



**BOROUGH OF SWARTHMORE
DELAWARE COUNTY
23-424**

**LIQUID FUELS TAX FUND
EXAMINATION REPORT**

**FOR THE PERIOD
JANUARY 1, 2009 TO DECEMBER 31, 2011**

Released August 2013

COMMONWEALTH OF PENNSYLVANIA

EUGENE A. DEPASQUALE - AUDITOR GENERAL

DEPARTMENT OF THE AUDITOR GENERAL



BOROUGH OF SWARTHMORE
DELAWARE COUNTY
23-424

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EXAMINATION REPORT

FOR THE PERIOD
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Commonwealth of Pennsylvania
Department of the Auditor General
Harrisburg, PA 17120-0018
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EUGENE A. DePASQUALE
AUDITOR GENERAL

Independent Auditor's Report

The Honorable Barry J. Schoch, P.E.
Secretary
Department of Transportation
Harrisburg, PA 17120

We examined the accompanying Forms MS-965 With Adjustments for the Liquid Fuels Tax Fund of the Borough of Swarthmore, Delaware County, for the period January 1, 2009 to December 31, 2011. 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 Swarthmore, Delaware County's Forms MS-965 for the period January 1, 2009 to December 31, 2011 and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

We are mandated by Section 403 of *The Fiscal Code*, 72 P.S. § 403, to audit each municipality's 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, the municipality expended \$16,615.65 during 2011 from the Liquid Fuels Tax Fund for fuel without maintaining fuel dispensation records. Additionally, as discussed in Finding No. 3, the municipality expended \$24,696.39 in excess of the approved amounts for road construction projects. On February 24, 2011 the municipality reimbursed \$7,965.00 to its Liquid Fuels Tax Fund, leaving \$16,731.39 due the Liquid Fuels Tax Fund. Furthermore, as discussed in Finding No. 4, the municipality expended \$177.76 during 2009, \$176.82 during 2010, and \$1,660.33 during 2011 from its Liquid Fuels Tax Fund for four inch single yellow line painting, which is a nonpermissible expenditure.

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 Swarthmore, Delaware County, for the period January 1, 2009 to December 31, 2011, in conformity with the criteria set forth in Note 1.

In accordance with *Government Auditing Standards*, we are required to report findings of significant deficiencies in internal control, violations of provisions of contracts or grant agreements, and abuse that are material to the 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.

Independent Auditor's Report (Continued)

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

- Fuel Dispensation Records Not Maintained.

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 Swarthmore, 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. We consider the significant deficiency described above to be a material weakness.

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

- Liquid Fuels Money Transferred To The General Fund.
- Liquid Fuels Money Overexpended On Projects.
- Nonpermissible Expenditure.

Independent Auditor's Report (Continued)

We are concerned in light of the municipality's failure to correct a previously reported examination finding regarding the overexpenditure of Liquid Fuels Tax Fund money on projects. During our current examination the municipality failed to maintain fuel dispensation records, transferred Liquid Fuels Tax Fund money to the General Fund, overexpended Liquid Fuels Tax Fund money on road projects, and made nonpermissible expenditures. The municipality should strive to implement the recommendations and corrective actions noted in this report.

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



EUGENE A. DEPASQUALE
Auditor General

January 8, 2013

CONTENTS

	<u>Page</u>
Background.....	1
Financial Section:	
2009 Form MS-965 With Adjustments	2
2010 Form MS-965 With Adjustments	5
2011 Form MS-965 With Adjustments	8
Notes To Forms MS-965 With Adjustments.....	11
Findings And Recommendations:	
Finding No. 1 - Fuel Dispensation Records Not Maintained	19
Finding No. 2 - Liquid Fuels Money Transferred To The General Fund.....	21
Finding No. 3 - Liquid Fuels Money Overexpended On Projects.....	22
Finding No. 4 - Nonpermissible Expenditure.....	24
Comment.....	25
Summary Of Exit Conference.....	26
Report Distribution	27

BOROUGH OF SWARTHMORE
DELAWARE COUNTY
LIQUID FUELS TAX FUND
BACKGROUND
FOR THE PERIOD
JANUARY 1, 2009 TO DECEMBER 31, 2011

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.

