

ATTESTATION ENGAGEMENT

Township of Nether Providence

Delaware County, Pennsylvania

23-105

Liquid Fuels Tax Fund

For the Period

January 1, 2020 to December 31, 2020

January 2022



Commonwealth of Pennsylvania
Department of the Auditor General

Timothy L. DeFoor • Auditor General



Commonwealth of Pennsylvania
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TIMOTHY L. DEFOOR
AUDITOR GENERAL

Independent Auditor's Report

The Honorable Yassmin Gramian, P.E.
Secretary
Department of Transportation
Harrisburg, PA 17120

We examined the accompanying Form MS-965 With Adjustments for the Liquid Fuels Tax Fund of the Township of Nether Providence, Delaware County, for the period January 1, 2020 to December 31, 2020. The municipality's management is responsible for presenting the Form MS-965 in accordance with the criteria described in the Background section of this report and the Department of Transportation's *Publication 9*. Our responsibility is to express an opinion on the Form 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. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether the Form MS-965 is presented in accordance with the criteria described above, in all material respects. An examination involves performing procedures to obtain evidence about the Form MS-965. The nature, timing and extent of the procedures selected depend on our judgement, including an assessment of the risks of material misstatement of the Form MS-965, whether due to fraud or error. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

As described in the Auditor Description Of Select Transactions section of this report, the adjustments included on the Form MS-965 With Adjustments are made by the Department of the Auditor General.

As discussed in the Findings No. 1, the municipality did not maintain documentation to support \$19,192.01 of a total of \$402,651.39 that was transferred from its Liquid Fuels Tax Fund to its General Fund for the reimbursement of expenditures made on behalf of the Liquid Fuels Tax Fund during 2020. Additionally, as discussed in Finding No. 2, the township expended \$10,792.00 in excess of the approved amount for road project No. 19-23-105-001.

Independent Auditor's Report (Continued)

In our opinion, except for the matters discussed in the preceding paragraph, the Form MS-965 With Adjustments presents, in all material respects, the information required by the Pennsylvania Department of Transportation for the Liquid Fuels Tax Fund of the Township of Nether Providence, Delaware County, for the period January 1, 2020 to December 31, 2020, in accordance with the criteria described in the Background section of this report and the Department of Transportation's *Publication 9*.

In accordance with *Government Auditing Standards*, we are required to report all deficiencies that are considered to be significant deficiencies or material weaknesses in internal control; fraud and noncompliance with provisions of laws or regulations that have a material effect on the Form MS-965; and any other instances that warrant the attention of those charged with governance; noncompliance with provisions of contracts or grant agreements, and abuse that has a material effect on the Form MS-965. We are also required to obtain and report the views of responsible officials concerning the findings, conclusions, and recommendations, as well as any planned corrective actions. We performed our examination to express an opinion on whether the Form MS-965 is presented in accordance with the criteria described above and not for the purpose of expressing an opinion on the internal control over reporting on the Form MS-965 or on compliance and other matters; accordingly, we express no such opinions.

A *deficiency in internal control* 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 and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Form MS-965 will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose of expressing an opinion on whether the Form MS-965 is presented in accordance with the criteria described above and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify a certain deficiency in internal control, described in the finding listed below, that we consider to be a material weakness in internal control:

- Documentation Supporting Transfers Was Not Available For Examination.

Independent Auditor's Report (Continued)

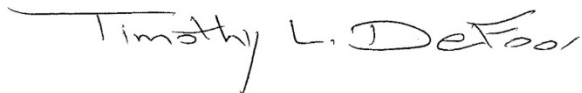
As part of obtaining reasonable assurance about whether the Form MS-965 is free from material misstatement, we performed tests of the Township of Nether Providence, Delaware County's compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of amounts on the Form MS-965. However, providing an opinion on compliance with those provisions was not an objective of our engagement, and accordingly, we do not express such an opinion. The results of our tests disclosed a matter that, while not required to be included in this report by *Government Auditing Standards*, has been included in the finding below:

- Liquid Fuels Money Over Expended On Project – Recurring.

