



**TOWNSHIP OF UPPER POTTSGROVE
MONTGOMERY COUNTY
46-114**

**LIQUID FUELS TAX FUND
EXAMINATION REPORT**

**FOR THE PERIOD
JANUARY 1, 2009 TO DECEMBER 31, 2011**

Released September 2013

COMMONWEALTH OF PENNSYLVANIA

EUGENE A. DEPASQUALE - AUDITOR GENERAL

DEPARTMENT OF THE AUDITOR GENERAL



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 Township of Upper Pottsgrove, Montgomery County, for the period January 1, 2009 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 Upper Pottsgrove, Montgomery County's Forms MS-965 for the period January 1, 2009 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 Finding No. 1, the township expended \$6,897.00 during 2009, \$2,502.57 during 2010, and \$41.21 during 2011 for failing to maintain documentation supporting expenditures. The township reimbursed \$2,478.82 to its Liquid Fuels Tax Fund on January 18, 2012, which was subsequent to our examination period. Additionally, as discussed in Finding No. 3, the township expended \$5,300.00 during 2009, \$5,353.00 during 2010, and \$5,300.00 during 2011 from the Liquid Fuels Tax Fund for vegetation control, which included ball fields, which is a nonpermissible item. The township reimbursed \$5,353.00 to its Liquid Fuels Tax Fund on January 18, 2012, which was subsequent to our examination period.

In our opinion, except for the matters 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 Township of Upper Pottsgrove, Montgomery County, for the period January 1, 2009 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 Upper Pottsgrove, Montgomery 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 Upper Pottsgrove, Montgomery County's Forms MS-965 that is more than inconsequential will not be prevented or detected by the Township of Upper Pottsgrove, Montgomery County's internal control. We consider the deficiencies described in the findings below to be significant deficiencies in internal control over reporting on the Forms MS-965:

- Documentation Supporting Receipts And Expenditures Was Not Available For Examination.
- Failure To Properly Prepare Forms MS-965.

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 Township of Upper Pottsgrove, Montgomery 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 all the significant deficiencies described above to be material weaknesses.

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

- Nonpermissible Expenditures.

Independent Auditor's Report (Continued)

This report is intended solely for the information and use of the Pennsylvania Department of Transportation and the management of the Township of Upper Pottsgrove, Montgomery 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 extending to the right.