BOROUGH OF SWARTHMORE
 DELAWARE COUNTY
 LIQUID FUELS TAX FUND
 2009 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	1,527.91	-	1,527.91
Computer/Computer related training	-	-	-
Agility projects	647.84	-	647.84
Cleaning streets and gutters	8,172.88	-	8,172.88
Winter maintenance services	10,701.28	-	10,701.28
Traffic control devices	25,238.09	(163.36)	25,074.73
Street lighting	-	-	-
Storm sewers and drains	3,763.95	-	3,763.95
Repairs of tools and machinery	-	-	-
Maintenance and repair of roads and bridges	4,101.47	-	4,101.47
Highway construction and rebuilding projects	47,808.35	-	47,808.35
Miscellaneous (Note 6)	-	25,573.15	25,573.15
	<u>-</u>	<u>25,573.15</u>	<u>25,573.15</u>
 Total (To Section 2, Line 5)	 <u>\$ 101,961.77</u>	 <u>\$ 25,409.79</u>	 <u>\$ 127,371.56</u>

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

BOROUGH OF SWARTHMORE
 DELAWARE COUNTY
 LIQUID FUELS TAX FUND
 2009 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, 2009	\$ 9,077.43	\$ -	\$ 9,077.43
Receipts:			
2. State allocation	114,790.16	-	114,790.16
2a. Turnback allocation	-	-	-
2b. Interest on investments (Note 3)	202.64	-	202.64
2c. Miscellaneous (Note 5)	7,944.33	25,573.15	33,517.48
3. Total receipts	<u>122,937.13</u>	<u>25,573.15</u>	<u>148,510.28</u>
4. Total funds available	<u>132,014.56</u>	<u>25,573.15</u>	<u>157,587.71</u>
5. Expenditures (Section 1)	<u>101,961.77</u>	<u>25,409.79</u>	<u>127,371.56</u>
6. Balance, December 31, 2009	<u>\$ 30,052.79</u>	<u>\$ 163.36</u>	<u>\$ 30,216.15</u>

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

BOROUGH OF SWARTHMORE
 DELAWARE COUNTY
 LIQUID FUELS TAX FUND
 2009 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	\$ 9,077.43	\$ -	\$ 9,077.43
2. Add: Current year equipment allocation (20% of Lines 2 + 2a, Section 2)	22,958.03	-	22,958.03
3. PENNDOT approved adjustments	-	-	-
4. Total funds available for equipment acquisition	32,035.46	-	32,035.46
5. Less: Major equipment expenditures	-	-	-
6. Remainder	<u>32,035.46</u>	<u>-</u>	<u>32,035.46</u>
7. Equipment balance available for subsequent year (Lesser of Line 6 or Section 2 balance, but not less than zero)	<u>\$ 30,052.79</u>	<u>\$ 163.36</u>	<u>\$ 30,216.15</u>

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

BOROUGH OF SWARTHMORE
 DELAWARE COUNTY
 LIQUID FUELS TAX FUND
 2010 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	961.02	-	961.02
Computer/Computer related training	-	-	-
Agility projects	-	-	-
Cleaning streets and gutters	-	-	-
Winter maintenance services	6,374.78	-	6,374.78
Traffic control devices	9,254.85	308.25	9,563.10
Street lighting	67,073.73	-	67,073.73
Storm sewers and drains	1,209.96	-	1,209.96
Repairs of tools and machinery	-	-	-
Maintenance and repair of roads and bridges	798.45	241.20	1,039.65
Highway construction and rebuilding projects	31,478.00	-	31,478.00
Miscellaneous (Note 6)	674.79	(187.50)	487.29
	<u> </u>	<u> </u>	<u> </u>
Total (To Section 2, Line 5)	<u>\$ 117,825.58</u>	<u>\$ 361.95</u>	<u>\$ 118,187.53</u>