The examination finding for Liquid Fuels money over expended on a project cites a condition that existed in the operation of the municipality during the previous engagement period and was not corrected during the current examination period. The municipality should strive to comply with the recommendations in this report.

The purpose of this report is to determine whether the municipality's Liquid Fuels Tax Fund money is spent in accordance with the laws and regulations identified in the Background section of this report and the Department of Transportation's *Publication 9*. This report is not suitable for any other purpose.

We appreciate the courtesy extended by the Township of Nether Providence, Delaware County, to us during the course of our examination. If you have any questions, please feel free to contact the Bureau of County Audits at 717-787-1363.



Timothy L. DeFoor
Auditor General
December 15, 2021

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TOWNSHIP OF NETHER PROVIDENCE
DELAWARE COUNTY
LIQUID FUELS TAX FUND
BACKGROUND
FOR THE PERIOD
JANUARY 1, 2020 TO DECEMBER 31, 2020

Background

The Liquid Fuels Tax Municipal Allocation Law, Act 655 of 1956, as amended, see also 72 P.S. § 2615.5, et sec., provides municipalities other than counties (i.e., 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 upon: (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.

Title 75 Pa.C.S. § 9511 of the Pennsylvania Vehicle Code 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 allocation of Liquid Fuels Tax funds and annual maintenance payments that it receives into a special fund called either 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 such a 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. Department of Transportation's *Publication 9* includes the policies and procedures for the administration of Act 655, as amended, and the Liquid Fuels Tax Fund money. However, if there is a difference between *Publication 9* and any legislation, the legislation shall govern.

To qualify for the annual allocation of Liquid Fuels Tax funds, *Publication 9* indicates that each municipality shall:

1. Submit annual reports (MS-965, Actual Use Report, MS-965P, Project and Miscellaneous Receipts, and MS-965S, Record of Checks).
2. Make deposits and payments or expenditures in compliance with Act 655 of 1956, as amended. Failure to do so may result in not receiving allocations from PennDOT until all discrepancies are resolved. *Publication 9*, Section 2.6, includes information about investing Liquid Fuels Tax monies, using loan or bond proceeds, and types of receipts into the Liquid Fuels Tax Fund.

TOWNSHIP OF NETHER PROVIDENCE
 DELAWARE COUNTY
 LIQUID FUELS TAX FUND
 BACKGROUND
 FOR THE PERIOD
 JANUARY 1, 2020 TO DECEMBER 31, 2020

Background (Continued)

3. Submit the Pennsylvania Department of Community and Economic Development’s (DCED) Report of Elected and Appointed Officials by January 31st and the Survey of Financial Condition By March 15th.
4. Ensure resolution of all Contractor Responsibility Program (CRP) holds and blocks imposed by the Department of Revenue and the Department of Labor and Industry.
5. Ensure resolution of all reimbursements required as a result of audits performed by the Department of the Auditor General or monitoring reviews performed by the Department of Transportation’s Financial Consultants.

Criteria

The criteria for the Form MS-965 With Adjustment are described below.

Section 1 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 with varying yearly costs in excess of the amounts indicated below:

| 2017 | 2018 | 2019 | 2020 |
|-------------|-------------|-------------|-------------|
| \$10,700.00 | \$10,900.00 | \$11,100.00 | \$11,300.00 |

- Minor equipment purchases are purchases of road machinery and road equipment with varying yearly costs that are less than or equal to the amounts indicated below:

| 2017 | 2018 | 2019 | 2020 |
|-------------|-------------|-------------|-------------|
| \$10,700.00 | \$10,900.00 | \$11,100.00 | \$11,300.00 |

- Agility projects are exchanges of services with the Department of Transportation.

