



BOROUGH OF NORWOOD
DELAWARE COUNTY
23-417

LIQUID FUELS TAX FUND
EXAMINATION REPORT

FOR THE THREE YEARS ENDED
DECEMBER 31, 2008

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BOROUGH OF NORWOOD
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 Norwood, 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 Norwood, 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.

Independent Auditor's Report (Continued)

As discussed in Finding No. 1, during 2006 the municipality expended \$19,995.00 from its Liquid Fuels Tax Fund for paving 1½ inch in thickness on Welcome Avenue without filing an application with the Department of Transportation for the project and also failed to submit specifications for approval. Additionally, as discussed in Finding No. 2, the municipality expended \$15,256.00 from its Liquid Fuels Tax Fund in excess of the amount approved for project 072344171CA. Furthermore, as discussed in Finding No. 3, the municipality transferred \$5,419.32 in 2006 and \$3,753.89 in 2008 in excess of permissible expenditures from its Liquid Fuels Tax Fund to its General Fund. On December 27, 2006, the municipality transferred \$10,000.00 from its General Fund to its Liquid Fuels Tax Fund, which is \$826.79 in excess of the amount transferred to the General Fund.

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

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 Norwood, 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 Norwood, Delaware County's Forms MS-965 that is more than inconsequential will not be prevented or detected by the Borough of Norwood, Delaware County's internal control.

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 Norwood, Delaware County's internal control.

Our consideration of internal control over reporting on the Forms MS-965 was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any significant deficiencies or material weaknesses, as defined above, in internal control over reporting on the Forms MS-965.

Independent Auditor's Report (Continued)

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

- Failure To Obtain Project Approval.
- Liquid Fuels Money Overexpended On Project.
- Amounts Transferred From The Liquid Fuels Tax Fund To The General Fund Exceeded Eligible Expenditures.

We also noted an other matter that, while not required to be included in this report by *Government Auditing Standards*, has been included in the finding below:

- Late Receipt Of Allocations.

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

August 18, 2009

JACK WAGNER
Auditor General



BOROUGH OF NORWOOD
 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 | 358.92 | (113.04) | 245.88 |
| Winter maintenance services | 2,183.30 | - | 2,183.30 |
| Traffic control devices | 7,749.25 | - | 7,749.25 |
| Street lighting | 43,388.75 | - | 43,388.75 |
| Storm sewers and drains | 13,299.00 | - | 13,299.00 |
| Repairs of tools and machinery | 1,594.40 | - | 1,594.40 |
| Maintenance and repair of roads and bridges | 6,125.10 | - | 6,125.10 |
| Highway construction and rebuilding projects | 19,995.00 | - | 19,995.00 |
| Miscellaneous (Finding No. 3) | - | 5,419.32 | 5,419.32 |
| | <u>-</u> | <u>5,419.32</u> | <u>5,419.32</u> |
| Total (To Section 2, Line 5) | <u>\$ 94,693.72</u> | <u>\$ 5,306.28</u> | <u>\$ 100,000.00</u> |

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

BOROUGH OF NORWOOD
 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 | \$ 5.53 | \$ 1,243.18 | \$ 1,248.71 |
| Receipts: | | | |
| 2. State allocation | 96,545.82 | - | 96,545.82 |
| 2a. Turnback allocation | - | - | - |
| 2b. Interest on investments (Note 3) | 3,136.57 | - | 3,136.57 |
| 2c. Miscellaneous (Finding No. 3) | - | 10,000.00 | 10,000.00 |
| 3. Total receipts | <u>99,682.39</u> | <u>10,000.00</u> | <u>109,682.39</u> |
| 4. Total funds available | <u>99,687.92</u> | <u>11,243.18</u> | <u>110,931.10</u> |
| 5. Expenditures (Section 1) | <u>94,693.72</u> | <u>5,306.28</u> | <u>100,000.00</u> |
| 6. Balance, December 31, 2006 | <u>\$ 4,994.20</u> | <u>\$ 5,936.90</u> | <u>\$ 10,931.10</u> |