June 5, 2012

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, 2009 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 UPPER POTTS GROVE
MONTGOMERY 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	\$ -	\$ 23,265.69	\$ 23,265.69
Minor equipment purchases	539.71	106.92	646.63
Computer/Computer related training	-	-	-
Agility projects	-	-	-
Cleaning streets and gutters	-	-	-
Winter maintenance services	38,843.84	2,277.53	41,121.37
Traffic control devices	152.50	(152.50)	-
Street lighting	-	-	-
Storm sewers and drains	-	-	-
Repairs of tools and machinery	23,265.69	(23,265.69)	-
Maintenance and repair of roads and bridges	27,951.41	(1,211.56)	26,739.85
Highway construction and rebuilding projects	77,208.80	-	77,208.80
Miscellaneous (Note 6)	-	6,933.80	6,933.80
	<u>-</u>	<u>6,933.80</u>	<u>6,933.80</u>
Total (To Section 2, Line 5)	<u>\$ 167,961.95</u>	<u>\$ 7,954.19</u>	<u>\$ 175,916.14</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
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	\$ 101,206.55	\$ 2,947.23	\$ 104,153.78
Receipts:			
2. State allocation	107,720.27	-	107,720.27
2a. Turnback allocation	13,280.00	-	13,280.00
2b. Interest on investments (Note 3)	167.15	-	167.15
2c. Miscellaneous (Note 5)	-	14,954.98	14,954.98
3. Total receipts	<u>121,167.42</u>	<u>14,954.98</u>	<u>136,122.40</u>
4. Total funds available	<u>222,373.97</u>	<u>17,902.21</u>	<u>240,276.18</u>
5. Expenditures (Section 1)	<u>167,961.95</u>	<u>7,954.19</u>	<u>175,916.14</u>
6. Balance, December 31, 2009	<u>\$ 54,412.02</u>	<u>\$ 9,948.02</u>	<u>\$ 64,360.04</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
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	\$ 101,039.83	\$ -	\$ 101,039.83
2. Add: Current year equipment allocation (20% of Lines 2 + 2a, Section 2)	24,200.05	-	24,200.05
3. PENNDOT approved adjustments	<u>-</u>	<u>-</u>	<u>-</u>
4. Total funds available for equipment acquisition	125,239.88	-	125,239.88
5. Less: Major equipment expenditures	<u>-</u>	<u>23,265.69</u>	<u>23,265.69</u>
6. Remainder	<u>125,239.88</u>	<u>(23,265.69)</u>	<u>101,974.19</u>
7. Equipment balance available for subsequent year (Lesser of Line 6 or Section 2 balance, but not less than zero)	<u>\$ 54,412.02</u>	<u>\$ 9,948.02</u>	<u>\$ 64,360.04</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
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	\$ 46,531.38	\$ -	\$ 46,531.38
Minor equipment purchases	769.16	-	769.16
Computer/Computer related training	-	-	-
Agility projects	-	-	-
Cleaning streets and gutters	-	-	-
Winter maintenance services	28,407.57	(23.75)	28,383.82
Traffic control devices	-	-	-
Street lighting	-	-	-
Storm sewers and drains	-	-	-
Repairs of tools and machinery	-	-	-
Maintenance and repair of roads and bridges	13,747.24	-	13,747.24
Highway construction and rebuilding projects	110,270.45	-	110,270.45
Miscellaneous (Note 6)	-	2,502.57	2,502.57
 Total (To Section 2, Line 5)	 <u>\$ 199,725.80</u>	 <u>\$ 2,478.82</u>	 <u>\$ 202,204.62</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
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	\$ 54,412.02	\$ 9,948.02	\$ 64,360.04
Receipts:			
2. State allocation	104,008.23	-	104,008.23
2a. Turnback allocation	13,280.00	-	13,280.00
2b. Interest on investments (Note 3)	100.87	-	100.87
2c. Miscellaneous (Note 5)	43,907.50	-	43,907.50
3. Total receipts	<u>161,296.60</u>	<u>-</u>	<u>161,296.60</u>
4. Total funds available	<u>215,708.62</u>	<u>9,948.02</u>	<u>225,656.64</u>
5. Expenditures (Section 1)	<u>199,725.80</u>	<u>2,478.82</u>	<u>202,204.62</u>
6. Balance, December 31, 2010	<u>\$ 15,982.82</u>	<u>\$ 7,469.20</u>	<u>\$ 23,452.02</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
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	\$ 54,412.02	\$ 9,948.02	\$ 64,360.04
2. Add: Current year equipment allocation (20% of Lines 2 + 2a, Section 2)	23,457.65	-	23,457.65
3. PENNDOT approved adjustments	<u>-</u>	<u>-</u>	<u>-</u>
4. Total funds available for equipment acquisition	77,869.67	9,948.02	87,817.69
5. Less: Major equipment expenditures	<u>46,531.38</u>	<u>-</u>	<u>46,531.38</u>
6. Remainder	<u>31,338.29</u>	<u>9,948.02</u>	<u>41,286.31</u>
7. Equipment balance available for subsequent year (Lesser of Line 6 or Section 2 balance, but not less than zero)	<u>\$ 15,982.82</u>	<u>\$ 7,469.20</u>	<u>\$ 23,452.02</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
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	\$ 23,265.69	\$ -	\$ 23,265.69
Minor equipment purchases	2,130.89	-	2,130.89
Computer/Computer related training	-	-	-
Agility projects	-	-	-
Cleaning streets and gutters	-	-	-
Winter maintenance services	32,582.17	-	32,582.17
Traffic control devices	2,889.07	-	2,889.07
Street lighting	-	-	-
Storm sewers and drains	3,908.82	-	3,908.82
Repairs of tools and machinery	470.00	-	470.00
Maintenance and repair of roads and bridges	39,299.02	(518.92)	38,780.10
Highway construction and rebuilding projects	25,105.40	-	25,105.40
Miscellaneous (Note 6)	-	10,273.73	10,273.73
 Total (To Section 2, Line 5)	 <u>\$ 129,651.06</u>	 <u>\$ 9,754.81</u>	 <u>\$ 139,405.87</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
2011 FORM MS-965 – SECTION 2
WITH ADJUSTMENTS

