FUELS TAX FUND
BACKGROUND
FOR THE PERIOD
JANUARY 1, 2008 TO DECEMBER 31, 2011

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
 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	-	-	-
Winter maintenance services	6,345.70	-	6,345.70
Traffic control devices	32,720.67	-	32,720.67
Street lighting	35,161.51	-	35,161.51
Storm sewers and drains	-	-	-
Repairs of tools and machinery	45,611.44	-	45,611.44
Maintenance and repair of roads and bridges	-	-	-
Highway construction and rebuilding projects	85,882.85	-	85,882.85
Miscellaneous	100,000.00	(100,000.00)	-
 Total (To Section 2, Line 5)	 <u>\$ 305,722.17</u>	 <u>\$ (100,000.00)</u>	 <u>\$ 205,722.17</u>

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

TOWNSHIP OF DARBY
 DELAWARE 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	\$ 48,229.76	\$ -	\$ 48,229.76
Receipts:			
2. State allocation	165,659.25	-	165,659.25
2a. Turnback allocation	-	-	-
2b. Interest on investments (Note 3)	2,838.73	(120.19)	2,718.54
2c. Miscellaneous (Note 5)	101,735.35	(99,855.58)	1,879.77
3. Total receipts	<u>270,233.33</u>	<u>(99,975.77)</u>	<u>170,257.56</u>
4. Total funds available	<u>318,463.09</u>	<u>(99,975.77)</u>	<u>218,487.32</u>
5. Expenditures (Section 1)	<u>305,722.17</u>	<u>(100,000.00)</u>	<u>205,722.17</u>
6. Balance, December 31, 2008	<u>\$ 12,740.92</u>	<u>\$ 24.23</u>	<u>\$ 12,765.15</u>

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

TOWNSHIP OF DARBY
 DELAWARE COUNTY
 LIQUID FUELS TAX FUND
 2008 FORM MS-965 – SECTION 3
 WITH ADJUSTMENTS

<u>Equipment Balance</u>	<u>Reported</u>	<u>Adjustments</u>	<u>Adjusted Amount</u>
1. Prior year equipment balance	\$ 48,229.76	\$ -	\$ 48,229.76
2. Add: Current year equipment allocation (20% of Lines 2 + 2a, Section 2)	33,131.85	-	33,131.85
3. PENNDOT approved adjustments	-	-	-
4. Total funds available for equipment acquisition	81,361.61	-	81,361.61
5. Less: Major equipment expenditures	-	-	-
6. Remainder	<u>81,361.61</u>	<u>-</u>	<u>81,361.61</u>
7. Equipment balance available for subsequent year (Lesser of Line 6 or Section 2 balance, but not less than zero)	<u>\$ 12,740.92</u>	<u>\$ 24.23</u>	<u>\$ 12,765.15</u>

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

TOWNSHIP OF DARBY
 DELAWARE 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	-	-	-
Winter maintenance services	4,107.91	-	4,107.91
Traffic control devices	52,049.57	-	52,049.57
Street lighting	30,645.96	-	30,645.96
Storm sewers and drains	-	-	-
Repairs of tools and machinery	33,581.95	-	33,581.95
Maintenance and repair of roads and bridges	8,219.23	-	8,219.23
Highway construction and rebuilding projects	-	-	-
Miscellaneous (Bank service charges)	-	2.00	2.00
 Total (To Section 2, Line 5)	 <u>\$ 128,604.62</u>	 <u>\$ 2.00</u>	 <u>\$ 128,606.62</u>

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

TOWNSHIP OF DARBY
 DELAWARE 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	\$ 12,740.92	\$ 24.23	\$ 12,765.15
Receipts:			
2. State allocation	159,607.28	-	159,607.28
2a. Turnback allocation	-	-	-
2b. Interest on investments (Note 3)	345.02	(22.71)	322.31
2c. Miscellaneous	-	-	-
3. Total receipts	<u>159,952.30</u>	<u>(22.71)</u>	<u>159,929.59</u>
4. Total funds available	<u>172,693.22</u>	<u>1.52</u>	<u>172,694.74</u>
5. Expenditures (Section 1)	<u>128,604.62</u>	<u>2.00</u>	<u>128,606.62</u>
6. Balance, December 31, 2009	<u>\$ 44,088.60</u>	<u>\$ (.48)</u>	<u>\$ 44,088.12</u>

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

TOWNSHIP OF DARBY
 DELAWARE 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	\$ 12,740.92	\$ 24.23	\$ 12,765.15
2. Add: Current year equipment allocation (20% of Lines 2 + 2a, Section 2)	31,921.46	-	31,921.46
3. PENNDOT approved adjustments	-	-	-
4. Total funds available for equipment acquisition	44,662.38	24.23	44,686.61
5. Less: Major equipment expenditures	-	-	-
6. Remainder	<u>44,662.38</u>	<u>24.23</u>	<u>44,686.61</u>
7. Equipment balance available for subsequent year (Lesser of Line 6 or Section 2 balance, but not less than zero)	<u>\$ 44,088.60</u>	<u>\$ (.48)</u>	<u>\$ 44,088.12</u>