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

BOROUGH OF NORWOOD
 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 | \$ 5.53 | \$ 1,243.18 | \$ 1,248.71 |
| 2. Add: Current year equipment allocation (20% of Lines 2 + 2a, Section 2) | 19,309.16 | - | 19,309.16 |
| 3. PENNDOT approved adjustments | - | - | - |
| 4. Total funds available for equipment acquisition | 19,314.69 | 1,243.18 | 20,557.87 |
| 5. Less: Major equipment expenditures | - | - | - |
| 6. Remainder | <u>19,314.69</u> | <u>1,243.18</u> | <u>20,557.87</u> |
| 7. Equipment balance available for subsequent year (Lesser of Line 6 or Section 2 balance, but not less than zero) | <u>\$ 4,994.20</u> | <u>\$ 5,936.90</u> | <u>\$ 10,931.10</u> |

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

BOROUGH OF NORWOOD
 DELAWARE COUNTY
 LIQUID FUELS TAX FUND
 2007 FORM MS-965 – SECTION 1
 WITH ADJUSTMENTS

| <u>Expenditure Summary</u> | <u>Reported</u> | <u>Adjustments</u> | <u>Adjusted Amount</u> |
|---|---------------------|--------------------|----------------------------|
| Major equipment purchases | \$ 9,690.46 | \$ - | \$ 9,690.46 |
| Minor equipment purchases | - | - | - |
| Computer/Computer related training | - | - | - |
| Agility projects | - | - | - |
| Cleaning streets and gutters | - | - | - |
| Winter maintenance services | - | - | - |
| Traffic control devices | 1,562.88 | - | 1,562.88 |
| Street lighting | 17,396.66 | - | 17,396.66 |
| Storm sewers and drains | - | - | - |
| Repairs of tools and machinery | - | - | - |
| Maintenance and repair of roads and bridges | - | - | - |
| Highway construction and rebuilding projects | 66,350.00 | - | 66,350.00 |
| Miscellaneous | - | - | - |
| | <hr/> | <hr/> | <hr/> |
| Total (To Section 2, Line 5) | <u>\$ 95,000.00</u> | <u>\$ -</u> | <u>\$ 95,000.00</u> |

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

BOROUGH OF NORWOOD
 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 | \$ 10,931.10 | \$ - | \$ 10,931.10 |
| Receipts: | | | |
| 2. State allocation | 100,141.69 | - | 100,141.69 |
| 2a. Turnback allocation | - | - | - |
| 2b. Interest on investments (Note 3) | 3,006.66 | - | 3,006.66 |
| 2c. Miscellaneous | - | - | - |
| 3. Total receipts | <u>103,148.35</u> | <u>-</u> | <u>103,148.35</u> |
| 4. Total funds available | <u>114,079.45</u> | <u>-</u> | <u>114,079.45</u> |
| 5. Expenditures (Section 1) | <u>95,000.00</u> | <u>-</u> | <u>95,000.00</u> |
| 6. Balance, December 31, 2007 | <u><u>\$ 19,079.45</u></u> | <u><u>\$ -</u></u> | <u><u>\$ 19,079.45</u></u> |

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

BOROUGH OF NORWOOD
 DELAWARE COUNTY
 LIQUID FUELS TAX FUND
 2007 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 | \$ 4,994.20 | \$ 5,936.90 | \$ 10,931.10 |
| 2. Add: Current year equipment allocation (20% of Lines 2 + 2a, Section 2) | 20,028.33 | - | 20,028.33 |
| 3. PENNDOT approved adjustments | - | - | - |
| 4. Total funds available for equipment acquisition | 25,022.53 | 5,936.90 | 30,959.43 |
| 5. Less: Major equipment expenditures | 9,690.46 | - | 9,690.46 |
| 6. Remainder | <u>15,332.07</u> | <u>5,936.90</u> | <u>21,268.97</u> |
| 7. Equipment balance available for subsequent year (Lesser of Line 6 or Section 2 balance, but not less than zero) | <u>\$ 15,332.07</u> | <u>\$ 3,747.38</u> | <u>\$ 19,079.45</u> |

