



BOROUGH OF MEDIA  
DELAWARE COUNTY  
23-414

LIQUID FUELS TAX FUND  
EXAMINATION REPORT

FOR THE TWO YEARS ENDED  
DECEMBER 31, 2005

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BOROUGH OF MEDIA  
DELAWARE COUNTY  
LIQUID FUELS TAX FUND  
BACKGROUND  
FOR THE TWO YEARS ENDED  
DECEMBER 31, 2005

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.

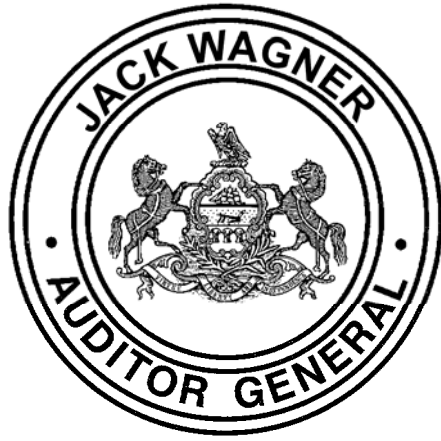
*The Vehicle Code*, Title 75 P.S. § 9511, provides municipalities with annual maintenance payments to be received from the Motor License Fund for functionally local highways that were transferred to a municipality from the Commonwealth of Pennsylvania.

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.



## Independent Auditor's Report

The Honorable Allen D. Biehler, 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 Borough of Media, Delaware County, for the two years ended December 31, 2005. 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 Borough of Media, Delaware County's Forms MS-965 for the two years ended December 31, 2005 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, during 2005 the municipality transferred \$30,917.32 from its Liquid Fuels Tax Fund to its General Fund for the reimbursement of expenditures paid during 2004, which were retroactive expenditures.

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 Borough of Media, Delaware County, for the two years ended December 31, 2005, in conformity with the criteria set forth in Note 1.

In accordance with *Government Auditing Standards*, we are required to report findings of deficiencies in internal control, violations of provisions of contracts or grant agreements, and abuse that are material to 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 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 Forms MS-965 or on compliance and other matters; accordingly, we express no such opinion. Our examination disclosed a certain finding that is required to be reported under *Government Auditing Standards* and that finding is described in the Findings and Recommendations section of this report as Finding No. 1. We also noted an other matter which is described in the Findings and Recommendations section of this report as Finding No. 2.

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

January 8, 2007

JACK WAGNER  
Auditor General

BOROUGH OF MEDIA  
 DELAWARE COUNTY  
 LIQUID FUELS TAX FUND  
 2004 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	-	-	-
Agility projects	-	-	-
Cleaning streets and gutters	-	-	-
Winter maintenance services	-	-	-
Traffic control devices	41,277.82	(12,223.39)	29,054.43
Street lighting	86,077.50	(18,153.69)	67,923.81
Storm sewers and drains	-	-	-
Repairs of tools and machinery	-	-	-
Maintenance and repair of roads and bridges	-	-	-
Highway construction and rebuilding projects	-	-	-
Miscellaneous	-	-	-
 Total (To Section 2, Line 5)	 <u>\$127,355.32</u>	 <u>\$(30,377.08)</u>	 <u>\$96,978.24</u>

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

BOROUGH OF MEDIA  
 DELAWARE COUNTY  
 LIQUID FUELS TAX FUND  
 2004 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, 2004	\$ 9,042.46	\$ 540.24	\$ 9,582.70
Receipts:			
2. State allocation	85,562.96	-	85,562.96
2a. Turnback allocation	1,675.00	-	1,675.00
2b. Interest on investments (Note 3)	157.58	-	157.58
2c. Miscellaneous	-	-	-
3. Total receipts	<u>87,395.54</u>	<u>-</u>	<u>87,395.54</u>
4. Total funds available	<u>96,438.00</u>	<u>540.24</u>	<u>96,978.24</u>
5. Expenditures (Section 1)	<u>127,355.32</u>	<u>(30,377.08)</u>	<u>96,978.24</u>
6. Balance, December 31, 2004	<u><u>\$(30,917.32)</u></u>	<u><u>\$ 30,917.32</u></u>	<u><u>\$ -</u></u>