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

BOROUGH OF SWARTHMORE
 DELAWARE COUNTY
 LIQUID FUELS TAX FUND
 2010 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, 2010	\$ 30,052.79	\$ 163.36	\$ 30,216.15
Receipts:			
2. State allocation	110,342.25	-	110,342.25
2a. Turnback allocation	-	-	-
2b. Interest on investments (Note 3)	225.88	-	225.88
2c. Miscellaneous (Note 5)	13,897.56	264.14	14,161.70
3. Total receipts	<u>124,465.69</u>	<u>264.14</u>	<u>124,729.83</u>
4. Total funds available	<u>154,518.48</u>	<u>427.50</u>	<u>154,945.98</u>
5. Expenditures (Section 1)	<u>117,825.58</u>	<u>361.95</u>	<u>118,187.53</u>
6. Balance, December 31, 2010	<u>\$ 36,692.90</u>	<u>\$ 65.55</u>	<u>\$ 36,758.45</u>

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

BOROUGH OF SWARTHMORE
 DELAWARE COUNTY
 LIQUID FUELS TAX FUND
 2010 FORM MS-965 – SECTION 3
 WITH ADJUSTMENTS

<u>Equipment Balance</u>	<u>Reported</u>	<u>Adjustments (Note 4)</u>	<u>Adjusted Amount</u>
1. Prior year equipment balance	\$ 30,052.79	\$ 163.36	\$ 30,216.15
2. Add: Current year equipment allocation (20% of Lines 2 + 2a, Section 2)	22,068.45	-	22,068.45
3. PENNDOT approved adjustments	-	-	-
4. Total funds available for equipment acquisition	52,121.24	163.36	52,284.60
5. Less: Major equipment expenditures	-	-	-
6. Remainder	<u>52,121.24</u>	<u>163.36</u>	<u>52,284.60</u>
7. Equipment balance available for subsequent year (Lesser of Line 6 or Section 2 balance, but not less than zero)	<u>\$ 36,692.90</u>	<u>\$ 65.55</u>	<u>\$ 36,758.45</u>

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

BOROUGH OF SWARTHMORE
 DELAWARE COUNTY
 LIQUID FUELS TAX FUND
 2011 FORM MS-965 – SECTION 1
 WITH ADJUSTMENTS

<u>Expenditure Summary</u>	<u>Reported</u>	<u>Adjustments</u>	<u>Adjusted Amount</u>
Major equipment purchases	\$ -	\$ -	\$ -
Minor equipment purchases	1,056.47	-	1,056.47
Computer/Computer related training	-	-	-
Agility projects	-	-	-
Cleaning streets and gutters	-	-	-
Winter maintenance services	8,341.63	-	8,341.63
Traffic control devices	10,484.49	-	10,484.49
Street lighting	78,653.96	-	78,653.96
Storm sewers and drains	5,769.48	-	5,769.48
Repairs of tools and machinery	350.33	-	350.33
Maintenance and repair of roads and bridges	27,197.70	-	27,197.70
Highway construction and rebuilding projects	1,917.50	-	1,917.50
Miscellaneous	-	-	-
	<hr/>	<hr/>	<hr/>
Total (To Section 2, Line 5)	<u>\$ 133,771.56</u>	<u>\$ -</u>	<u>\$ 133,771.56</u>

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

BOROUGH OF SWARTHMORE
 DELAWARE COUNTY
 LIQUID FUELS TAX FUND
 2011 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, 2011	\$ 36,692.90	\$ 65.55	\$ 36,758.45
Receipts:			
2. State allocation	113,711.83	-	113,711.83
2a. Turnback allocation	-	-	-
2b. Interest on investments (Note 3)	21.92	-	21.92
2c. Miscellaneous (Note 5)	16,078.69	-	16,078.69
3. Total receipts	<u>129,812.44</u>	<u>-</u>	<u>129,812.44</u>
4. Total funds available	<u>166,505.34</u>	<u>65.55</u>	<u>166,570.89</u>
5. Expenditures (Section 1)	<u>133,771.56</u>	<u>-</u>	<u>133,771.56</u>
6. Balance, December 31, 2011	<u>\$ 32,733.78</u>	<u>\$ 65.55</u>	<u>\$ 32,799.33</u>

