



BOROUGH OF PHOENIXVILLE
CHESTER COUNTY
15-411

LIQUID FUELS TAX FUND
EXAMINATION REPORT

FOR THE TWO YEARS ENDED
DECEMBER 31, 2007

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BOROUGH OF PHOENIXVILLE
CHESTER COUNTY
LIQUID FUELS TAX FUND
BACKGROUND
FOR THE TWO YEARS ENDED
DECEMBER 31, 2007

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 Phoenixville, Chester County, for the two years ended December 31, 2007. 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 Phoenixville, Chester County's Forms MS-965 for the two years ended December 31, 2007 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. 2 of this report, the municipality expended \$21,365.96 in excess of the approved amount for project No. 0715411-1. Also as discussed in Finding No. 3, the borough expended \$10,624.24 from the Liquid Fuels Tax Fund for street line painting without maintaining documentation for price quotations. Additionally as discussed in Finding No. 4, the municipality transferred \$1,620.02 from its Liquid Fuels Tax Fund to its General Fund on February 1, 2007 for retroactive expenditures.

Independent Auditor's Report (Continued)

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 Phoenixville, Chester County, for the two years ended December 31, 2007, 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 Phoenixville, Chester 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 Phoenixville, Chester County's Forms MS-965 that is more than inconsequential will not be prevented or detected by the Borough of Phoenixville, Chester 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 Forms MS-965:

- Failure To Properly Prepare Forms MS-965.

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

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*:

- Liquid Fuel Money Overexpended On Project.
- Documentation For Price Quotations Was Not Available For Examination.
- Retroactive 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 Phoenixville, Chester County, and is not intended to be and should not be used by anyone other than these specified parties.

April 20, 2009

JACK WAGNER
Auditor General



BOROUGH OF PHOENIXVILLE
 CHESTER 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	\$ -	\$ 33,229.92	\$ 33,229.92
Minor equipment purchases	1,091.92	-	1,091.92
Computer/Computer related training	-	-	-
Agility projects	-	-	-
Cleaning streets and gutters	1,620.91	-	1,620.91
Winter maintenance services	20,076.03	-	20,076.03
Traffic control devices	38,357.92	(1,013.27)	37,344.65
Street lighting	-	-	-
Storm sewers and drains	3,309.37	-	3,309.37
Repairs of tools and machinery	18,303.99	(606.75)	17,697.24
Maintenance and repair of roads and bridges	35,764.54	(33,229.92)	2,534.62
Highway construction and rebuilding projects	-	-	-
Miscellaneous	-	-	-
	<hr/>	<hr/>	<hr/>
Total (To Section 2, Line 5)	<u>\$ 118,524.68</u>	<u>\$ (1,620.02)</u>	<u>\$ 116,904.66</u>

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

BOROUGH OF PHOENIXVILLE
 CHESTER 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	\$ 59,244.50	\$ (2,109.73)	\$ 57,134.77
Receipts:			
2. State allocation	255,835.32	-	255,835.32
2a. Turnback allocation	-	-	-
2b. Interest on investments (Note 3)	8,283.15	-	8,283.15
2c. Miscellaneous (Note 5)	<u>1,784.81</u>	<u>2,109.73</u>	<u>3,894.54</u>
3. Total receipts	<u>265,903.28</u>	<u>2,109.73</u>	<u>268,013.01</u>
4. Total funds available	<u>325,147.78</u>	<u>-</u>	<u>325,147.78</u>
5. Expenditures (Section 1)	<u>118,524.68</u>	<u>(1,620.02)</u>	<u>116,904.66</u>
6. Balance, December 31, 2006	<u><u>\$ 206,623.10</u></u>	<u><u>\$ 1,620.02</u></u>	<u><u>\$ 208,243.12</u></u>

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

BOROUGH OF PHOENIXVILLE
 CHESTER 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	\$ 59,244.50	\$ (2,109.73)	\$ 57,134.77
2. Add: Current year equipment allocation (20% of Lines 2 + 2a, Section 2)	51,167.06	-	51,167.06
3. PENNDOT approved adjustments	-	-	-
4. Total funds available for equipment acquisition	110,411.56	(2,109.73)	108,301.83
5. Less: Major equipment expenditures	-	33,229.92	33,229.92
6. Remainder	<u>110,411.56</u>	<u>(35,339.65)</u>	<u>75,071.91</u>
7. Equipment balance available for subsequent year (Lesser of Line 6 or Section 2 balance, but not less than zero)	<u>\$ 110,411.56</u>	<u>\$ (35,339.65)</u>	<u>\$ 75,071.91</u>