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



BOROUGH OF MEDIA  
 DELAWARE COUNTY  
 LIQUID FUELS TAX FUND  
 2004 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	\$ 9,042.46	\$ 540.24	\$ 9,582.70
2. Add: Current year equipment allocation (20% of Lines 2 + 2a, Section 2)	17,447.59	-	17,447.59
3. PENNDOT approved adjustments	-	-	-
4. Total funds available for equipment acquisition	26,490.05	540.24	27,030.29
5. Less: Major equipment expenditures	-	-	-
6. Remainder	<u>26,490.05</u>	<u>540.24</u>	<u>27,030.29</u>
7. Equipment balance available for subsequent year (Lesser of Line 6 or Section 2 balance, but not less than zero)	<u>\$(30,917.32)</u>	<u>\$30,917.32</u>	<u>\$ -</u>

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

BOROUGH OF MEDIA  
 DELAWARE COUNTY  
 LIQUID FUELS TAX FUND  
 2005 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	-	-	-
Agility projects	-	-	-
Cleaning streets and gutters	-	-	-
Winter maintenance services	-	-	-
Traffic control devices	14,830.62	12,223.39	27,054.01
Street lighting	43,947.94	18,693.93	62,641.87
Storm sewers and drains	-	-	-
Repairs of tools and machinery	-	-	-
Maintenance and repair of roads and bridges	-	-	-
Highway construction and rebuilding projects	-	-	-
Miscellaneous	-	-	-
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Total (To Section 2, Line 5)	<u>\$58,778.56</u>	<u>\$30,917.32</u>	<u>\$89,695.88</u>

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

BOROUGH OF MEDIA  
 DELAWARE COUNTY  
 LIQUID FUELS TAX FUND  
 2005 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, 2005	\$ (30,917.32)	\$30,917.32	\$ -
Receipts:			
2. State allocation	87,911.71	-	87,911.71
2a. Turnback allocation	1,675.00	-	1,675.00
2b. Interest on investments (Note 3)	109.17	-	109.17
2c. Miscellaneous	-	-	-
3. Total receipts	<u>89,695.88</u>	<u>-</u>	<u>89,695.88</u>
4. Total funds available	<u>58,778.56</u>	<u>30,917.32</u>	<u>89,695.88</u>
5. Expenditures (Section 1)	<u>58,778.56</u>	<u>30,917.32</u>	<u>89,695.88</u>
6. Balance, December 31, 2005	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

BOROUGH OF MEDIA  
 DELAWARE COUNTY  
 LIQUID FUELS TAX FUND  
 2005 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	\$(30,917.32)	\$30,917.32	\$ -
2. Add: Current year equipment allocation (20% of Lines 2 + 2a, Section 2)	17,917.34	-	17,917.34
3. PENNDOT approved adjustments	-	-	-
4. Total funds available for equipment acquisition	(12,999.98)	30,917.32	17,917.34
5. Less: Major equipment expenditures	-	-	-
6. Remainder	<u>(12,999.98)</u>	<u>30,917.32</u>	<u>17,917.34</u>
7. Equipment balance available for subsequent year (Lesser of Line 6 or Section 2 balance, but not less than zero)	<u>\$(12,999.98)</u>	<u>\$12,999.98</u>	<u>\$ -</u>

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

BOROUGH OF MEDIA  
DELAWARE COUNTY  
LIQUID FUELS TAX FUND  
NOTES TO FORMS MS-965 WITH ADJUSTMENTS  
FOR THE TWO YEARS ENDED  
DECEMBER 31, 2005

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.