<u>Fund Balance</u>	<u>Reported</u>	<u>Adjustments (Note 4)</u>	<u>Adjusted Amount</u>
1. Balance, January 1, 2011	\$ 23,452.02	\$ -	\$ 23,452.02
Receipts:			
2. State allocation	106,477.02	-	106,477.02
2a. Turnback allocation	17,600.00	-	17,600.00
2b. Interest on investments (Note 3)	87.24	-	87.24
2c. Miscellaneous (Note 5)	-	41,424.62	41,424.62
3. Total receipts	<u>124,164.26</u>	<u>41,424.62</u>	<u>165,588.88</u>
4. Total funds available	<u>147,616.28</u>	<u>41,424.62</u>	<u>189,040.90</u>
5. Expenditures (Section 1)	<u>129,651.06</u>	<u>9,754.81</u>	<u>139,405.87</u>
6. Balance, December 31, 2011	<u>\$ 17,965.22</u>	<u>\$ 31,669.81</u>	<u>\$ 49,635.03</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
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	\$ 23,452.02	\$ -	\$ 23,452.02
2. Add: Current year equipment allocation (20% of Lines 2 + 2a, Section 2)	24,815.40	-	24,815.40
3. PENNDOT approved adjustments	<u>-</u>	<u>5,420.00</u>	<u>5,420.00</u>
4. Total funds available for equipment acquisition	48,267.42	5,420.00	53,687.42
5. Less: Major equipment expenditures	<u>23,265.69</u>	<u>-</u>	<u>23,265.69</u>
6. Remainder	<u>25,001.73</u>	<u>5,420.00</u>	<u>30,421.73</u>
7. Equipment balance available for subsequent year (Lesser of Line 6 or Section 2 balance, but not less than zero)	<u>\$ 17,965.22</u>	<u>\$ 12,456.51</u>	<u>\$ 30,421.73</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, 2009 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 UPPER POTTS GROVE
MONTGOMERY COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE PERIOD
JANUARY 1, 2009 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.

TOWNSHIP OF UPPER POTTS GROVE
MONTGOMERY COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE PERIOD
JANUARY 1, 2009 TO DECEMBER 31, 2011

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 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.

TOWNSHIP OF UPPER POTTS GROVE
MONTGOMERY COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE PERIOD
JANUARY 1, 2009 TO DECEMBER 31, 2011

2. Deposits (Continued)

Fund Balance

The fund balance as of December 31, 2011 consists of the following:

Cash	\$49,635.03
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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 \$167.15 during 2009, \$100.87 during 2010, and \$87.24 during 2011, thus providing additional funds for road maintenance and repairs.

4. Adjustments

2009 - Section 1

Adjustments were made to “Major equipment purchases” and “Repairs of tools and machinery” because expenditures of \$23,265.69 were misclassified.

An adjustment of \$106.92 was made to “Minor equipment purchases” because these expenditures were understated.

An adjustment of \$2,277.53 was made to “Winter maintenance services” because these expenditures were understated.

An adjustment of \$(152.50) was made to “Traffic control devices” because these expenditures were overstated.

An adjustment of \$(1,211.56) was made to “Maintenance and repair of roads and bridges” because these expenditures were overstated.

An adjustment of \$6,933.80 was made to “Miscellaneous” because these expenditures were not reported.

TOWNSHIP OF UPPER POTTS GROVE
MONTGOMERY COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE PERIOD
JANUARY 1, 2009 TO DECEMBER 31, 2011

4. Adjustments (Continued)

2009 - Section 2

An adjustment of \$2,947.23 was made to "Balance, January 1, 2009" because of prior report adjustments that were not carried forward in the fund balance.

An adjustment of \$14,954.98 was made to "Miscellaneous" because these receipts were not reported.

2009 - Section 3

An adjustment of \$23,265.69 was made to "Major equipment expenditures" to reflect the adjustment made to major equipment purchases in 2009 - Section 1.

2010 - Section 1

An adjustment of \$(23.75) was made to "Winter maintenance services" because these expenditures were overstated.

An adjustment of \$2,502.57 was made to "Miscellaneous" because these expenditures were not reported.