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

BOROUGH OF SWARTHMORE
 DELAWARE COUNTY
 LIQUID FUELS TAX FUND
 2011 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	\$ 36,692.90	\$ 65.55	\$ 36,758.45
2. Add: Current year equipment allocation (20% of Lines 2 + 2a, Section 2)	22,742.37	-	22,742.37
3. PENNDOT approved adjustments	-	-	-
4. Total funds available for equipment acquisition	59,435.27	65.55	59,500.82
5. Less: Major equipment expenditures	-	-	-
6. Remainder	<u>59,435.27</u>	<u>65.55</u>	<u>59,500.82</u>
7. Equipment balance available for subsequent year (Lesser of Line 6 or Section 2 balance, but not less than zero)	<u>\$ 32,733.78</u>	<u>\$ 65.55</u>	<u>\$ 32,799.33</u>

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

BOROUGH OF SWARTHMORE
DELAWARE COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE PERIOD
JANUARY 1, 2009 TO DECEMBER 31, 2011

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 SWARTHMORE
DELAWARE COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE PERIOD
JANUARY 1, 2009 TO DECEMBER 31, 2011

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 SWARTHMORE
DELAWARE COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE PERIOD
JANUARY 1, 2009 TO DECEMBER 31, 2011

1. Criteria (Continued)

General Fixed Assets

General fixed assets are recognized as expenditures at the time of purchase. No depreciation has been provided on the heavy equipment used to maintain and repair roads and bridges.

2. 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, 2011. 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 SWARTHMORE
DELAWARE COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE PERIOD
JANUARY 1, 2009 TO DECEMBER 31, 2011

2. Deposits (Continued)

Fund Balance

The fund balance as of December 31, 2011 consists of the following:

Cash	\$32,799.33
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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 and a certificate of deposit which earned \$202.64 during 2009, \$225.88 during 2010, and \$21.92 during 2011, thus providing additional funds for road maintenance and repairs.

4. Adjustments

2009 - Section 1

An adjustment of \$(163.36) was made to "Traffic control devices" because check No. 3580 was voided but was included as an expenditure.

An adjustment of \$25,573.15 was made to "Miscellaneous" because these expenditures were not reported.

2009 - Section 2

An adjustment of \$25,573.15 was made to "Miscellaneous" because these receipts were understated.

2010 - Section 1

An adjustment \$308.25 was made to "Traffic control devices" because expenditures of \$615.00 were misclassified as miscellaneous and check No. 3618 for \$306.75 was voided but included as an expenditure.

BOROUGH OF SWARTHMORE
DELAWARE COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE PERIOD
JANUARY 1, 2009 TO DECEMBER 31, 2011

4. Adjustments (Continued)

2010 - Section 1 (Continued)

An adjustment of \$241.20 was made to “Maintenance and repair of roads and bridges” because these expenditures were understated.

An adjustment of \$(187.50) was made to “Miscellaneous” because a payment in error of \$427.50 was not reported and expenditures of \$615.00 for traffic control devices were misclassified.

2010 - Section 2

An adjustment of \$163.36 was made to “Balance, January 1, 2010” to reflect the adjustment made to the fund balance in 2009 - Section 2.

An adjustment of \$264.14 was made to “Miscellaneous” because these receipts were understated.

2010 - Section 3

An adjustment of \$163.36 was made to “Prior year equipment balance” to reflect the adjustment made to the equipment balance in 2009 - Section 3.

2011 - Section 2

An adjustment of \$65.55 was made to “Balance, January 1, 2011” to reflect the adjustment made to the fund balance in 2010 - Section 2.

2011 - Section 3

An adjustment of \$65.55 was made to “Prior year equipment balance” to reflect the adjustment made to the equipment balance in 2010 - Section 3.

