



BOROUGH OF MORTON
DELAWARE COUNTY
23-416

LIQUID FUELS TAX FUND
EXAMINATION REPORT

FOR THE THREE YEARS ENDED
DECEMBER 31, 2008

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BOROUGH OF MORTON
DELAWARE COUNTY
LIQUID FUELS TAX FUND
BACKGROUND
FOR THE THREE YEARS ENDED
DECEMBER 31, 2008

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 Morton, Delaware County, for the three years ended December 31, 2008. 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 Morton, Delaware County's Forms MS-965 for the three years ended December 31, 2008 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.

As discussed in Finding No. 3 of this report, during 2006 the borough expended \$5,000.00 from the Liquid Fuels Tax Fund for road milling. However, documentation for price quotations was not available for examination.

Independent Auditor's Report (Continued)

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 Morton, Delaware County, for the three years ended December 31, 2008, in conformity with the criteria set forth in Note 1.

In accordance with *Government Auditing Standards*, we are required to report findings of significant deficiencies in internal control, violations of provisions of contracts or grant agreements, and abuse that are material to the Forms MS-965 and any fraud and illegal acts that are more than inconsequential that come to our attention during our examination. We are also required to obtain the views of management on those matters. We performed our examination to express an opinion on whether the Forms MS-965 are presented in accordance with the criteria described above and not for the purpose of expressing an opinion on the internal control over reporting on the Forms MS-965 or on compliance and other matters; accordingly, we express no such opinions.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Borough of Morton, 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 Borough of Morton, Delaware County's Forms MS-965 that is more than inconsequential will not be prevented or detected by the Borough of Morton, Delaware 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:

- Inadequate Internal Control Over The Facsimile Signature Stamp.
- Failure To Properly Prepare Forms MS-965.

Independent Auditor's Report (Continued)

A material weakness is a significant deficiency or combination of significant deficiencies that results in more than a remote likelihood that a material misstatement of the Forms MS-965 will not be prevented or detected by the Borough of Morton, 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. However, we consider 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*:

- Documentation For Price Quotations Was Not Available For Examination.

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

September 3, 2009

JACK WAGNER
Auditor General



BOROUGH OF MORTON
 DELAWARE COUNTY
 LIQUID FUELS TAX FUND
 2006 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	975.51	-	975.51
Traffic control devices	2,114.64	1,698.35	3,812.99
Street lighting	28,429.64	(1,698.35)	26,731.29
Storm sewers and drains	-	-	-
Repairs of tools and machinery	817.12	-	817.12
Maintenance and repair of roads and bridges	12,939.75	56.00	12,995.75
Highway construction and rebuilding projects	-	-	-
Miscellaneous (Note 6)	1,826.82	-	1,826.82
	<u>1,826.82</u>	<u>-</u>	<u>1,826.82</u>
 Total (To Section 2, Line 5)	 <u>\$ 47,103.48</u>	 <u>\$ 56.00</u>	 <u>\$ 47,159.48</u>

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

BOROUGH OF MORTON
 DELAWARE COUNTY
 LIQUID FUELS TAX FUND
 2006 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, 2006	\$ 10,431.87	\$ 10,702.69	\$ 21,134.56
Receipts:			
2. State allocation	45,949.40	-	45,949.40
2a. Turnback allocation	-	-	-
2b. Interest on investments (Note 3)	1,213.09	-	1,213.09
2c. Miscellaneous	-	-	-
3. Total receipts	<u>47,162.49</u>	<u>-</u>	<u>47,162.49</u>
4. Total funds available	<u>57,594.36</u>	<u>10,702.69</u>	<u>68,297.05</u>
5. Expenditures (Section 1)	<u>47,103.48</u>	<u>56.00</u>	<u>47,159.48</u>
6. Balance, December 31, 2006	<u><u>\$ 10,490.88</u></u>	<u><u>\$ 10,646.69</u></u>	<u><u>\$ 21,137.57</u></u>