TOWNSHIP OF NETHER PROVIDENCE
DELAWARE COUNTY
LIQUID FUELS TAX FUND
BACKGROUND
FOR THE PERIOD
JANUARY 1, 2020 TO DECEMBER 31, 2020

Background (Continued)

Section 2 of Form MS-965 With Adjustments provides information on the fund balance. Categories requiring explanation include:

- The state allocation is available from the Department of Transportation in March of each year. The amount the municipality receives is based half on its population and half on its road mileage.
- Municipalities that transferred roads from the Commonwealth of Pennsylvania to the municipality through the Highway Transfer Program receive annual turnback allocations in March of each year from the Department of Transportation. Turnback allocations are based on the mileage of the roads transferred.
- Expenditures include the total transferred from Section 1.

Section 3 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.

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.

TOWNSHIP OF NETHER PROVIDENCE
DELAWARE COUNTY
LIQUID FUELS TAX FUND
BACKGROUND
FOR THE PERIOD
JANUARY 1, 2020 TO DECEMBER 31, 2020

Background (Continued)

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 Form MS-965 has 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 Form MS-965 With Adjustments is restricted to the Liquid Fuels Tax Fund, which represents a segment of the entity.

Basis Of Accounting

The accompanying Form MS-965 With Adjustments is prepared in accordance with reporting requirements prescribed by the Pennsylvania Department of Transportation. Under this method, revenues are recognized when received and expenditures are recorded when paid.

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.

TOWNSHIP OF NETHER PROVIDENCE
 DELAWARE COUNTY
 LIQUID FUELS TAX FUND
 2020 FORM MS-965 – SECTION 1
 WITH ADJUSTMENTS

| <u>Expenditure Summary</u> | <u>Reported</u> | <u>Adjustments</u> | <u>Adjusted Amount</u> |
|---|-----------------------------|-----------------------------|-----------------------------|
| Minor equipment purchases | \$ - | \$ - | \$ - |
| Computer/Computer related training | - | - | - |
| Major equipment purchases | - | - | - |
| Agility projects | - | - | - |
| Cleaning streets and gutters | - | - | - |
| Winter maintenance services | 16,426.24 | - | 16,426.24 |
| Traffic control devices | 21,168.55 | - | 21,168.55 |
| Street lighting | 39,397.43 | - | 39,397.43 |
| Storm sewers and drains | - | - | - |
| Repairs of tools and machinery | 12,715.14 | - | 12,715.14 |
| Maintenance and repair of roads and bridges | 4,643.52 | - | 4,643.52 |
| Highway construction and rebuilding projects | 277,157.50 | 11,951.00 | 289,108.50 |
| Miscellaneous | - | 19,192.01 | 19,192.01 |
| | <u> </u> | <u> </u> | <u> </u> |
| Total (To Section 2, Line 5) | <u>\$ 371,508.38</u> | <u>\$ 31,143.01</u> | <u>\$ 402,651.39</u> |

TOWNSHIP OF NETHER PROVIDENCE
 DELAWARE COUNTY
 LIQUID FUELS TAX FUND
 2020 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, 2020 | \$ 87,485.69 | \$ - | \$ 87,485.69 |
| Receipts: | | | |
| 2. State allocation | 414,630.95 | - | 414,630.95 |
| 2a. Turnback allocation | - | - | - |
| 2b. Interest on investments | 1,381.97 | (.06) | 1,381.91 |
| 2c. Miscellaneous | - | 13,997.78 | 13,997.78 |
| 3. Total receipts | <u>416,012.92</u> | <u>13,997.72</u> | <u>430,010.64</u> |
| 4. Total funds available | <u>503,498.61</u> | <u>13,997.72</u> | <u>517,496.33</u> |
| 5. Expenditures (Section 1) | <u>371,508.38</u> | <u>31,143.01</u> | <u>402,651.39</u> |
| 6. Balance, December 31, 2020 | <u><u>\$ 131,990.23</u></u> | <u><u>\$ (17,145.29)</u></u> | <u><u>\$ 114,844.94</u></u> |