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

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

<u>Expenditure Summary</u>	<u>Reported</u>	<u>Adjustments (Note 4)</u>	<u>Adjusted Amount</u>
Major equipment purchases	\$ 3,997.26	\$ -	\$ 3,997.26
Minor equipment purchases	-	-	-
Computer/Computer related training	-	-	-
Agility projects	-	-	-
Cleaning streets and gutters	-	-	-
Winter maintenance services	12,647.99	-	12,647.99
Traffic control devices	8,033.80	-	8,033.80
Street lighting	32,333.10	-	32,333.10
Storm sewers and drains	-	-	-
Repairs of tools and machinery	39,544.22	-	39,544.22
Maintenance and repair of roads and bridges	6,282.90	(5,292.00)	990.90
Highway construction and rebuilding projects	112,252.82	5,292.00	117,544.82
Miscellaneous	-	-	-
 Total (To Section 2, Line 5)	 <u>\$ 215,092.09</u>	 <u>\$ -</u>	 <u>\$ 215,092.09</u>

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

TOWNSHIP OF DARBY
 DELAWARE COUNTY
 LIQUID FUELS TAX FUND
 2010 FORM MS-965 – SECTION 2
 WITH ADJUSTMENTS

<u>Fund Balance</u>	<u>Reported</u>	<u>Adjustments</u>	<u>Adjusted Amount</u>
1. Balance, January 1, 2010	\$ 44,088.12	\$ -	\$ 44,088.12
Receipts:			
2. State allocation	153,472.55	-	153,472.55
2a. Turnback allocation	-	-	-
2b. Interest on investments (Note 3)	30.04	-	30.04
2c. Miscellaneous (Note 5)	24,160.15	-	24,160.15
3. Total receipts	<u>177,662.74</u>	<u>-</u>	<u>177,662.74</u>
4. Total funds available	<u>221,750.86</u>	<u>-</u>	<u>221,750.86</u>
5. Expenditures (Section 1)	<u>215,092.09</u>	<u>-</u>	<u>215,092.09</u>
6. Balance, December 31, 2010	<u>\$ 6,658.77</u>	<u>\$ -</u>	<u>\$ 6,658.77</u>

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

TOWNSHIP OF DARBY
DELAWARE COUNTY
LIQUID FUELS TAX FUND
2010 FORM MS-965 – SECTION 3
WITH ADJUSTMENTS

<u>Equipment Balance</u>	<u>Reported</u>	<u>Adjustments</u>	<u>Adjusted Amount</u>
1. Prior year equipment balance	\$ 44,088.12	\$ -	\$ 44,088.12
2. Add: Current year equipment allocation (20% of Lines 2 + 2a, Section 2)	30,694.51	-	30,694.51
3. PENNDOT approved adjustments	<u>-</u>	<u>-</u>	<u>-</u>
4. Total funds available for equipment acquisition	74,782.63	-	74,782.63
5. Less: Major equipment expenditures	<u>3,997.26</u>	<u>-</u>	<u>3,997.26</u>
6. Remainder	<u><u>70,785.37</u></u>	<u><u>-</u></u>	<u><u>70,785.37</u></u>
7. Equipment balance available for subsequent year (Lesser of Line 6 or Section 2 balance, but not less than zero)	<u><u>\$ 6,658.77</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 6,658.77</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
 2011 FORM MS-965 – SECTION 1
 WITH ADJUSTMENTS

<u>Expenditure Summary</u>	<u>Reported</u>	<u>Adjustments (Note 4)</u>	<u>Adjusted Amount</u>
Major equipment purchases	\$ -	\$ 31,524.89	\$ 31,524.89
Minor equipment purchases	5,963.65	(5,963.65)	-
Computer/Computer related training	-	-	-
Agility projects	-	-	-
Cleaning streets and gutters	736.20	-	736.20
Winter maintenance services	14,893.38	-	14,893.38
Traffic control devices	32,489.27	-	32,489.27
Street lighting	13,470.96	-	13,470.96
Storm sewers and drains	-	-	-
Repairs of tools and machinery	21,488.55	-	21,488.55
Maintenance and repair of roads and bridges	3,854.50	(3,205.00)	649.50
Highway construction and rebuilding projects	-	3,205.00	3,205.00
Miscellaneous	25,561.24	(25,561.24)	-
 Total (To Section 2, Line 5)	 <u>\$ 118,457.75</u>	 <u>\$ -</u>	 <u>\$ 118,457.75</u>