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

BOROUGH OF PHOENIXVILLE
CHESTER 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	845.46	-	845.46
Computer/Computer related training	-	-	-
Agility projects	-	-	-
Cleaning streets and gutters	10,832.19	-	10,832.19
Winter maintenance services	39,245.06	-	39,245.06
Traffic control devices	46,927.27	(489.02)	46,438.25
Street lighting	-	-	-
Storm sewers and drains	1,541.84	-	1,541.84
Repairs of tools and machinery	7,361.45	-	7,361.45
Maintenance and repair of roads and bridges	17,553.80	-	17,553.80
Highway construction and rebuilding projects	92,650.65	-	92,650.65
Miscellaneous (Finding No. 4)	-	1,620.02	1,620.02
	<u>-</u>	<u>1,620.02</u>	<u>1,620.02</u>
Total (To Section 2, Line 5)	<u>\$ 216,957.72</u>	<u>\$ 1,131.00</u>	<u>\$ 218,088.72</u>

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

BOROUGH OF PHOENIXVILLE
 CHESTER COUNTY
 LIQUID FUELS TAX FUND
 2007 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, 2007	\$ 206,623.10	\$ 1,620.02	\$ 208,243.12
Receipts:			
2. State allocation	265,277.64	-	265,277.64
2a. Turnback allocation	-	-	-
2b. Interest on investments (Note 3)	12,416.58	-	12,416.58
2c. Miscellaneous	-	-	-
3. Total receipts	<u>277,694.22</u>	<u>-</u>	<u>277,694.22</u>
4. Total funds available	<u>484,317.32</u>	<u>1,620.02</u>	<u>485,937.34</u>
5. Expenditures (Section 1)	<u>216,957.72</u>	<u>1,131.00</u>	<u>218,088.72</u>
6. Balance, December 31, 2007	<u><u>\$ 267,359.60</u></u>	<u><u>\$ 489.02</u></u>	<u><u>\$ 267,848.62</u></u>

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

BOROUGH OF PHOENIXVILLE
 CHESTER 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	\$ 110,411.56	\$ (35,339.65)	\$ 75,071.91
2. Add: Current year equipment allocation (20% of Lines 2 + 2a, Section 2)	53,055.53	-	53,055.53
3. PENNDOT approved adjustments	-	-	-
4. Total funds available for equipment acquisition	163,467.09	(35,339.65)	128,127.44
5. Less: Major equipment expenditures	-	-	-
6. Remainder	<u>163,467.09</u>	<u>(35,339.65)</u>	<u>128,127.44</u>
7. Equipment balance available for subsequent year (Lesser of Line 6 or Section 2 balance, but not less than zero)	<u>\$ 163,467.09</u>	<u>\$ (35,339.65)</u>	<u>\$ 128,127.44</u>

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

BOROUGH OF PHOENIXVILLE
CHESTER COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE TWO YEARS ENDED
DECEMBER 31, 2007

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 PHOENIXVILLE
CHESTER COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE TWO YEARS ENDED
DECEMBER 31, 2007

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 PHOENIXVILLE
CHESTER COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE TWO YEARS ENDED
DECEMBER 31, 2007

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 financial institutions. 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, 2007. 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 PHOENIXVILLE
CHESTER COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE TWO YEARS ENDED
DECEMBER 31, 2007

2. Deposits (Continued)

Fund Balance

The fund balance as of December 31, 2007 consists of the following:

Cash	<u>\$267,848.62</u>
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3. Interest On Investments

Our examination disclosed that the municipality deposited idle liquid fuels tax money in interest-bearing accounts which earned \$8,283.15 during 2006, and \$12,416.58 during 2007, thus providing additional funds for road maintenance and repairs.

4. Adjustments

2006 - Section 1

Adjustments were made to “Major equipment purchases” and “Maintenance and repair of roads and bridges” because expenditures of \$33,229.92 were misclassified.