BOROUGH OF SWARTHMORE
 DELAWARE COUNTY
 LIQUID FUELS TAX FUND
 NOTES TO FORMS MS-965 WITH ADJUSTMENTS
 FOR THE PERIOD
 JANUARY 1, 2009 TO DECEMBER 31, 2011

5. Miscellaneous Receipts

The following miscellaneous receipts were deposited into the Liquid Fuels Tax Fund during the examination period:

Source	Description	2009	2010	2011
General Fund	Temporary loan (Note 7)	\$ 3,000.00	\$ -	\$ -
General Fund	Correction of payment in error (Note 8)	-	427.50	-
General Fund	Reimbursement for street lighting	7,941.05	-	-
General Fund	Repayment for transfers (Finding No. 2)	22,573.15	-	-
General Fund	Reimbursement (Comment)	-	13,734.20	-
Local Fire Company	Reimbursement for fuel	-	-	4,511.70
General Fund	Reimbursement (Finding No. 3)	-	-	7,965.00
General Fund	Reimbursement for duplicate payments (Note 9)	-	-	1,306.00
General Fund	Grants	3.28	-	2,054.79
General Fund	Reimbursement for road materials	-	-	241.20
Total		<u>\$33,517.48</u>	<u>\$14,161.70</u>	<u>\$16,078.69</u>

BOROUGH OF SWARTHMORE
 DELAWARE COUNTY
 LIQUID FUELS TAX FUND
 NOTES TO FORMS MS-965 WITH ADJUSTMENTS
 FOR THE PERIOD
 JANUARY 1, 2009 TO DECEMBER 31, 2011

6. Miscellaneous Expenditures

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

Payee	Description	2009	2010
Financial institution	Bank service charges	\$ -	\$ 59.79
General Fund	Repayment of temporary loan (Note 7)	3,000.00	-
Payroll Account	Payment in error (Note 8)	-	427.50
General Fund	Transfer (Finding No. 2)	19,600.32	-
General Fund	Transfer (Finding No. 2)	2,972.83	-
Totals		<u>\$25,573.15</u>	<u>\$487.29</u>

7. Temporary Loan

On March 18, 2009, the municipality loaned \$3,000.00 from its General Fund to its Liquid Fuels Tax Fund. On April 17, 2009, the municipality transferred \$3,000.00 from its Liquid Fuels Tax Fund to its General Fund to repay the temporary loan.

8. Payment In Error

On August 13, 2010, the municipality expended \$427.50 from its Liquid Fuels Tax Fund for clean-ups. On December 15, 2010, the municipality transferred \$427.50 from its General Fund to its Liquid Fuels Tax Fund to correct the payment in error.

BOROUGH OF SWARTHMORE
DELAWARE COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE PERIOD
JANUARY 1, 2009 TO DECEMBER 31, 2011

9. Duplicate Payments

On June 21, 2011, the municipality expended \$1,162.00 from its Liquid Fuels Tax Fund to pay vendor invoice No. 444572. The municipality paid the invoice again on July 15, 2011 from its Liquid Fuels Tax Fund. On August 11, 2011, the municipality received a refund of \$1,162.00 from the vendor and deposited it into the Liquid Fuels Tax Fund.

On October 18, 2011, the municipality expended \$144.00 from its Liquid Fuels Tax Fund to pay vendor invoice No. 253372. The municipality paid the invoice again on November 21, 2011 from its Liquid Fuels Tax Fund. On December 27, 2011, the municipality received a refund of \$144.00 from the vendor and deposited it into the Liquid Fuels Tax Fund.

BOROUGH OF SWARTHMORE
DELAWARE COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2009 TO DECEMBER 31, 2011

Finding No. 1 - Fuel Dispensation Records Not Maintained

Our examination disclosed that the municipality expended \$16,615.65 during 2011 from the Liquid Fuels Tax Fund account to purchase fuel in bulk quantities. However, records for the dispensation of these fuel purchases were not maintained.

To ensure good internal control of fuel purchases and usage, the municipality should maintain records listing the following information:

- Date.
- Number of gallons pumped.
- License number or identity of the vehicle.
- Intended use.
- Signature of the operator.

Without fuel dispensation records, there is no record that fuel was used for purposes permitted by the Liquid Fuels Tax Municipal Allocation Law. As a result, we could not determine if the expenditures made from the Liquid Fuels Tax Fund to purchase the fuel were permissible.