2010 - Section 2

An adjustment of \$9,948.02 was made to "Balance, January 1, 2010" to reflect the adjustment made to the fund balance in 2009 - Section 2.

2010 - Section 3

An adjustment of \$9,948.02 was made to "Prior year equipment balance" to reflect the adjustment made to the equipment balance in 2009 - Section 3.

2011 - Section 1

An adjustment of \$(518.92) was made to "Maintenance and repair of roads and bridges" because these expenditures were overstated.

An adjustment of \$10,273.73 was made to "Miscellaneous" because these expenditures were not reported.

TOWNSHIP OF UPPER POTTS GROVE
MONTGOMERY COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE PERIOD
JANUARY 1, 2009 TO DECEMBER 31, 2011

4. Adjustments (Continued)

2011 - Section 2

An adjustment of \$41,424.62 was made to “Miscellaneous” because these receipts were not reported

2011 - Section 3

An adjustment of \$5,420.00 was made to “PENNDOT approved adjustments” because 20 percent of the unexpended balance of \$27,100.00 in the turnback account was not reported as an approved adjustment.

5. Miscellaneous Receipts

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

Source	Description	2009	2010	2011
Unidentified receipt	Unidentified receipt (Finding No. 1)	\$ 479.88	\$ -	\$ 4,219.62
General Fund	Reimbursement (Comment)	14,475.10	-	-
General Fund	Reimbursement for Project No. 10-46-114-1	-	\$43,907.50	-
General Fund	Temporary Loan (Note 7)	-	-	10,000.00
Financial institution	Refund for overdraft	-	-	105.00
Turnback Fund	Unexpended balance	-	-	27,100.00
Totals		<u>\$14,954.98</u>	<u>\$43,907.50</u>	<u>\$41,424.62</u>

TOWNSHIP OF UPPER POTTS GROVE
MONTGOMERY COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE PERIOD
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6. Miscellaneous Expenditures

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

Payee	Description	2009	2010	2011
Unidentified	Unidentified expenditure (Finding No. 1)	\$6,897.00	\$2,502.57	\$ 41.21
Financial institution	Bank service charges	36.80	-	232.52
General Fund	Repayment of temporary loan (Note 7)	-	-	10,000.00
Totals		<u>\$6,933.80</u>	<u>\$2,502.57</u>	<u>\$10,273.73</u>

7. Temporary Loan

On March 4, 2011, the municipality loaned \$10,000.00 from the General Fund to the Liquid Fuels Tax Fund. On April 5, 2011, the municipality transferred \$10,000.00 from its Liquid Fuels Tax Fund to its General Fund to repay the loan.

8. Loan Agreement

On February 28, 2000, we noted that the township made a no interest loan of \$46,224.20 from its Sewer Fund to its Liquid Fuels Tax Fund for the purchase of a 2000 Ford dump truck. During prior examination periods, the township transferred \$39,200.00 from its Liquid Fuels Tax Fund to its Sewer Fund.

During the current examination period, we noted there were no payments made to the Sewer Fund. A letter dated June 5, 2012, stated that the outstanding balance of \$7,024.20 for the loan agreement was paid-in-full by a grant from the General Fund in 2005.

TOWNSHIP OF UPPER POTTS GROVE
MONTGOMERY COUNTY
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9. Lease-Purchase Agreement

On December 7, 2007, the municipality entered into a lease-purchase agreement with DCFS USA LLC to purchase a 2008 Freightliner truck for \$105,193.00. The agreement was for a term of five years at an interest rate of 5.30 percent. Principal and interest payments of \$23,265.69 are due annually. Prior years' principal payment from the Liquid Fuels Tax Fund was \$23,265.69.

During the current examination period the municipality paid principal of \$81,927.31 and interest of \$11,135.45 from the Liquid Fuels Tax Fund. These amounts are reflected in major equipment purchases on the 2009, 2010, and 2011 Forms MS-965 - Section 1. The lease-purchase agreement was paid-in-full on December 19, 2011.