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

BOROUGH OF NORWOOD
 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 | \$ 11,949.17 | \$ - | \$ 11,949.17 |
| Minor equipment purchases | - | - | - |
| Computer/Computer related training | - | - | - |
| Agility projects | - | - | - |
| Cleaning streets and gutters | 652.76 | - | 652.76 |
| Winter maintenance services | 1,231.39 | - | 1,231.39 |
| Traffic control devices | 1,264.84 | - | 1,264.84 |
| Street lighting | 21,147.95 | - | 21,147.95 |
| Storm sewers and drains | - | - | - |
| Repairs of tools and machinery | - | - | - |
| Maintenance and repair of roads and bridges | - | - | - |
| Highway construction and rebuilding projects | 90,000.00 | - | 90,000.00 |
| Miscellaneous (Finding No. 3) | - | 3,753.89 | 3,753.89 |
| | <u>-</u> | <u>3,753.89</u> | <u>3,753.89</u> |
| Total (To Section 2, Line 5) | <u>\$ 126,246.11</u> | <u>\$ 3,753.89</u> | <u>\$ 130,000.00</u> |

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

BOROUGH OF NORWOOD
 DELAWARE COUNTY
 LIQUID FUELS TAX FUND
 2008 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, 2008 | \$ 19,079.45 | \$ - | \$ 19,079.45 |
| Receipts: | | | |
| 2. State allocation | 110,374.92 | - | 110,374.92 |
| 2a. Turnback allocation | - | - | - |
| 2b. Interest on investments (Note 3) | 1,209.87 | - | 1,209.87 |
| 2c. Miscellaneous | - | - | - |
| 3. Total receipts | <u>111,584.79</u> | <u>-</u> | <u>111,584.79</u> |
| 4. Total funds available | <u>130,664.24</u> | <u>-</u> | <u>130,664.24</u> |
| 5. Expenditures (Section 1) | <u>126,246.11</u> | <u>3,753.89</u> | <u>130,000.00</u> |
| 6. Balance, December 31, 2008 | <u><u>\$ 4,418.13</u></u> | <u><u>\$ (3,753.89)</u></u> | <u><u>\$ 664.24</u></u> |

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

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

| <u>Equipment Balance</u> | <u>Reported</u> | <u>Adjustments</u> | <u>Adjusted Amount</u> |
|---|--------------------|----------------------|----------------------------|
| 1. Prior year equipment balance | \$ 19,079.45 | \$ - | \$ 19,079.45 |
| 2. Add: Current year equipment allocation (20% of Lines 2 + 2a, Section 2) | 22,074.98 | - | 22,074.98 |
| 3. PENNDOT approved adjustments | - | - | - |
| 4. Total funds available for equipment acquisition | 41,154.43 | - | 41,154.43 |
| 5. Less: Major equipment expenditures | 11,949.17 | - | 11,949.17 |
| 6. Remainder | <u>29,205.26</u> | <u>-</u> | <u>29,205.26</u> |
| 7. Equipment balance available for subsequent year (Lesser of Line 6 or Section 2 balance, but not less than zero) | <u>\$ 4,418.13</u> | <u>\$ (3,753.89)</u> | <u>\$ 664.24</u> |

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

BOROUGH OF NORWOOD
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 NORWOOD
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 NORWOOD
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 NORWOOD
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>\$664.24</u> |
|------|-----------------|

3. Interest On Investments

Our examination disclosed that the municipality deposited idle liquid fuels tax money in an interest-bearing account which earned \$3,136.57 during 2006, \$3,006.66 during 2007, and \$1,209.87 during 2008, thus providing additional funds for road maintenance and repairs.

4. Adjustments

2006 - Section 1

An adjustment of \$(113.04) was made to "Cleaning streets and gutters" because check No. 14142 which was issued on January 4, 2007, was incorrectly reported as an expenditure in 2006.

