



**TOWNSHIP OF UPPER POTTS GROVE
MONTGOMERY COUNTY
46-114**

**HIGHWAY TRANSFER PROGRAM
AGREEMENT NO. 3900034938
TURNBACK ACCOUNT
EXAMINATION REPORT**

**FOR THE PERIOD
JANUARY 15, 2009 TO JULY 19, 2011**

Released *March 2013*

COMMONWEALTH OF PENNSYLVANIA

EUGENE A. DEPASQUALE - AUDITOR GENERAL

DEPARTMENT OF THE AUDITOR GENERAL



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TOWNSHIP OF UPPER POTTS GROVE
MONTGOMERY COUNTY
HIGHWAY TRANSFER PROGRAM – TURNBACK ACCOUNT
BACKGROUND
FOR THE PERIOD
JANUARY 15, 2009 TO JULY 19, 2011

Background

The Highway Transfer Program (more commonly known as the Highway Turnback Program) is outlined in Title 75 P.S. § 9511. It is designed to reduce the amount of state road mileage by transferring “functionally-local” roads on a cooperative, voluntary basis to local governments. When a municipality takes over a road through this program, the Department of Transportation and the municipality jointly determine the necessity and extent of any restoration or rehabilitative work required to put a state highway in satisfactory condition before it is transferred. The rehabilitative work may be done by the Department of Transportation, municipal forces, or be contracted out by either party.

If the restoration or rehabilitation is to be done by the municipality or a contractor hired by the municipality, the municipality receives funds for the work from the State Highway Transfer Restoration Restricted Receipt Account. These funds must be deposited into a separate interest-bearing Highway Transfer Account. Any funds not used for the restoration or rehabilitation of the road that was transferred to the municipality must be transferred to the township’s Liquid Fuels Tax Fund.

Department of Transportation *Publication 9* contains the policies and procedures that govern the use of Highway Transfer Program money. However, if there is a difference between *Publication 9* and any legislation, the legislation shall govern.





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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 have examined the accompanying Form MS-999 With Adjustments of the Highway Transfer Program – Turnback Account of the Township of Upper Pottsgrove, Montgomery County, for the period January 15, 2009 to July 19, 2011. The municipality's management is responsible for the Form MS-999. Our responsibility is to express an opinion on the Form MS-999 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 Form MS-999 for the period January 15, 2009 to July 19, 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 Highway Transfer Program – Turnback Account 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 Form MS-999 With Adjustments are made by the Department of the Auditor General.

Independent Auditor's Report (Continued)

In our opinion, the Form MS-999 With Adjustments presents, in all material respects, the information required by the Pennsylvania Department of Transportation for the Highway Transfer Program – Turnback Account of the Township of Upper Pottsgrove, Montgomery County, for the period January 15, 2009 to July 19, 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 Form MS-999 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 Form MS-999 is 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 Form MS-999 or on compliance and other matters; accordingly, we express no such opinions.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the 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 Form MS-999 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 deficiency described in the finding below to be a significant deficiency in internal control over reporting on the Form MS-991:

- Idle Funds Held In A Noninterest-Bearing Account.

Independent Auditor's Report (Continued)

A material weakness is a significant deficiency or combination of significant deficiencies that results in more than a remote likelihood that a material misstatement of the Form MS-999 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 Form MS-999 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. However, we believe that the significant deficiency described above is not a material weakness.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we did note an other matter that, while not required to be included in this report by *Government Auditing Standards*, has been included in the finding below:

- Failure To Follow Required Liquid Fuels Tax Fund Procedures On A Project.

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.