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

BOROUGH OF MORTON
 DELAWARE COUNTY
 LIQUID FUELS TAX FUND
 2006 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	\$ 10,431.87	\$ 10,702.69	\$ 21,134.56
2. Add: Current year equipment allocation (20% of Lines 2 + 2a, Section 2)	9,189.88	-	9,189.88
3. PENNDOT approved adjustments	-	-	-
4. Total funds available for equipment acquisition	19,621.75	10,702.69	30,324.44
5. Less: Major equipment expenditures	-	-	-
6. Remainder	<u>19,621.75</u>	<u>10,702.69</u>	<u>30,324.44</u>
7. Equipment balance available for subsequent year (Lesser of Line 6 or Section 2 balance, but not less than zero)	<u>\$ 10,490.88</u>	<u>\$ 10,646.69</u>	<u>\$ 21,137.57</u>

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

BOROUGH OF MORTON
 DELAWARE COUNTY
 LIQUID FUELS TAX FUND
 2007 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	3,109.14	-	3,109.14
Traffic control devices	2,730.75	278.49	3,009.24
Street lighting	25,231.13	595.40	25,826.53
Storm sewers and drains	-	-	-
Repairs of tools and machinery	1,658.01	209.83	1,867.84
Maintenance and repair of roads and bridges	9,774.27	-	9,774.27
Highway construction and rebuilding projects	-	-	-
Miscellaneous (Note 6)	1,642.91	-	1,642.91
 Total (To Section 2, Line 5)	 <u>\$ 44,146.21</u>	 <u>\$ 1,083.72</u>	 <u>\$ 45,229.93</u>

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

BOROUGH OF MORTON
 DELAWARE COUNTY
 LIQUID FUELS TAX FUND
 2007 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, 2007	\$ 21,137.57	\$ -	\$ 21,137.57
Receipts:			
2. State allocation	47,650.04	-	47,650.04
2a. Turnback allocation	-	-	-
2b. Interest on investments (Note 3)	1,121.15	-	1,121.15
2c. Miscellaneous	-	-	-
3. Total receipts	<u>48,771.19</u>	<u>-</u>	<u>48,771.19</u>
4. Total funds available	<u>69,908.76</u>	<u>-</u>	<u>69,908.76</u>
5. Expenditures (Section 1)	<u>44,146.21</u>	<u>1,083.72</u>	<u>45,229.93</u>
6. Balance, December 31, 2007	<u>\$ 25,762.55</u>	<u>\$ (1,083.72)</u>	<u>\$ 24,678.83</u>

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

BOROUGH OF MORTON
 DELAWARE COUNTY
 LIQUID FUELS TAX FUND
 2007 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	\$ 21,137.57	\$ -	\$ 21,137.57
2. Add: Current year equipment allocation (20% of Lines 2 + 2a, Section 2)	9,530.01	-	9,530.01
3. PENNDOT approved adjustments	-	-	-
4. Total funds available for equipment acquisition	30,667.58	-	30,667.58
5. Less: Major equipment expenditures	-	-	-
6. Remainder	<u>30,667.58</u>	<u>-</u>	<u>30,667.58</u>
7. Equipment balance available for subsequent year (Lesser of Line 6 or Section 2 balance, but not less than zero)	<u>\$ 25,762.55</u>	<u>\$ (1,083.72)</u>	<u>\$ 24,678.83</u>

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

BOROUGH OF MORTON
 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	2,568.09	168.85	2,736.94
Traffic control devices	484.33	2,673.22	3,157.55
Street lighting	31,208.86	(2,673.22)	28,535.64
Storm sewers and drains	-	-	-
Repairs of tools and machinery	694.65	-	694.65
Maintenance and repair of roads and bridges	10,498.22	-	10,498.22
Highway construction and rebuilding projects	-	-	-
Miscellaneous (Note 6)	1,954.48	-	1,954.48
 Total (To Section 2, Line 5)	 <u>\$ 47,408.63</u>	 <u>\$ 168.85</u>	 <u>\$ 47,577.48</u>

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

BOROUGH OF MORTON
 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	\$ 25,762.67	\$ (1,083.84)	\$ 24,678.83
Receipts:			
2. State allocation	52,513.27	-	52,513.27
2a. Turnback allocation	-	-	-
2b. Interest on investments (Note 3)	317.18	-	317.18
2c. Miscellaneous (Note 5)	-	22,750.00	22,750.00
3. Total receipts	<u>52,830.45</u>	<u>22,750.00</u>	<u>75,580.45</u>
4. Total funds available	<u>78,593.12</u>	<u>21,666.16</u>	<u>100,259.28</u>
5. Expenditures (Section 1)	<u>47,408.63</u>	<u>168.85</u>	<u>47,577.48</u>
6. Balance, December 31, 2008	<u>\$ 31,184.49</u>	<u>\$ 21,497.31</u>	<u>\$ 52,681.80</u>