The failure to maintain records of fuel dispensation as noted above could result in the municipality having to reimburse \$16,615.65 to its Liquid Fuels Tax Fund.

Recommendations

We recommend that the municipality reimburse \$16,615.65 to its Liquid Fuels Tax Fund upon official notification by the Department of Transportation.

We further recommend that the municipality prepare detailed fuel usage reports to ensure good internal controls over fuel purchases and usage.

BOROUGH OF SWARTHMORE
DELAWARE COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2009 TO DECEMBER 31, 2011

Finding No. 1 - Fuel Dispensation Records Not Maintained (Continued)

Management's Response

The borough manager stated:

I was not aware that fuel dispensation records were required.

Auditor's Conclusion

Without fuel dispensation records there is no record that fuel was used for purposes permitted by the Liquid Fuels Tax Municipal Allocation Law. During our next examination we will determine if the municipality complied with our recommendations.

BOROUGH OF SWARTHMORE
DELAWARE COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2009 TO DECEMBER 31, 2011

Finding No. 2 - Liquid Fuels Money Transferred To The General Fund

Our examination disclosed that on May 12, 2009, the municipality transferred \$19,600.32 from its Liquid Fuels Tax Fund to its General Fund in error. On December 21, 2009, the municipality transferred \$19,600.32 from its General Fund to its Liquid Fuels Tax Fund for the reimbursement of the transfer. Additionally, on June 17, 2009, the municipality transferred \$2,972.83 from its Liquid Fuels Tax Fund to its General Fund. On July 28, 2009, the municipality transferred \$2,972.83 from its General Fund to its Liquid Fuels Tax Fund for the reimbursement of the transfer. Transferring money from the Liquid Fuels Tax Fund to the General Fund is in noncompliance with the Liquid Fuels Tax Municipal Allocation Law unless it is for the reimbursement of permissible Liquid Fuels Tax Fund expenditures. These transfers were not for the reimbursement of Liquid Fuels Tax Fund expenditures.

The practice of transferring liquid fuels money into any account other than the Liquid Fuels Tax Fund account is contrary to the Act of June 1, 1956, P.L. (1955) 1944, 72 P.S. § 2615.5, known as the Liquid Fuels Tax Municipal Allocation Law, which states:

. . . each city, borough, town and township, shall . . . Establish and maintain a special fund into which the moneys [liquid fuels tax funds] . . . shall be deposited and into which no other moneys may be deposited or commingled . . .

The risk that Liquid Fuels Tax Fund money may be used for unauthorized purposes increases when liquid fuels money is commingled with other funds.

Recommendation

We recommend that, in the future, the municipality deposit all liquid fuels tax money promptly into the Liquid Fuels Tax Fund.

Management's Response

The municipal officials offered no formal response at this time.

BOROUGH OF SWARTHMORE
 DELAWARE COUNTY
 LIQUID FUELS TAX FUND
 FINDINGS AND RECOMMENDATIONS
 FOR THE PERIOD
 JANUARY 1, 2009 TO DECEMBER 31, 2011

Finding No. 3 - Liquid Fuels Money Overexpended On Projects

Our examination disclosed that the municipality expended more than the approved amount of Liquid Fuels Tax Fund money on the following construction projects:

<u>Project No.</u>	<u>Approved Amount</u>	<u>Amount Expended</u>	<u>Amount Overexpended</u>
09-23-424-1CA	\$28,993.35	\$45,724.74	\$16,731.39
10-23-424-1CA	19,665.00	25,127.60	5,462.60
10-23-424-2	3,848.00	6,350.40	2,502.40
Totals	<u>\$52,506.35</u>	<u>\$77,202.74</u>	<u>\$24,696.39</u>

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.

On February 24, 2011, the municipality reimbursed \$7,965.00 to the Liquid Fuels Tax Fund.

The failure to comply with the Department of Transportation's Regulations could result in the municipality having to reimburse \$16,731.39 to its Liquid Fuels Tax Fund.

A similar finding was also written in our prior report.