An adjustment of \$5,419.32 was made to "Miscellaneous" because a transfer to the General Fund was understated.

2006 - Section 2

An adjustment of \$1,243.18 was made to "Balance, January 1, 2006" because of prior report adjustments that were not carried forward in the fund balance.

An adjustment of \$10,000.00 was made to "Miscellaneous" because a reimbursement from the General Fund was not reported.

2006 - Section 3

An adjustment of \$1,243.18 was made to "Prior year equipment balance" because adjustments made in the prior report were not carried forward in the equipment balance.

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

4. Adjustments (Continued)

2007 - Section 3

An adjustment of \$5,936.90 was made to “Prior year equipment balance” to reflect the adjustments made in 2006 - Section 1 and 2006 - Section 2.

2008 - Section 1

An adjustment of \$3,753.89 was made to “Miscellaneous” because a transfer to the General Fund was understated.

5. Lease-Purchase Agreement

On May 16, 2007, the Borough of Norwood and the Borough of Glenolden entered into a lease-purchase agreement with Old National Bank Leasing to jointly purchase a new street sweeper for \$105,063.00. The agreement was for a term of five years at an interest rate of 5.56 percent. Principal and interest payments of \$23,898.33 are due yearly and are equally shared between the boroughs. A one time credit of \$4,517.41 was applied to the first payment because of a change in the specifications of the street sweeper, reducing the principal amount to be repaid to \$100,545.59.

During the current examination period the Borough of Norwood paid principal of \$18,084.45 and interest of \$3,555.18 from the Liquid Fuels Tax Fund. These amounts are reflected in major equipment purchases on the 2007 and 2008 Forms MS-965 – Section 1. Additionally, the Borough of Glenolden paid principal of \$18,084.44 and interest of \$3,555.19. The outstanding balance of the lease-purchase agreement as of December 31, 2008 was \$64,376.70, plus interest.

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

Finding No. 1 - Failure To Obtain Project Approval

Our examination disclosed that during 2006 the municipality expended \$19,995.00 for paving of 1½ inch in thickness on Welcome Avenue. The municipality should have obtained the approval of the Department of Transportation before the paving was done. However, the municipality did not file an application with the Department of Transportation for the project and also failed to submit specifications for approval.

The Department of Transportation's *Publication 9* contains the policies and procedures for the administration of the Liquid Fuels Tax Fund. *Publication 9*, Chapter Two, Section 2.7.2, states that nonpermissible expenditures include "Construction and reconstruction projects without prior PENNDOT approval."

Additionally, *Publication 9*, Chapter Two, Section 2.8, states, in part:

The following criteria is used to determine when a project is required for work on local roads utilizing Liquid Fuels Tax Funds, when construction, reconstruction and/or resurfacing work exceeds one inch or more in depth as well as other activities.

Bituminous Surface: One inch thickness or greater

The failure to comply with the Department of Transportation's *Publication 9* could result in the municipality having to reimburse \$19,995.00 to its Liquid Fuels Tax Fund.

Recommendations

We recommend that the municipality reimburse \$19,995.00 to its Liquid Fuels Tax Fund upon official notification by the Department of Transportation.

We further recommend that before the municipality expend money on a project, it applies for and obtains prior approval of the project, and when the project is completed it obtains approval for the completed work.

Management's Response

The municipal officials offered no formal response at this time.

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

Finding No. 2 - Liquid Fuels Money Overexpended On Project

Our examination disclosed that the municipality expended \$66,350.00 of Liquid Fuels Tax Fund money on construction project No. 072344171CA. However, the amount approved to be expended from the Liquid Fuels Tax Fund for this project was \$51,094.00. The difference of \$15,256.00 should have been paid directly from the General Fund.

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

The failure to comply with the Department of Transportation's Regulations could result in the municipality having to reimburse \$15,256.00 to its Liquid Fuels Tax Fund.

Recommendations

We recommend that the municipality reimburse \$15,256.00 to its Liquid Fuels Tax Fund upon official notification by the Department of Transportation.