An adjustment of \$(1,013.27) was made to “Traffic control devices” because check No. 26642, which was issued from another fund, was incorrectly reported as an expenditure from the Liquid Fuels Tax Fund.

An adjustment of \$(606.75) was made to “Repairs of tools and machinery” because check No. 26676, which was issued from another fund, was incorrectly reported as an expenditure from the Liquid Fuels Tax Fund.

2006 - Section 2

An adjustment of \$(2,109.73) was made to “Balance, January 1, 2006” because an incorrect fund balance was reported.

An adjustment of \$2,109.73 was made to “Miscellaneous” receipts because an interest adjustment was not reported (see Note 5).

BOROUGH OF PHOENIXVILLE
 CHESTER COUNTY
 LIQUID FUELS TAX FUND
 NOTES TO FORMS MS-965 WITH ADJUSTMENTS
 FOR THE TWO YEARS ENDED
 DECEMBER 31, 2007

4. Adjustments (Continued)

2006 - Section 3

An adjustment of \$(2,109.73) was made to “Prior year equipment balance” because an incorrect equipment balance was carried forward.

An adjustment of \$33,229.92 was made to “Major equipment expenditures” to reflect the adjustment made to major equipment purchases in 2006 – Section 1.

2007 - Section 1

An adjustment of \$(489.02) made to “Traffic control devices” was the result of the following:

<u>Description</u>	<u>Amounts</u>
Check No. 11833 was listed as \$433.75 but issued for \$487.45	\$ 53.70
Check No. 29860, which was issued from another fund, was incorrectly reported as an expenditure from the Liquid Fuels Tax Fund	<u>(542.72)</u>
Total	<u>\$(489.02)</u>

An adjustment of \$1,620.02 was made to “Miscellaneous” expenditures because a transfer to the General Fund was not reported (see Finding No. 4).

2007 - Section 2

An adjustment of \$1,620.02 was made to “Balance, January 1, 2007” to reflect the adjustments made in 2006 - Section 1 and Section 2.

2007 - Section 3

An adjustment of \$(35,339.65) was made to “Prior year equipment balance” to reflect the adjustment made in 2006 - Section 3.

BOROUGH OF PHOENIXVILLE
 CHESTER COUNTY
 LIQUID FUELS TAX FUND
 NOTES TO FORMS MS-965 WITH ADJUSTMENTS
 FOR THE TWO YEARS ENDED
 DECEMBER 31, 2007

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>2006</u>
Resident	Reimbursement for damages	\$1,239.64
Resident	Reimbursement for damages	545.17
General Fund	Prior year interest adjustment	<u>2,109.73</u>
Totals		<u>\$3,894.54</u>

7. Lease-Purchase Agreement

On April 16, 2004, the borough entered into a lease-purchase agreement with Ford Motor Credit Company to purchase a Ford truck for \$24,857.26. The agreement was for a term of three years at an interest rate of 4.55 percent. Principal and interest payments of \$8,657.04 are due annually. Prior years' principal and interest payments from the Liquid Fuels Tax Fund were \$16,576.97 and \$737.11, respectively.

During the current examination period, the borough paid principal of \$8,280.29 and interest of \$376.75 from the Liquid Fuels Tax Fund. These amounts are reflected in major equipment purchases on the 2006 Form MS-965 – Section 1. The lease-purchase agreement was paid-in-full on April 7, 2006.

8. Lease-Purchase Agreement

On June 7, 2004, the borough entered into a lease-purchase agreement with Ford Motor Credit Company to purchase a Ford F-350 truck for a total of \$70,556.88. The agreement was for a term of three years at an interest rate of 4.55 percent. Principal and interest payments of \$24,572.84 are due annually for two consecutive years followed by one final payment of \$24,572.88. Prior years' principal and interest payments from the Liquid Fuels Tax Fund was \$47,053.41 and \$2,092.27 respectively.

During the current examination period, the borough paid principal of \$23,503.47 and interest of \$1,069.41 from the Liquid Fuels Tax Fund. These amounts are reflected in major equipment purchases on the 2006 MS-965 – Section 1. The lease-agreement was paid-in-full on May 26, 2006.