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

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

<u>Equipment Balance</u>	<u>Reported</u>	<u>Adjustments (Note 4)</u>	<u>Adjusted Amount</u>
1. Prior year equipment balance	\$ 21,137.57	\$ 3,541.26	\$ 24,678.83
2. Add: Current year equipment allocation (20% of Lines 2 + 2a, Section 2)	10,502.65	-	10,502.65
3. PENNDOT approved adjustments	-	-	-
4. Total funds available for equipment acquisition	31,640.22	3,541.26	35,181.48
5. Less: Major equipment expenditures	-	-	-
6. Remainder	<u>31,640.22</u>	<u>3,541.26</u>	<u>35,181.48</u>
7. Equipment balance available for subsequent year (Lesser of Line 6 or Section 2 balance, but not less than zero)	<u>\$ 31,184.49</u>	<u>\$ 3,996.99</u>	<u>\$ 35,181.48</u>

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

BOROUGH OF MORTON
DELAWARE COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE THREE YEARS ENDED
DECEMBER 31, 2008

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 MORTON
DELAWARE COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE THREE YEARS ENDED
DECEMBER 31, 2008

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 MORTON
DELAWARE COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE THREE YEARS ENDED
DECEMBER 31, 2008

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, 2008. 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 MORTON
DELAWARE COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE THREE YEARS ENDED
DECEMBER 31, 2008

2. Deposits (Continued)

Fund Balance

The fund balance as of December 31, 2008 consists of the following:

Cash	<u>\$52,681.80</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 \$1,213.09 during 2006, \$1,121.15 during 2007, and \$317.18 during 2008, thus providing additional funds for road maintenance and repairs.

4. Adjustments

2006 - Section 1

Adjustments were made to "Traffic control devices" and "Street lighting" because expenditures of \$1,698.35 were misclassified.

An adjustment of \$56.00 was made to "Maintenance and repair of roads and bridges" because check No. 5468 was reported as \$106.39 but was issued for \$162.39.

2006 - Section 2

An adjustment of \$10,702.69 was made to "Balance, January 1, 2006" because of prior report adjustments that were not carried forward in the fund balance.

2006 - Section 3

An adjustment of \$10,702.69 was made to "Prior year equipment balance" because of prior report adjustments that were not carried forward in the equipment balance.

BOROUGH OF MORTON
DELAWARE COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE THREE YEARS ENDED
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4. Adjustments (Continued)

2007 - Section 1

An adjustment of \$278.49 was made to "Traffic control devices" because these expenditures were misclassified as street lighting.

An adjustment of \$595.40 was made to "Street lighting" because check No. 35641 for \$873.89 was not reported and expenditures of \$278.49 for traffic control devices were misclassified.

An adjustment of \$209.83 was made to "Repairs of tools and machinery" because check No. 3565 was not reported.

2008 - Section 1

An adjustment of \$168.85 was made to "Winter maintenance services" because check No. 3626 was not reported.

Adjustments were made to "Traffic control devices" and "Street lighting" because expenditures of \$2,673.22 were misclassified.

2008 - Section 2

An adjustment of \$(1,083.84) was made to "Balance, January 1, 2008" because an incorrect fund balance was carried forward.

An adjustment of \$22,750.00 was made to "Miscellaneous" because these receipts were not reported (see Note 5).

2008 - Section 3

An adjustment of \$3,541.26 was made to "Prior year equipment balance" because an incorrect equipment balance was carried forward.

BOROUGH OF MORTON
 DELAWARE COUNTY
 LIQUID FUELS TAX FUND
 NOTES TO FORMS MS-965 WITH ADJUSTMENTS
 FOR THE THREE YEARS ENDED
 DECEMBER 31, 2008

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>
General Fund	Reimbursement (see Comment)	\$ 2,500.00
County of Delaware	County aid	<u>20,250.00</u>
Totals		<u><u>\$22,750.00</u></u>

6. Miscellaneous Expenditures

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

<u>Payee</u>	<u>Description</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Springfield Township	Fuel for highway trucks	<u>\$1,826.82</u>	<u>\$1,642.91</u>	<u>\$1,954.48</u>

7. Lease-Purchase Agreement

On February 28, 2002, the municipality entered into a lease-purchase agreement with Ford Motor Credit Company to purchase a Ford F-350 dump truck for \$50,175.00. The agreement was for a term of five years at an interest rate of 5.55 percent. Principal and interest payments of \$11,147.23 are due annually. Prior years' principal and interest payments from the Liquid Fuels Tax Fund were \$8,981.19 and \$2,166.04, respectively. Additionally, the municipality paid principal of \$30,632.53 and interest of \$2,809.06 from the General Fund.