TOWNSHIP OF UPPER POTTS GROVE
MONTGOMERY COUNTY
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FINDINGS AND RECOMMENDATIONS
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Finding No. 1 - Documentation Supporting Receipts And Expenditures Was Not Available For Examination

Our examination disclosed that the municipality did not maintain documentation, such as invoices or payroll records, to support expenditures of \$6,897.00 during 2009, \$2,502.57 during 2010, and \$41.21 during 2011. Additionally, the municipality did not maintain the source and description for receipts of \$479.88 during 2009 and \$4,219.62 during 2011.

Good internal control procedures ensure that there is documentation to support all receipts and expenditures.

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

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

The municipality reimbursed \$2,478.82 to the Liquid Fuels Tax Fund on January 8, 2012, which was subsequent to our examination period.

The failure to maintain documentation to support expenditures could result in the municipality having to reimburse the remaining \$6,961.96 to its Liquid Fuels Tax Fund. Additionally, because the municipality did not maintain the source and descriptions for receipts totaling \$4,699.50, we were unable to determine if this money should have been deposited into the Liquid Fuels Tax Fund.

TOWNSHIP OF UPPER POTTS GROVE
MONTGOMERY COUNTY
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FINDINGS AND RECOMMENDATIONS
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Finding No. 1 - Documentation Supporting Receipts And Expenditures Was Not Available For Examination (Continued)

Recommendations

We recommend that the municipality reimburse \$6,961.96 to its Liquid Fuels Tax Fund upon official notification by the Department of Transportation.

We further recommend that the municipality ensure that there are good internal controls over receipts and expenditures by maintaining adequate documentation to support all receipts and expenditures.

Management's Response

The township secretary stated:

We are working on obtaining the documentation needed.

Auditor's Conclusion

We were not provided with documentation for these receipts and expenditures. 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, 2009 TO DECEMBER 31, 2011

Finding No. 2 - Failure To Properly Prepare Forms MS-965

Our examination disclosed that there were numerous errors made in the preparation of the municipality's 2009, 2010, and 2011 Forms MS-965. These adjustments, which are disclosed in Note 4, are as follows:

2009 - Section 1

- Adjustments were made to "Major equipment purchases" and "Repairs of tools and machinery" because expenditures of \$23,265.69 were misclassified.
- An adjustment of \$106.92 was made to "Minor equipment purchases" because these expenditures were understated.
- An adjustment of \$2,277.53 was made to "Winter maintenance services" because these expenditures were understated.
- An adjustment of \$(152.50) was made to "Traffic control devices" because these expenditures were overstated.
- An adjustment of \$(1,211.56) was made to "Maintenance and repair of roads and bridges" because these expenditures were overstated.
- An adjustment of \$6,933.80 was made to "Miscellaneous" because these expenditures were not reported.

2009 - Section 2

- An adjustment of \$2,947.23 was made to "Balance, January 1, 2009" because of prior report adjustments that were not carried forward in the fund balance.
- An adjustment of \$14,954.98 was made to "Miscellaneous" because these receipts were not reported.

TOWNSHIP OF UPPER POTTS GROVE
MONTGOMERY COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
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Finding No. 2 - Failure To Properly Prepare Forms MS-965 (Continued)

2009 - Section 3

- An adjustment of \$23,265.69 was made to “Major equipment expenditures” to reflect the adjustment made to major equipment purchases in 2009 - Section 1.

2010 - Section 1

- An adjustment of \$(23.75) was made to “Winter maintenance services” because these expenditures were overstated.
- An adjustment of \$2,502.57 was made to “Miscellaneous” because these expenditures were not reported.

2010 - Section 2

- An adjustment of \$9,948.02 was made to “Balance, January 1, 2010” to reflect the adjustment made to the fund balance 2009 - Section 2.

2010 - Section 3

- An adjustment of \$9,948.02 was made to “Prior year equipment balance” to reflect the adjustment made to the equipment balance in 2009 - Section 3.

2011 - Section 1

- An adjustment of \$(518.92) was made to “Maintenance and repair of roads and bridges” because these expenditures were overstated.
- An adjustment of \$10,273.73 was made to “Miscellaneous” because these expenditures were not reported.

2011 - Section 2

- An adjustment of \$41,424.62 was made to “Miscellaneous” because these receipts were not reported.

TOWNSHIP OF UPPER POTTS GROVE
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LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
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Finding No. 2 - Failure To Properly Prepare Forms MS-965 (Continued)

2011 - Section 3

- An adjustment of \$5,420.00 was made to “PENNDOT approved adjustments” because 20 percent of the unexpended balance of \$27,100.00 in the turnback account was not reported as an approved adjustment.