BOROUGH OF PHOENIXVILLE
CHESTER COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE TWO YEARS ENDED
DECEMBER 31, 2007

Finding No. 1 - Failure To Properly Prepare Forms MS-965

Our examination disclosed that there were numerous errors made in the preparation of the municipality's 2006 and 2007 Forms MS-965. These adjustments, which are disclosed in Note 4, are as follows:

2006 - Section 1

Adjustments were made to "Major equipment purchases" and "Maintenance and repair of roads and bridges" because expenditures of \$33,229.92 were misclassified.

An adjustment of \$(1,013.27) was made to "Traffic control devices" because check No. 26642, which was issued from another fund, was incorrectly reported as an expenditure from the Liquid Fuels Tax Fund.

An adjustment of \$(606.75) was made to "Repairs of tools and machinery" because check No. 26676, which was issued from another fund, was incorrectly reported as an expenditure from the Liquid Fuels Tax Fund.

2006 - Section 2

An adjustment of \$(2,109.73) was made to "Balance, January 1, 2006" because an incorrect fund balance was reported.

An adjustment of \$2,109.73 was made to "Miscellaneous" receipts because an interest adjustment was not reported (see Note 5).

2006 - Section 3

An adjustment of \$(2,109.73) was made to "Prior year equipment balance" because an incorrect equipment balance was carried forward.

An adjustment of \$33,229.92 was made to "Major equipment expenditures" to reflect the adjustment made to major equipment purchases in 2006 – Section 1.

BOROUGH OF PHOENIXVILLE
 CHESTER COUNTY
 LIQUID FUELS TAX FUND
 FINDINGS AND RECOMMENDATIONS
 FOR THE TWO YEARS ENDED
 DECEMBER 31, 2007

Finding No. 1 - Failure To Properly Prepare Forms MS-965 (Continued)

2007 - Section 1

An adjustment of \$(489.02) made to “Traffic control devices” was the result of the following:

<u>Description</u>	<u>Amounts</u>
Check No. 11833 was listed as \$433.75 but issued for \$487.45	\$ 53.70
Check No. 29860, which was issued from another fund, was incorrectly reported as an expenditure from the Liquid Fuels Tax Fund	<u>(542.72)</u>
Total	<u>\$(489.02)</u>

An adjustment of \$1,620.02 was made to “Miscellaneous” expenditures because a transfer to the General Fund was not reported (see Finding No. 4).

2007 - Section 2

An adjustment of \$1,620.02 was made to “Balance, January 1, 2007” to reflect the adjustments made in 2006 - Section 1 and Section 2.

2007 - Section 3

An adjustment of \$(35,339.65) was made to “Prior year equipment balance” to reflect the adjustment made in 2006 - Section 3.

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.

BOROUGH OF PHOENIXVILLE
CHESTER COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE TWO YEARS ENDED
DECEMBER 31, 2007

Finding No. 1 - Failure To Properly Prepare Forms MS-965 (Continued)

Management's Response

The municipal officials stated:

Correcting problems going back to 2005 is part of the problem. These corrections were done in 2006 thus causing 2006 to be off. The additional problem seems to be based on deposits and withdrawals correcting problems from prior years, yet we did not record in year we made correction. These issues seem to balance out over the two year period.

Auditor's Conclusion

During our next examination we will determine if the municipality complied with our recommendation.

BOROUGH OF PHOENIXVILLE
CHESTER COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE TWO YEARS ENDED
DECEMBER 31, 2007

Finding No. 2 - Liquid Fuels Money Overexpended On Project

Our examination disclosed that the municipality expended \$92,650.65 of Liquid Fuels Tax Fund money on construction project No. 0715411-1. However, the amount approved to be expended from the Liquid Fuels Tax Fund for this project was \$71,284.69. The difference of \$21,365.96 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 \$21,365.96 to its Liquid Fuels Tax Fund.

Recommendations

We recommend that the municipality reimburse \$21,365.96 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 stated:

We will look into this issue as it appears that the final report was prepared before the final payment was made for the project.

Auditor's Conclusion

The municipality should ensure that its Form MS-999 is complete and accurate.