During the current examination period the municipality paid principal of \$10,561.28 and interest of \$586.15 from the General Fund. The lease-purchase agreement was paid-in-full on March 9, 2006.



BOROUGH OF MORTON
DELAWARE COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE THREE YEARS ENDED
DECEMBER 31, 2008

Finding No. 1 - Inadequate Internal Control Over The Facsimile Signature Stamp

Our examination disclosed a significant weakness in the municipality's internal control that requires at least two authorized signatures on checks drawn on the Liquid Fuels Tax Fund. The authorized signatures are the President of Council and the Director of Finance and Administration. This control was circumvented in each instance that someone applied a stamp that included the signatures of the president of council and the director of finance and administration. Additionally, the facsimile signature stamp is kept on top of a file cabinet in the borough office, which makes it available to anyone.

Good internal controls require that there are at least two authorized signatures on checks drawn on the Liquid Fuels Tax Fund. If a facsimile signature stamp represents any of the authorized signatures, then the municipal official whose signature is represented on each stamp and only that municipal official should apply the stamp and safeguard it to prevent unauthorized use. Facsimile signature stamps should not contain multiple signatures. Without this control, the risk that errors or irregularities may occur and remain undetected increases significantly.

Recommendation

We recommend that the municipality establish and implement an adequate system of internal control over disbursements. This includes ensuring that there are at least two authorized signatures on checks, and that if the facsimile signature stamp of the municipal officials is used, each municipal official have their own stamp and the stamp should be maintained and applied by the municipal official whose name is represented on the stamp.

Management's Response

The municipal officials offered no formal response at this time.

BOROUGH OF MORTON
DELAWARE COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE THREE YEARS ENDED
DECEMBER 31, 2008

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 2006, 2007, and 2008 Forms MS-965. These adjustments, which are disclosed in Note 4, are as follows:

2006 - Section 1

- Adjustments were made to "Traffic control devices" and "Street lighting" because expenditures of \$1,698.35 were misclassified.
- An adjustment of \$56.00 was made to "Maintenance and repair of roads and bridges" because check No. 5468 was reported as \$106.39 but was issued for \$162.39.

2006 - Section 2

- An adjustment of \$10,702.69 was made to "Balance, January 1, 2006" because of prior report adjustments that were not carried forward in the fund balance.

2006 - Section 3

- An adjustment of \$10,702.69 was made to "Prior year equipment balance" because of prior report adjustments that were not carried forward in the equipment balance.

2007 - Section 1

- An adjustment of \$278.49 was made to "Traffic control devices" because these expenditures were misclassified as street lighting.
- An adjustment of \$595.40 was made to "Street lighting" because check No. 35641 for \$873.89 was not reported and expenditures of \$278.49 for traffic control devices were misclassified.
- An adjustment of \$209.83 was made to "Repairs of tools and machinery" because check No. 3565 was not reported.

BOROUGH OF MORTON
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Finding No. 2 - Failure To Properly Prepare Forms MS-965 (Continued)

2008 - Section 1

- An adjustment of \$168.85 was made to “Winter maintenance services” because check No. 3626 was not reported.
- Adjustments were made to “Traffic control devices” and “Street lighting” because expenditures of \$2,673.22 were misclassified.

2008 - Section 2

- An adjustment of \$(1,083.84) was made to “Balance, January 1, 2008” because an incorrect fund balance was carried forward.
- An adjustment of \$22,750.00 was made to “Miscellaneous” because these receipts were not reported (see Note 5).

2008 - Section 3

- An adjustment of \$3,541.26 was made to “Prior year equipment balance” because an incorrect equipment balance was carried forward.

Good internal controls ensure that the municipality complete its Forms MS-965 accurately and completely. The failure to properly complete Forms MS-965 increases the risk that errors or irregularities may occur and remain undetected.

Recommendation

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

Management’s Response

The municipal officials offered no formal response at this time.