We further recommend that, in the future, the municipality expend only the approved amount of Liquid Fuels Tax Fund money on road construction projects.

Management's Response

The municipal officials offered no formal response at this time.

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

Finding No. 3 - Amounts Transferred From The Liquid Fuels Tax Fund To The General Fund
Exceeded Eligible Expenditures

Our examination disclosed that the municipality transferred \$100,000.00 from its Liquid Fuels Tax Fund to its General Fund on November 27, 2006. However, the municipality had only expended \$94,580.68 from its General Fund for permissible Liquid Fuels Tax Fund expenditures during 2006. Additionally, during 2008 the municipality transferred a total of \$130,000.00 from its Liquid Fuels Tax Fund to its General Fund. This amount consists of \$102,000.00 on November 4, 2008 and \$28,000.00 on December 31, 2008. However, the municipality had only expended \$126,246.11 from its Liquid Fuels Tax Fund. Therefore, the amounts transferred from the Liquid Fuels Tax Fund to the General Fund exceeded Liquid Fuels Tax Fund expenditures by \$5,419.32 in 2006 and \$3,753.89 in 2008 for a total of \$9,173.21.

The practice of transferring liquid fuels money in excess of the amount incurred for permissible liquid fuels expenditures into any account other than the Liquid Fuels Tax Fund account is contrary to the Liquid Fuels Tax Municipal Allocation Law, 72 P.S. § 26515.5, 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 only for 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.

We noted that on December 27, 2006 the municipality transferred \$10,000.00 from its General Fund to its Liquid Fuels Tax Fund, which is \$826.79 in excess of the amount transferred to the General Fund.

Recommendation

We recommend that the municipality transfer \$826.79 from its Liquid Fuels Tax Fund to its General Fund.

We further recommend that, in the future, the municipality should not transfer liquid fuels monies in excess of eligible expenditures to the other funds.

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

Finding No. 3 - Amounts Transferred From The Liquid Fuels Tax Fund To The General Fund
Exceeded Eligible Expenditures (Continued)

Management's Response

The municipal officials offered no formal response at this time.

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

Finding No. 4 - Late Receipt Of Allocations

Our examination disclosed that the 2007 and 2008 Liquid Fuels Tax Fund allocations, which should have been distributed during the first week of April of each year, was not received until May 25, 2007 and July 28, 2008, respectively, because the municipality failed to comply with the Department of Transportation's Regulation 449.12, which requires the timely filing of particular documents and information, among them:

- Evidence that its treasurer is bonded in accordance with the law or that its treasurer is a bank requiring no bond.
- A report indicating the manner in which its Liquid Fuels Tax Fund was expended in the preceding year.
- Survey of financial condition.
- Roster of municipal officials.

Because the municipality failed to file documents and information timely as noted above, the municipality did not have use of the 2007 allocation for more than one month and the 2008 allocation for more than three months. Furthermore, had the allocations been received timely, money may have been available for investment purposes, potentially earning interest income which could have been used for road maintenance and repairs.

Recommendation

We recommend that, in the future, the municipality comply with the Department of Transportation's Regulation 449.12 to ensure that the allocations are received during the first week in April as outlined above.

Management's Response

The municipal officials offered no formal response at this time.

BOROUGH OF NORWOOD
DELAWARE COUNTY
LIQUID FUELS TAX FUND
SUMMARY OF EXIT CONFERENCE
FOR THE THREE YEARS ENDED
DECEMBER 31, 2008

An exit conference was held August 18, 2009. Those participating were:

BOROUGH OF NORWOOD

Ms. Gail Reagan, Secretary

DEPARTMENT OF THE AUDITOR GENERAL

Mr. Robert Rosenfeldt, Auditor

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

BOROUGH OF NORWOOD
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 Norwood
Delaware County
10 West Cleveland Avenue
Norwood, PA 19074

The Honorable Joseph Butler

President of Council

Ms. Gail Reagan

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.