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

Recommendations

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

We also recommend that, in the future, the municipality document the source and description of all receipts on its Forms MS-965.

Management’s Response

The township secretary stated:

We are working on accurately completing our Forms MS-965.

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
FINDINGS AND RECOMMENDATIONS
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Finding No. 3 - Nonpermissible Expenditures

Our examination disclosed that the municipality expended \$5,300.00 during 2009, \$5,353.00 during 2010, and \$5,300.00 during 2011 from the Liquid Fuels Tax Fund for vegetation control. The invoices did not give a breakdown of locations by price and included ball fields. The expenditures were as follows:

<u>Description</u>	<u>Amount</u>	<u>Totals</u>
Summer Vegetation Control	\$2,650.00	
Summer Vegetation Control	<u>2,650.00</u>	
2009 Total		\$ 5,300.00
Summer Vegetation Control	2,703.00	
Summer Vegetation Control	<u>2,650.00</u>	
2010 Total		5,353.00
Summer Vegetation Control	2,650.00	
Summer Vegetation Control	<u>2,650.00</u>	
2011 Total		<u>5,300.00</u>
Three Year Total		<u><u>\$15,953.00</u></u>

The Liquid Fuels Tax Municipal Allocation Law, 72 P.S. § 2615.4, provides, in part, that monies herein allocated may be used only for construction, reconstruction, maintenance, and repairs of such public roads or streets, including bridges, culverts and drainage structures, for which they are legally responsible. Also permitted are expenditures involving acquisition, maintenance, repairs and operation of street signs, traffic signs, traffic signal control systems, road equipment, and snow fences.

The Department of Transportation has been statutorily authorized to promulgate regulations concerning the administration of Liquid Fuels Tax Fund money and has determined that certain items, including summer vegetation control, are outside the scope of permissible expenditures.

The municipality reimbursed \$5,353.00 to the Liquid Fuels Tax Fund on January 18, 2012, which was subsequent to our examination period.

TOWNSHIP OF UPPER POTTS GROVE
MONTGOMERY COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
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Finding No. 3 - Nonpermissible Expenditures (Continued)

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 \$10,600.00 to its Liquid Fuels Tax Fund.

Recommendations

We recommend that the municipality reimburse \$10,600.00 to its Liquid Fuels Tax Fund upon official notification by the Department of Transportation.

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

Management's Response

The township secretary stated:

Invoices were miscoded. We are working on correcting the issue.

Auditor's Conclusion

The municipal officials should ensure that invoices are coded correctly. 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
COMMENT
FOR THE PERIOD
JANUARY 1, 2009 TO DECEMBER 31, 2011

Comment - Summary Of Prior Examination Recommendation

In our prior report we noted that the municipality deposited Liquid Fuels Tax Fund money of \$10,804.80 into its General Fund and transferred \$3,670.30 more than the amount required to reimburse Liquid Fuels Tax Fund expenditures to the General Fund. We noted that these amounts were reimbursed to the Liquid Fuels Tax Fund on October 5, 2009 and October 7, 2009, respectively.

In our prior report we also recommended:

- That the municipality deposit all liquid fuels tax money promptly into the Liquid Fuels Tax Fund.
- That the municipality only disburse funds from the Liquid Fuels Tax Fund for Liquid Fuels Tax Fund related expenditures incurred.

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

TOWNSHIP OF UPPER POTTS GROVE
MONTGOMERY COUNTY
LIQUID FUELS TAX FUND
SUMMARY OF EXIT CONFERENCE
FOR THE PERIOD
JANUARY 1, 2009 TO DECEMBER 31, 2011

An exit conference was held June 5, 2012. Those participating were:

TOWNSHIP OF UPPER POTTS GROVE

Mr. Jack P. Layne, Jr., Township Manager

Ms. Cynthia H. Saylor, Secretary

DEPARTMENT OF THE AUDITOR GENERAL

Mrs. Sandra Gichiengo, 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, 2009 TO DECEMBER 31, 2011

This report was initially distributed to:

The Honorable Barry J. Schoch, P.E.
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. Cynthia H. Saylor Secretary

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