BOROUGH OF MEDIA  
DELAWARE COUNTY  
LIQUID FUELS TAX FUND  
NOTES TO FORMS MS-965 WITH ADJUSTMENTS  
FOR THE TWO YEARS ENDED  
DECEMBER 31, 2005

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.

BOROUGH OF MEDIA  
DELAWARE COUNTY  
LIQUID FUELS TAX FUND  
NOTES TO FORMS MS-965 WITH ADJUSTMENTS  
FOR THE TWO YEARS ENDED  
DECEMBER 31, 2005

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 Borough Code*, Title 53 P.S § 46316, authorizes the borough 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, 2005. 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.

BOROUGH OF MEDIA  
DELAWARE COUNTY  
LIQUID FUELS TAX FUND  
NOTES TO FORMS MS-965 WITH ADJUSTMENTS  
FOR THE TWO YEARS ENDED  
DECEMBER 31, 2005

2. Deposits (Continued)

Fund Balance

The fund balance as of December 31, 2005 consists of the following:

Cash	<u>\$ -</u>
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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 \$157.58 during 2004, and \$109.17 during 2005, thus providing additional funds for road maintenance and repairs.

4. Adjustments

2004 - Section 1

An adjustment of \$(12,223.39) was made to "Traffic control devices" because these expenditures were made in 2005 but were incorrectly reported as expenditures in 2004.

An adjustment of \$(18,153.69) was made to "Street lighting" because these expenditures were made in 2005 but were incorrectly reported as expenditures in 2004.

2004 - Section 2

An adjustment of \$540.24 was made to "Balance, January, 1, 2004" because an incorrect fund balance was reported.

2004 - Section 3

An adjustment of \$540.24 was made to "Prior year equipment balance" because an incorrect equipment balance was reported.



BOROUGH OF MEDIA  
DELAWARE COUNTY  
LIQUID FUELS TAX FUND  
NOTES TO FORMS MS-965 WITH ADJUSTMENTS  
FOR THE TWO YEARS ENDED  
DECEMBER 31, 2005

4. Adjustments (Continued)

2005 – Section 1

An adjustment of \$12,223.39 was made to “Traffic control devices” because these expenditures were made in 2005 but were incorrectly reported as expenditures in 2004.

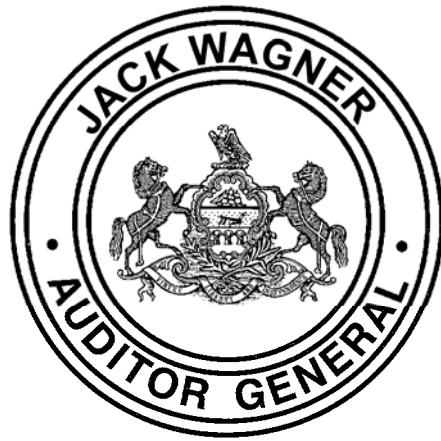
An adjustment of \$18,693.93 was made to “Street lighting” because these expenditures were understated.

2005 – Section 2

An adjustment of \$30,917.32 was made to “Balance, January 1, 2005” as a result of the adjustments made in 2004 – Section 1 and Section 2.

2005 – Section 3

An adjustment of \$30,917.32 was made to “Prior year equipment balance” because the incorrect equipment balance was carried forward.



BOROUGH OF MEDIA  
DELAWARE COUNTY  
LIQUID FUELS TAX FUND  
FINDINGS AND RECOMMENDATIONS  
FOR THE TWO YEARS ENDED  
DECEMBER 31, 2005

Finding No. 1 – Retroactive Expenditures

Our examination disclosed that the borough transferred \$30,917.32 from its Liquid Fuels Tax Fund to its General Fund on April 8, 2005 for the reimbursement of expenditures paid from September through December of 2004, resulting in retroactive expenditures.

Department of Transportation, *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. Repayment of prior year's expenditures.
- 17. Retroactive expenditure or repayment of other funds for prior period expenditures.