EUGENE A. DEPASQUALE
Auditor General

June 5, 2012



TOWNSHIP OF UPPER POTTS GROVE
MONTGOMERY COUNTY
HIGHWAY TRANSFER PROGRAM – TURNBACK ACCOUNT
FORM MS-999 WITH ADJUSTMENTS
FOR THE PERIOD
JANUARY 15, 2009 TO JULY 19, 2011

	<u>Reported</u>	<u>Adjustments (Note 2)</u>	<u>Adjusted Amount</u>
<u>Cash Receipts</u>			
Turnback grant	\$ 261,200.00	\$ -	\$ 261,200.00
Interest (Finding No. 1)	-	-	-
Miscellaneous (Winter maintenance agreements)	-	13,909.58	13,909.58
	<u>-\$ 261,200.00</u>	<u>\$ 13,909.58</u>	<u>\$ 275,109.58</u>
Total receipts	<u>\$ 261,200.00</u>	<u>\$ 13,909.58</u>	<u>\$ 275,109.58</u>
<u>Cash Disbursements</u>			
Highway construction and rebuilding	\$ 241,500.00	\$ 20,755.91	\$ 262,255.91
Unexpended balance transfer (Finding No. 2)	27,100.00	(27,100.00)	-
Miscellaneous (Bank service charges)	-	311.26	311.26
	<u>-\$ 268,600.00</u>	<u>\$ (6,032.83)</u>	<u>\$ 262,567.17</u>
Total disbursements	<u>\$ 268,600.00</u>	<u>\$ (6,032.83)</u>	<u>\$ 262,567.17</u>

Notes to Form MS-999 With Adjustments are an integral part of this report.

TOWNSHIP OF UPPER POTTS GROVE
MONTGOMERY COUNTY
HIGHWAY TRANSFER PROGRAM – TURNBACK ACCOUNT
NOTES TO FORM MS-999 WITH ADJUSTMENTS
FOR THE PERIOD
JANUARY 15, 2009 TO JULY 19, 2011

1. Criteria

Form MS-999 With Adjustments provides a summary of Highway Transfer Program receipts and expenditures by category. Categories requiring explanation include:

- The Turnback Grant is the grant received from the Commonwealth of Pennsylvania to be used for the restoration or rehabilitation of the road or roads transferred from the state to the municipality.
- The Unexpended balance transfer is money that was not used for the restoration or rehabilitation of the road or roads transferred from the state to the municipality that was transferred to the municipality's Liquid Fuels Tax Fund upon completion of the project.

Basis Of Presentation

The financial activities of the municipality are accounted for in separate funds. The Highway Transfer Program, Act 32 of 1983 (also referred to as Road Turnback by the Department of Transportation), provides state funds to municipal governments for the costs of restoring state highways for which ownership is turned back to the municipal government. The turnback revenues are deposited in a separate turnback account. After the highway restoration work is completed, any unexpended funds are to be transferred to the Liquid Fuels Tax Fund.

The Form MS-999 has been prepared in accordance with reporting requirements prescribed by the Pennsylvania Department of Transportation as a result of Act 32 of 1983, which does not constitute a complete presentation of the entity's assets, liabilities, expenses, and fund balance.

Basis Of Accounting

The accompanying Form MS-999 With Adjustments is 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
HIGHWAY TRANSFER PROGRAM – TURNBACK ACCOUNT
NOTES TO FORM MS-999 WITH ADJUSTMENTS
FOR THE PERIOD
JANUARY 15, 2009 TO JULY 19, 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. Adjustments

An adjustment of \$13,909.58 was made to “Miscellaneous” because these receipts were not reported.

An adjustment of \$20,755.91 was made to “Highway construction and rebuilding” because check Nos. 1001 for \$5,803.77, 1002 for \$7,406.51, 1003 for \$325.19, 1006 for \$1,410.43, 1010 for \$2,068.49, 1012 for \$2,924.95, 1013 for \$765.00, and 1014 for \$51.57 were not reported.

An adjustment of \$(27,100.00) was made to “Unexpended balance transfer” because there was no balance transfer.

An adjustment of \$311.26 was made to “Miscellaneous” because bank service charges were not reported.



TOWNSHIP OF UPPER POTTS GROVE
MONTGOMERY COUNTY
HIGHWAY TRANSFER PROGRAM – TURNBACK ACCOUNT
FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 15, 2009 TO JULY 19, 2011

Finding No. 1 - Idle Funds Held In A Noninterest-Bearing Account

Our examination disclosed that liquid fuels tax money in excess of current needs was deposited in a noninterest-bearing checking account from January 15, 2009 to July 19, 2011 with an average balance of \$125,300.90.