BOROUGH OF MORTON
DELAWARE COUNTY
LIQUID FUELS TAX FUND
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Finding No. 3 - Documentation For Price Quotations Was Not Available For Examination

Our examination disclosed that during 2006 the borough expended \$5,000.00 from the Liquid Fuels Tax Fund for road milling. The borough was required to obtain written or telephonic price quotations for this purchase. However, documentation for price quotations was not available for examination.

The above purchase was not made in compliance with the contract requirements of *The Borough Code*, 53 P.S. § 46402(a.1), (also found at § 1402(a.1) of *The Borough Code* as published by the Local Government Commission), which states, in part:

Written or telephonic price quotations from at least three qualified and responsible contractors shall be requested for all contracts that exceed four thousand dollars (\$4,000.00) but are less than the amount [in excess of \$10,000.00] requiring advertisement and competitive bidding or, in lieu of price quotations, a memorandum shall be kept on file showing that fewer than three qualified contractors exist in the market area within which it is practicable to obtain quotations. A written record of telephonic price quotations shall be made and shall contain at least the date of the quotation, the name of the contractor and the contractor's representative, the construction, reconstruction, repair, maintenance or work which was the subject of the quotation and the price. Written price quotations, written records of telephonic price quotations and memoranda shall be retained for a period of three years.

In addition, the above purchase was not made in compliance with the Department of Transportation's *Publication 9*, Appendix D, Section 449.7(d), which states, in part:

...For material estimates between \$4,000 and \$10,000, three telephone price quotes shall be obtained prior to the selection of a supplier. In lieu of the price quotations, a memorandum shall be kept on file showing that fewer than three qualified contractors service the market area within which it is practicable to obtain quotations. If the cost during the year of an unadvertised item or group of like items ordinarily supplied by a single supplier exceeds \$10,000 or if the cost was between \$4,000 and \$10,000 and three price quotes were not obtained, the entire cost shall be ineligible for payment from the Liquid Fuels Tax Fund unless it can be shown to the satisfaction of the Secretary [of the Department of Transportation] that it was reasonably believed that the cost of the year's requirements of that item or group of like items would not exceed \$10,000 or be between \$4,000 and \$10,000 as specified above.

The borough reimbursed \$5,000.00 to the Liquid Fuels Tax Fund on March 3, 2009, which was subsequent to our examination period.

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LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
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Finding No. 3 - Documentation For Price Quotations Was Not Available For Examination
(Continued)

Recommendation

We recommend that, in the future, the borough comply with *The Borough Code* and the Department of Transportation's *Publication 9* as noted in this finding.

Management's Response

The borough officials offered no formal response at this time.

BOROUGH OF MORTON
DELAWARE COUNTY
LIQUID FUELS TAX FUND
COMMENT
FOR THE THREE YEARS ENDED
DECEMBER 31, 2008

Comment - Summary Of Prior Examination Recommendations

In our prior report we recommended that the Department of Transportation review our examination finding to determine if the municipality should reimburse \$2,500.00 to its Liquid Fuels Tax Fund for a duplicate payment of an invoice.

During our current examination we reviewed a letter dated December 21, 2007, from the Department of Transportation informing the municipality to reimburse \$2,500.00 to its Liquid Fuels Tax Fund. We noted that the municipality reimbursed this amount to its Liquid Fuels Tax Fund on April 2, 2008.

In our prior report we also recommended that the municipality establish and implement internal controls to ensure that vendor invoices are reviewed timely to avoid duplicate payments.

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

BOROUGH OF MORTON
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LIQUID FUELS TAX FUND
SUMMARY OF EXIT CONFERENCE
FOR THE THREE YEARS ENDED
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An exit conference was held September 3, 2009. Those participating were:

BOROUGH OF MORTON

Ms. Martha L. Preston, Secretary

DEPARTMENT OF THE AUDITOR GENERAL

Mr. Robert Rosenfeldt, Auditor

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



BOROUGH OF MORTON
DELAWARE COUNTY
LIQUID FUELS TAX FUND
REPORT DISTRIBUTION
FOR THE THREE YEARS ENDED
DECEMBER 31, 2008

This report was initially distributed to:

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

Borough of Morton
Delaware County
500 Highland Avenue
Morton, PA 19070

The Honorable Edward Battle

President of Council

Ms. Martha L. Preston

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, 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.