Because these expenditures were paid in between September and December 2004 from the General Fund and were not reimbursed with Liquid Fuels Tax Fund money until April 8, 2005, the expenditures incurred were not reimbursed in a reasonable period of time. Therefore, the municipality did not comply with Department of Transportation *Publication 9*.

The failure to follow Department of Transportation *Publication 9* as noted above could result in the municipality having to reimburse \$30,917.32 to its Liquid Fuels Tax Fund.

Recommendations

We recommend that the municipality reimburse \$30,917.32 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 Department of Transportation *Publication 9* as noted above.

Management's Response

The municipal officials offered no formal response at this time.

BOROUGH OF MEDIA  
DELAWARE COUNTY  
LIQUID FUELS TAX FUND  
FINDINGS AND RECOMMENDATIONS  
FOR THE TWO YEARS ENDED  
DECEMBER 31, 2005

Finding No. 2 – Transfers To The General Fund For Anticipated Liquid Fuels Tax Fund Expenditures

Our examination disclosed that by June 2005, the municipality had transferred \$89,695.88 from the Liquid Fuels Tax Fund to the General Fund although the General Fund had not incurred \$89,695.88 in Liquid Fuels Tax Fund related expenditures. As of June 30, 2005, the General Fund had incurred \$14,947.09 of Liquid Fuels Tax Fund related expenditures and, as noted in Finding No. 1, \$30,917.32 was used to pay expenditures that were incurred in 2004. Consequently, as of June 30, 2005, \$43,831.47 of Liquid Fuels Tax Fund monies remained deposited in the General Fund although the General Fund had not incurred any corresponding Liquid Fuels Tax Fund related expenditures. The practice of depositing liquid fuels money into any account other than the Liquid Fuels Tax Fund account in anticipation of future expenditures is contrary to the Act of June 1, 1956, P.L. (1955) 1944, 72 P.S. § 26515.5, known as the Liquid Fuels Tax Municipal Allocation Law, 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 for only 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. Fortunately, in this instance the \$43,831.47 of Liquid Fuels Tax Fund monies that remained deposited in the General Fund as of June 30, 2005 was used to pay permissible Liquid Fuels Tax Fund expenditures incurred by the General Fund during the remainder of 2005.

Recommendation

We recommend that the municipality only disburse funds from the Liquid Fuels Tax Fund for expenditures incurred.

Management's Response

The municipal officials offered no formal response at this time.

BOROUGH OF MEDIA  
DELAWARE COUNTY  
LIQUID FUELS TAX FUND  
COMMENT  
FOR THE TWO YEARS ENDED  
DECEMBER 31, 2005

Comment – Summary Of Prior Examination Recommendation

In our prior report, we recommended that the municipality require at least two signatures on Liquid Fuels Tax Fund checks.

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

BOROUGH OF MEDIA  
DELAWARE COUNTY  
LIQUID FUELS TAX FUND  
SUMMARY OF EXIT CONFERENCE  
FOR THE TWO YEARS ENDED  
DECEMBER 31, 2005

An exit conference was held January 8, 2007. Those participating were:

BOROUGH OF MEDIA

Mr. Jeffrey A. Smith, Borough Manager

DEPARTMENT OF THE AUDITOR GENERAL

Mr. Robert Rosenfeldt, Auditor

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

BOROUGH OF MEDIA  
DELAWARE COUNTY  
LIQUID FUELS TAX FUND  
REPORT DISTRIBUTION  
FOR THE TWO YEARS ENDED  
DECEMBER 31, 2005

This report was initially distributed to:

The Honorable Allen D. Biehler, P.E.  
Secretary  
Department of Transportation

Borough of Media  
Delaware County  
301 North Jackson Street  
Media, PA 19063

The Honorable Frank W. Daly

President of Council

Mr. Jeffrey A. Smith

Borough Manager

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](http://www.auditorgen.state.pa.us).