TOWNSHIP OF NETHER PROVIDENCE
 DELAWARE COUNTY
 LIQUID FUELS TAX FUND
 2020 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 | \$ 87,485.69 | \$ - | \$ 87,485.69 |
| 2. Add: Current year equipment allocation (20% of Lines 2 + 2a, Section 2) | 82,926.19 | - | 82,926.19 |
| 3. PENNDOT approved adjustments | <u>-</u> | <u>-</u> | <u>-</u> |
| 4. Total funds available for equipment acquisition | 170,411.88 | - | 170,411.88 |
| 5. Less: Major equipment expenditures | <u>-</u> | <u>-</u> | <u>-</u> |
| 6. Remainder | <u>170,411.88</u> | <u>-</u> | <u>170,411.88</u> |
| 7. Equipment balance available for subsequent year (Lesser of Line 6 or Section 2 balance, but not less than zero) | <u>\$ 131,990.23</u> | <u>\$ (17,145.29)</u> | <u>\$ 114,844.94</u> |

TOWNSHIP OF NETHER PROVIDENCE
DELAWARE COUNTY
LIQUID FUELS TAX FUND
AUDITOR DESCRIPTION OF SELECT TRANSACTIONS
FOR THE PERIOD
JANUARY 1, 2020 TO DECEMBER 31, 2020

The following information relates to certain types of transactions for which the Pennsylvania Department of Transportation requested that we provide additional detail.

Adjustments

Section 1

An adjustment of \$11,951.00 was made to “Highway construction and rebuilding projects” because expenditures were understated.

An adjustment of \$19,192.01 was made to “Miscellaneous” because expenditures were understated.

Section 2

An adjustment of \$(.06) was made to “Interest on investments” because interest earned was overstated.

An adjustment of \$13,997.78 was made to “Miscellaneous” because a reimbursement from the General Fund was not reported.

TOWNSHIP OF NETHER PROVIDENCE
DELAWARE COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2020 TO DECEMBER 31, 2020

Finding No. 1 - Documentation Supporting Transfers Was Not Available For Examination

Our examination disclosed that during 2020 the municipality transferred \$402,651.39 from its Liquid Fuels Tax Fund to its General Fund for the reimbursement of expenditures made on behalf of the Liquid Fuels Tax Fund. However, the municipality did not maintain invoices to support expenditures of \$19,192.01.

Good internal control procedures ensure that there is documentation to support all expenditures.

The Liquid Fuels Tax Municipal Allocation Law, 72 P.S. § 2615.4, provides, in part, that monies herein allocated may be used only for construction, reconstruction, maintenance and repairs of such public roads or streets, including bridges, culverts and drainage structures, for which they are legally responsible. Also permitted are expenditures involving acquisition, maintenance, repairs and operation of street signs, traffic signs, traffic signal control systems, road equipment, and snow fences.

The Department of Transportation has been statutorily authorized to promulgate regulations concerning the administration of Liquid Fuels Tax Fund money and has determined that certain items, including expenditures made without supporting documentation, are outside the scope of permissible expenditures.

Without adequate documentation, we could not determine if the expenditures were permissible according to the Liquid Fuels Tax Municipal Allocation Law and the Department of Transportation's Regulations.

The failure to maintain documentation to support expenditures could result in the municipality having to reimburse \$19,192.01 to its Liquid Fuels Tax Fund.

It is not known why the municipality failed to maintain documentation of all Liquid Fuels expenditures.

TOWNSHIP OF NETHER PROVIDENCE
DELAWARE COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2020 TO DECEMBER 31, 2020

Finding No. 1 - Documentation Supporting Transfers Was Not Available For Examination (Continued)

Recommendations

We recommend that the municipality reimburse \$19,192.01 to its Liquid Fuels Tax Fund upon official notification by the Department of Transportation.

We further recommend that the municipality ensure good internal control over expenditures by maintaining adequate documentation to support all expenditures.

Management's response:

The township manager stated:

We understand the nature of the findings, and we do not dispute them. We will ensure all documentation going forward is proper.