Recommendations

We recommend that the municipality reimburse \$16,731.39 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.

BOROUGH OF SWARTHMORE
DELAWARE COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2009 TO DECEMBER 31, 2011

Finding No. 3 - Liquid Fuels Money Overexpended On Projects (Continued)

Management's Response

The borough manager stated:

Procedures are in place to assure that the borough will not overpay from the Liquid Fuels Tax Fund.

Auditor's Conclusion

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

BOROUGH OF SWARTHMORE
DELAWARE COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2009 TO DECEMBER 31, 2011

Finding No. 4 - Nonpermissible Expenditure

Our examination disclosed that the municipality expended \$177.76 during 2009, \$176.82 during 2010, and \$1,660.33 during 2011 from the Liquid Fuels Tax Fund for four inch single yellow line painting, which is a nonpermissible expenditure.

The Federal Highway Administration's *Manual on Uniform Traffic Control Devices*, Section 3B.01 states:

A solid single yellow line shall not be used as a center line marking on a two-way roadway.

The Failure to follow the Federal Highway Administration's *Manual on Uniform Traffic Control Devices* as noted above could result in the municipality having to reimburse \$2,014.91 to its Liquid Fuels Tax Fund.

Recommendations

We recommend that the municipality reimburse \$2,014.91 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 Federal Highway Administration's *Manual on Uniform Traffic Control Devices* as stated above.

Management's Response

The borough manager stated:

I was not aware that single yellow line is not permissible. No notification received.

Auditor's Conclusion

To maintain uniform road markings in all states, The Federal Highway Administration set standards that must be followed. A double yellow line is required in the center of a road, not a single yellow line. Therefore, Liquid Fuels Tax money cannot be used for single yellow lines. During our next examination we will determine if the municipality complied with our recommendation.

BOROUGH OF SWARTHMORE
DELAWARE COUNTY
LIQUID FUELS TAX FUND
COMMENT
FOR THE PERIOD
JANUARY 1, 2009 TO DECEMBER 31, 2011

Comment - Summary Of Prior Examination Recommendation

In our prior report we recommended that the Department of Transportation review our examination finding to determine if the municipality should reimburse \$13,734.20 to its Liquid Fuels Tax Fund for expending Liquid Fuels Tax Fund money in excess of the amount approved on Municipal Services Completion Report Form MS-999. A similar finding was also written in our current report (see Finding No. 3).

During our current examination we reviewed a letter dated October 8, 2010, from the Department of Transportation informing the municipality to reimburse \$13,734.20 to its Liquid Fuels Tax Fund. We noted that the municipality reimbursed this amount to its Liquid Fuels Tax Fund on November 4, 2010.

BOROUGH OF SWARTHMORE
DELAWARE COUNTY
LIQUID FUELS TAX FUND
SUMMARY OF EXIT CONFERENCE
FOR THE PERIOD
JANUARY 1, 2009 TO DECEMBER 31, 2011

An exit conference was held January 8, 2013. Those participating were:

BOROUGH OF SWARTHMORE

Ms. Jane C. Billings, Borough Manager

Ms. Amanda Ostrander-Serock, Assistant Borough Manager

DEPARTMENT OF THE AUDITOR GENERAL

Mr. Fred Casella, Auditor

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

BOROUGH OF SWARTHMORE
DELAWARE COUNTY
LIQUID FUELS TAX FUND
REPORT DISTRIBUTION
FOR THE PERIOD
JANUARY 1, 2009 TO DECEMBER 31, 2011

This report was initially distributed to:

The Honorable Barry J. Schoch, P.E.
Secretary
Department of Transportation

Borough of Swarthmore
Delaware County
121 Park Avenue
Swarthmore, PA 19081

The Honorable Susan Smythe

President of Council

Ms. Jane C. Billings

Borough Manager

This report is a matter of public record and is available online at <http://www.auditorgen.state.pa.us>. Media questions about the report can be directed to the Pennsylvania Department of the Auditor General, Office of Communications, 231 Finance Building, Harrisburg, PA 17120; via email to: news@auditorgen.state.pa.us.