BOROUGH OF PHOENIXVILLE
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Finding No. 3 - Documentation For Price Quotations Was Not Available For Examination

Our examination disclosed that the borough expended \$10,624.24 from the Liquid Fuels Tax Fund for street line painting. This amount includes \$5,433.20 for expenditures incurred in 2006 and \$5,191.04 for expenditures incurred in 2007. The borough was required to obtain written or telephonic price quotations for these purchases. However, documentation for price quotations was not available for examination.

The above purchases were 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 purchases were 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.

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Finding No. 3 - Documentation For Price Quotations Was Not Available For Examination
(Continued)

The failure to comply with *The Borough Code* and the Department of Transportation's *Publication 9* could result in the borough having to reimburse \$10,624.24 to its Liquid Fuels Tax Fund.

Recommendations

We recommend that the borough reimburse \$10,624.24 to its Liquid Fuels Tax Fund upon official notification by the Department of Transportation.

We further 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 stated:

The person who keeps these records is on long term medical leave and we have been unable to track down the actual quotations.

Auditor's Conclusion

The borough should ensure that more than one person is aware of the location of the documentation for price quotations.

BOROUGH OF PHOENIXVILLE
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Finding No. 4 - Retroactive Expenditures

Our examination disclosed that the municipality transferred \$1,620.02 from its Liquid Fuels Tax Fund to its General Fund on February 1, 2007 for the reimbursement of street sweeper parts and traffic signal maintenance services that were paid from the General Fund on August 25, 2006, which are retroactive expenditures.

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, in relevant part:

Examples of what Liquid Fuels Tax Fund monies may not be expended for are:

- 8. Repayments of prior year's expenditures.
- 17. Retroactive expenditures or repayment of other funds for prior period expenditures.

Because these expenditures were paid from the General Fund on August 25, 2006 and were not reimbursed with Liquid Fuels Tax Fund money until February 1, 2007, the expenditures incurred were not reimbursed in a reasonable period of time. Therefore, the municipality did not comply with the Department of Transportation's *Publication 9*.

The failure to follow the Department of Transportation's *Publication 9* as noted above could result in the municipality having to reimburse \$1,620.02 to its Liquid Fuels Tax Fund.

Recommendations

We recommend that the municipality reimburse \$1,620.02 to its Liquid Fuels Tax Fund upon official notification by the Department of Transportation.

We further recommend that, in the future, the municipality comply with the Department of Transportation's *Publication 9* as noted above.

Management's Response

The municipal officials stated:

This relates to the problems discussed in Finding No.1 that will reoccur in 2008. We will change the process in 2009 to correct this problem.

BOROUGH OF PHOENIXVILLE
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LIQUID FUELS TAX FUND
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Finding No. 4 - Retroactive Expenditures (Continued)

Auditor's Conclusion

During our next examination we will determine if the municipality complied with our recommendations.

BOROUGH OF PHOENIXVILLE
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Finding No. 5 - Late Receipt Of Allocations

Our examination disclosed that the 2006 and 2007 Liquid Fuels Tax Fund allocations, which should have been distributed during the first week of April of each year, were not received until May 8, 2006 and May 25, 2007, 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 allocations for more than one month in 2006 and 2007. 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 stated:

We deposit Liquid Fuels checks when we receive them. We will research this to find out why we received the allocations late.

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Finding No. 5 - Late Receipt Of Allocations (Continued)

Auditor's Conclusion

The municipality should comply with the Department of Transportation's Regulation 449.12 as stated above. During our next examination we will determine if the municipality complied with our recommendation.

BOROUGH OF PHOENIXVILLE
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LIQUID FUELS TAX FUND
SUMMARY OF EXIT CONFERENCE
FOR THE TWO YEARS ENDED
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An exit conference was held April 20, 2009. Those participating were:

BOROUGH OF PHOENIXVILLE

Mr. Stephen M. Nease, Finance Director

DEPARTMENT OF THE AUDITOR GENERAL

Mr Robert Rosenfeldt, Auditor

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



BOROUGH OF PHOENIXVILLE
CHESTER COUNTY
LIQUID FUELS TAX FUND
REPORT DISTRIBUTION
FOR THE TWO YEARS ENDED
DECEMBER 31, 2007

This report was initially distributed to:

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

Borough of Phoenixville
Chester County
140 Church Road
Phoenixville, PA 19460

The Honorable Henry Wagner

President of Council

Mr. Stephen M. Nease

Finance Director

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.