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

TOWNSHIP OF DARBY
 DELAWARE COUNTY
 LIQUID FUELS TAX FUND
 2011 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, 2011	\$ 6,658.77	\$ -	\$ 6,658.77
Receipts:			
2. State allocation	154,776.11	-	154,776.11
2a. Turnback allocation	-	-	-
2b. Interest on investments (Note 3)	22.32	-	22.32
2c. Miscellaneous	-	-	-
3. Total receipts	<u>154,798.43</u>	<u>-</u>	<u>154,798.43</u>
4. Total funds available	<u>161,457.20</u>	<u>-</u>	<u>161,457.20</u>
5. Expenditures (Section 1)	<u>118,457.75</u>	<u>-</u>	<u>118,457.75</u>
6. Balance, December 31, 2011	<u><u>\$ 42,999.45</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 42,999.45</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
 2011 FORM MS-965 – SECTION 3
 WITH ADJUSTMENTS

<u>Equipment Balance</u>	<u>Reported</u>	<u>Adjustments (Note 4)</u>	<u>Adjusted Amount</u>
1. Prior year equipment balance	\$ 6,658.77	\$ -	\$ 6,658.77
2. Add: Current year equipment allocation (20% of Lines 2 + 2a, Section 2)	30,955.22	-	30,955.22
3. PENNDOT approved adjustments	<u>-</u>	<u>-</u>	<u>-</u>
4. Total funds available for equipment acquisition	37,613.99	-	37,613.99
5. Less: Major equipment expenditures	<u>-</u>	<u>31,524.89</u>	<u>31,524.89</u>
6. Remainder	<u>37,613.99</u>	<u>(31,524.89)</u>	<u>6,089.10</u>
7. Equipment balance available for subsequent year (Lesser of Line 6 or Section 2 balance, but not less than zero)	<u>\$ 37,613.99</u>	<u>\$ (31,524.89)</u>	<u>\$ 6,089.10</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, 2008 TO DECEMBER 31, 2011

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.

TOWNSHIP OF DARBY
DELAWARE COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE PERIOD
JANUARY 1, 2008 TO DECEMBER 31, 2011

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.

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.

TOWNSHIP OF DARBY
DELAWARE COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE PERIOD
JANUARY 1, 2008 TO DECEMBER 31, 2011

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'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, 2011. 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, 2011 consists of the following:

Cash	\$42,999.45
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TOWNSHIP OF DARBY
DELAWARE COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE PERIOD
JANUARY 1, 2008 TO DECEMBER 31, 2011

3. Interest On Investments

Our examination disclosed that the municipality deposited idle liquid fuels tax money in an interest-bearing account and a certificate of deposit which earned \$2,718.54 during 2008, \$322.31 during 2009, \$30.04 during 2010, and, \$22.32 during 2011 thus providing additional funds for road maintenance and repairs.

4. Adjustments

2008 - Section 1

An adjustment of \$(100,000.00) was made to “Miscellaneous” because a transfer between two Liquid Fuels Tax Fund accounts was incorrectly reported as an expenditure.

2008 - Section 2

An adjustment of \$(120.19) was made to “Interest on investments” because interest earnings were overstated.

An adjustment of \$(99,855.58) was made to “Miscellaneous” because a grant of \$144.42 was not reported and a transfer of \$100,000.00 between two Liquid Fuels Tax Fund accounts was incorrectly reported as a receipt.

2009 - Section 1

An adjustment of \$2.00 was made to “Miscellaneous” because bank service charges were not reported.

2009 - Section 2

An adjustment of \$24.23 was made to “Balance, January 1, 2009” to reflect the adjustment made to the fund balance in 2008 - Section 2.

An adjustment of \$(22.71) was made to “Interest on investments” because interest earnings were overstated.

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4. Adjustments (Continued)

2009 - Section 3

An adjustment of \$24.23 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 "Maintenance and repair of roads and bridges" and "Highway construction and rebuilding projects" because expenditures of \$5,292.00 were misclassified.

2011 - Section 1

Adjustments were made to "Major equipment purchases," "Minor equipment purchases," and "Miscellaneous" because expenditures of \$31,524.89 were misclassified.

Adjustments were made to "Maintenance and repair of roads and bridges" and "Highway construction and rebuilding projects" because expenditures of \$3,205.00 were misclassified.

2011 - Section 3

An adjustment of \$31,524.89 was made to "Major equipment expenditures" to reflect the adjustment made to major equipment purchases in 2011 - Section 1.

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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>2010</u>
General Fund	Reimbursement (Comment)	\$1,735.35	\$ -
Vendor	Reimbursement for materials	-	13,640.00
P.E.M.A.	Severe weather assistance	-	10,520.15
General Fund	Grant	144.42	-
	Total	<u>\$1,879.77</u>	<u>\$24,160.15</u>

6. 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 pay off and 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.