Sound fiscal management requires that money in excess of current needs be deposited in interest-bearing accounts, certificates of deposit, or other investments as outlined in Section 1705.1 of *The First Class Township Code* as published by the Local Government Commission.

If the township had invested the liquid fuels tax funds in interest-bearing accounts, certificates of deposit, or other investments outlined in Section 1705.1 of *The First Class Township Code* as published by the Local Government Commission, additional money would have been earned for road maintenance and repairs.

Recommendation

We recommend that the township officials reassess their fiscal policy and consider investing money in excess of current needs in investments outlined in Section 1705.1 of *The First Class Township Code* as published by the Local Government Commission.

Management's Response

The township officials stated:

We will move all money to an interest bearing account.

TOWNSHIP OF UPPER POTTS GROVE
MONTGOMERY COUNTY
HIGHWAY TRANSFER PROGRAM – TURNBACK ACCOUNT
FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 15, 2009 TO JULY 19, 2011

Finding No. 2 - Failure To Follow Required Liquid Fuels Tax Fund Procedures On A Project

Our examination disclosed that the municipality expended \$262,255.91 of Turnback Fund money on Turnback agreement No. 300034938. However, the amount approved to be expended from the Turnback Fund for this project was \$234,100.00. The difference of \$28,155.91 should have been paid directly from the General Fund.

On July 19, 2011, the municipality transferred \$27,100.00 from its General Fund to its Liquid Fuels Tax Fund for the partial reimbursement of the General Fund's share of the project. This leaves a remaining balance due the Liquid Fuels Tax Fund of \$1,055.91 for the project.

The Department of Transportation's Regulations do not permit a municipality to expend Turnback Fund money in excess of the amount approved on Municipal Services Completion Report Form MS-999.

Additionally, upon completion of this project in July 2011, the unexpended balance in the Turnback Account of \$9,360.60 should have been transferred to the Liquid Fuels Tax Fund as required by Department of Transportation Regulations. However, between August 2011 and December 2011, the municipality deposited \$3,271.52 into this account and incurred bank service charges of \$89.71, leaving a balance in the account of \$12,542.41.

The failure to comply with the Department of Transportation's Regulations resulted in funds not being transferred to the Liquid Fuels Tax Fund.

Recommendations

We recommend that the municipality reimburse \$1,055.91 to its Liquid Fuels Tax Fund upon official notification by the Department of Transportation.

We also recommend the municipality transfer the unexpended balance in the Turnback Account of \$12,542.51 to the 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 Turnback Fund money on road construction projects.

TOWNSHIP OF UPPER POTTS GROVE
MONTGOMERY COUNTY
HIGHWAY TRANSFER PROGRAM – TURNBACK ACCOUNT
FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 15, 2009 TO JULY 19, 2011

Finding No. 2 - Failure To Follow Required Liquid Fuels Tax Fund Procedures On A Project
(Continued)

Management's Response

The municipal officials stated:

We acknowledge oversight and will correct in the future. We will also transfer unexpended balance to the Liquid Fuels account.

TOWNSHIP OF UPPER POTTS GROVE
MONTGOMERY COUNTY
HIGHWAY TRANSFER PROGRAM – TURNBACK ACCOUNT
SUMMARY OF EXIT CONFERENCE
FOR THE PERIOD
JANUARY 15, 2009 TO JULY 19, 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
HIGHWAY TRANSFER PROGRAM – TURNBACK ACCOUNT
REPORT DISTRIBUTION
FOR THE PERIOD
JANUARY 15, 2009 TO JULY 19, 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

The Honorable Elwood Taylor	President of the Board of Commissioners
Ms. Cynthia H. Saylor	Secretary

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, 231 Finance Building, Harrisburg, PA 17120. To view this report or to contact the Department of the Auditor General, please access our web site at www.auditorgen.state.pa.us.