Auditor's Conclusion:

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

TOWNSHIP OF NETHER PROVIDENCE
DELAWARE COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2020 TO DECEMBER 31, 2020

Finding No. 2 - Liquid Fuels Money Over Expended On Project - Recurring

We cited the municipality for expending more Liquid Fuels Tax Fund money than was approved on a construction project in our prior report for the period January 1, 2019 to December 31, 2019. Our current examination disclosed that the municipality expended \$279,895.00 of Liquid Fuels Tax Fund money on construction project No. 19-23105-001. However, the amount of Liquid Fuels Tax Fund money approved by the Department of Transportation to be expended from the Liquid Fuels Tax Fund for this project was \$269,103.00. The difference of \$10,792.00 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 \$10,792.00 to its Liquid Fuels Tax Fund.

According to the township manager, the previous financial director did not properly maintain Liquid Fuels expenditure documentation in 2020 resulting in the over expenditure.

Recommendations

We recommend that the municipality reimburse \$10,792.00 to its Liquid Fuels Tax Fund upon official notification by the Department of Transportation.

We again recommend that, in the future, the municipality expend only the approved amount of Liquid Fuels Tax Fund money on road construction projects. Furthermore, we recommend the municipality maintain adequate documentation of all expenditures to enable compliance with the Department of Transportation's Regulations.

TOWNSHIP OF NETHER PROVIDENCE
DELAWARE COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2020 TO DECEMBER 31, 2020

Finding No. 2 - Liquid Fuels Money Over Expended On Project - Recurring (Continued)

Management Response:

The township manager stated:

We understand the nature of the findings, and we do not dispute them. We will ensure all documentation going forward is proper.

Auditor's Conclusion:

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

TOWNSHIP OF NETHER PROVIDENCE
DELAWARE COUNTY
LIQUID FUELS TAX FUND
SUMMARY OF PRIOR EXAMINATION RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2020 TO DECEMBER 31, 2020

Summary Of Prior Examination Recommendations

In our prior report, we recommended that the Department of Transportation review our examination finding to determine if the municipality should reimburse \$13,997.78 to its Liquid Fuels Tax Fund for expending Liquid Fuels Tax Fund money in excess of the approved amount on the Form MS-999.

During our current examination, we noted that the municipality reimbursed this amount to its Liquid Fuels Tax Fund on September 1, 2020.

In our prior report, we also recommended that the municipality expend only the approved amount of Liquid Fuels Tax Fund money on road construction projects.

During our current examination, we noted that the municipality did not comply with our recommendation (see Finding No. 2).

TOWNSHIP OF NETHER PROVIDENCE
DELAWARE COUNTY
LIQUID FUELS TAX FUND
SUMMARY OF EXIT CONFERENCE
FOR THE PERIOD
JANUARY 1, 2020 TO DECEMBER 31, 2020

An exit conference was held December 10, 2021. Those participating were:

TOWNSHIP OF NETHER PROVIDENCE

Mr. David Grady, Township Manager

DEPARTMENT OF THE AUDITOR GENERAL

Mr. John C. Socket, Auditor

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

TOWNSHIP OF NETHER PROVIDENCE
DELAWARE COUNTY
LIQUID FUELS TAX FUND
REPORT DISTRIBUTION
FOR THE PERIOD
JANUARY 1, 2020 TO DECEMBER 31, 2020

This report was initially distributed to:

The Honorable Yassmin Gramian, P.E.
Secretary
Department of Transportation

Township of Nether Providence
Delaware County
214 Sykes Ave.
Wallingford, PA 19086

The Honorable Micah Knapp
President of the Board of Commissioners

Mr. David Grady
Township Manager

This report is a matter of public record and is available online at www.PaAuditor.gov. Media questions about the report can be directed to the Pennsylvania Department of the Auditor General, Office of Communications, 229 Finance Building, Harrisburg, PA 17120; via email to: news@PaAuditor.gov.