During the current examination period the municipality paid principal of \$20,228.54 and interest of \$5,676.64 from the Liquid Fuels Tax Fund. These amounts are reflected in major equipment purchases on the 2010 and 2011 Forms MS-965 – Section 1. Additionally, the municipality paid principal of \$33,936.39 and interest of \$9,284.00 from the Sinking Fund. The balance of the loan as of December 31, 2011 was \$245,835.07, plus interest. The balance of the loan eligible to be paid from the Liquid Fuels Tax Fund as of December 31, 2011 was \$106,350.46, plus interest.

TOWNSHIP OF DARBY
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FINDINGS AND RECOMMENDATIONS
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Finding No. 1 - Documentation Supporting Transfer Was Not Available For Examination

Our examination disclosed that the municipality did not maintain documentation to support a transfer of \$3,653.32 from its Liquid Fuels Tax Fund to its General Fund on July 21, 2011. The municipality should have maintained invoices or payroll records to support this transfer.

Good internal control procedures ensure that there is documentation to support all transfers.

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 transfers 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 transfers made without supporting documentation, are outside the scope of permissible transfers.

Without adequate documentation, we could not determine if the transfer was permissible according to the Liquid Fuels Tax Municipal Allocation Law and the Department of Transportation's Regulations.

The failure to maintain documentation to support the transfer could result in the municipality having to reimburse \$3,653.32 to its Liquid Fuels Tax Fund.

Recommendations

We recommend that the municipality reimburse \$3,653.32 to its Liquid Fuels Tax Fund upon official notification by the Department of Transportation.

We further recommend that the municipality ensure good internal control over transfers by maintaining adequate documentation to support all transfers.

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

Management's Response

The municipal officials offered no formal response at this time.

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Finding No. 2 - Retroactive Expenditures

Our examination disclosed that on September 8, 2011, the municipality transferred \$20,082.26 from its Liquid Fuels Tax Fund to its General Fund for the reimbursement of expenditures paid on behalf of the Liquid Fuels Tax Fund. Included in this amount was \$7,302.64 for the reimbursement of loan payments paid during 2010, which are retroactive expenditures.

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 paid from the General Fund during 2010 and were not reimbursed with Liquid Fuels Tax Fund money until September 8, 2011, 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*.

The failure to follow the Department of Transportation's *Publication 9* as noted above could result in the municipality having to reimburse \$7,302.64 to its Liquid Fuels Tax Fund.

Recommendations

We recommend that the municipality reimburse \$7,302.64 to its Liquid Fuels Tax Fund upon official notification by the Department of Transportation.

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

Management's Response

The municipal officials offered no formal response at this time.

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Finding No. 3 - Liquid Fuels Money Overexpended On Project

Our examination disclosed that the municipality expended \$85,882.85 and \$57,687.00 of Liquid Fuels Tax Fund money on construction project Nos. 08-23102-1CA and 09-23102-1CA, respectively. However, the amount approved to be expended from the Liquid Fuels Tax Fund for these projects was \$83,556.88 and \$52,743.00, respectively. The differences of \$2,325.97 for project No. 08-23102-1CA and of \$4,944.00 for project No. 09-23102-1CA 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.

The failure to comply with the Department of Transportation's Regulations could result in the municipality having to reimburse \$7,269.97 to its Liquid Fuels Tax Fund.

Recommendations

We recommend that the municipality reimburse \$7,269.97 to its Liquid Fuels Tax Fund upon official notification by the Department of Transportation.

We further 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.

TOWNSHIP OF DARBY
DELAWARE COUNTY
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COMMENT
FOR THE PERIOD
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Comment – Summary Of 2006 Examination Recommendation

In our 2006 report we recommended that the Department of Transportation review our examination finding to determine if the municipality should reimburse \$1,735.35 to its Liquid Fuels Tax Fund for a failure to maintain documentation to support transfers.

During our current examination we reviewed a letter dated February 22, 2008, from the Department of Transportation informing the municipality to reimburse \$1,735.35 to its Liquid Fuels Tax Fund. We noted that the municipality reimbursed this amount to its Liquid Fuels Tax Fund on March 6, 2008.

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SUMMARY OF EXIT CONFERENCE
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An exit conference was held May 3, 2012. Those participating were:

TOWNSHIP OF DARBY

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

DEPARTMENT OF THE AUDITOR GENERAL

Mr. Stephen P. Stoppie, 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, 2008 TO DECEMBER 31, 2011

This report was initially distributed to:

The Honorable Barry J. Schoch, P.E.
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.auditorgen.state.pa.us>. Media questions about the report can be directed to the Pennsylvania Department of the Auditor General, Office of Communications, 231 Finance Building, Harrisburg, PA 17120; via email to: news@auditorgen.state.pa.us.