

ATTESTATION ENGAGEMENT

City of Philadelphia
Philadelphia County, Pennsylvania
67-301
Liquid Fuels Tax Fund
For the Period
January 1, 2008 to December 31, 2012

October 2014



Commonwealth of Pennsylvania
Department of the Auditor General
Eugene A. DePasquale • Auditor General



Commonwealth of Pennsylvania
Department of the Auditor General
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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 City of Philadelphia, Philadelphia County, for the period January 1, 2008 to December 31, 2012. 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 City of Philadelphia, Philadelphia County's Forms MS-965 for the period January 1, 2008 to December 31, 2012 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)

In our opinion, 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 City of Philadelphia, Philadelphia County, for the period January 1, 2008 to December 31, 2012, in conformity with the criteria set forth in Note 1.

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 Forms 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 Forms 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 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.

Our consideration of internal control was for the limited purpose of expressing an opinion on whether the Forms MS-965 are 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. However, as described below, we identified certain deficiencies in internal control that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

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 Forms 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.

Independent Auditor's Report (Continued)

Our consideration of the internal control was for the limited purpose of expressing an opinion on whether the Forms MS-965 are 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 certain deficiencies in internal control, described in the findings listed below, that we consider to be material weaknesses in internal control:

- Internal Control Over Receipts Should Be Improved.
- Untimely Deposit Of Allocations And Turnback Allocation Deposited Into The General Fund.

As part of obtaining reasonable assurance about whether the Forms MS-965 are free from material misstatement, we performed tests of the City of Philadelphia, Philadelphia 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 Forms 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we did note an other matter that, while not required to be included in this report by *Government Auditing Standards*, has been included in the finding below:

- Nonpermissible Expenditures.

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

We appreciate the courtesy extended by the City of Philadelphia, Philadelphia County, to us during the course of our examination. If you have any questions, please feel free to contact Michael B. Kashishian, CPA, CGAP, CFE, Director, Bureau of County Audits, at 717-787-1363.



Eugene A. DePasquale
Auditor General

April 15, 2014

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CITY OF PHILADELPHIA
PHILADELPHIA COUNTY
LIQUID FUELS TAX FUND
BACKGROUND
FOR THE PERIOD
JANUARY 1, 2008 TO DECEMBER 31, 2012

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.

CITY OF PHILADELPHIA
 PHILADELPHIA COUNTY
 LIQUID FUELS TAX FUND
 2008 FORM MS-965 – SECTION 1
 WITH ADJUSTMENTS

<u>Expenditure Summary</u>	<u>Reported</u>	<u>Adjustments (Note 4)</u>	<u>Adjusted Amount</u>
Major equipment purchases	\$ 33,268.00	\$ 359,399.54	\$ 392,667.54
Minor equipment purchases	-	-	-
Computer/Computer related training	-	-	-
Agility projects	-	-	-
Cleaning streets and gutters	2,099,096.37	-	2,099,096.37
Winter maintenance services	823,990.16	-	823,990.16
Traffic control devices	2,202,056.73	-	2,202,056.73
Street lighting	9,177,525.71	-	9,177,525.71
Storm sewers and drains	-	-	-
Repairs of tools and machinery	-	-	-
Maintenance and repair of roads and bridges	7,444,967.77	(149,413.37)	7,295,554.40
Highway construction and rebuilding projects	2,633,803.73	(208,514.92)	2,425,288.81
Miscellaneous (Bank service charges)	2,589,956.00	(2,589,230.97)	725.03
 Total (To Section 2, Line 5)	 <u>\$27,004,664.47</u>	 <u>\$ (2,587,759.72)</u>	 <u>\$24,416,904.75</u>

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

CITY OF PHILADELPHIA
 PHILADELPHIA COUNTY
 LIQUID FUELS TAX FUND
 2008 FORM MS-965 – SECTION 2
 WITH ADJUSTMENTS

<u>Fund Balance</u>	<u>Reported</u>	<u>Adjustments (Note 4)</u>	<u>Adjusted Amount</u>
1. Balance, January 1, 2008	\$ 3,420,323.94	\$ 89,961.88	\$ 3,510,285.82
Receipts:			
2. State allocation	25,566,931.70	-	25,566,931.70
2a. Turnback allocation	88,800.00	-	88,800.00
2b. Interest on investments (Note 3)	161,980.00	(14,022.67)	147,957.33
2c. Miscellaneous (Refund for bank service charges)	2,589,956.00	(2,589,229.95)	726.05
3. Total receipts	<u>28,407,667.70</u>	<u>(2,603,252.62)</u>	<u>25,804,415.08</u>
4. Total funds available	<u>31,827,991.64</u>	<u>(2,513,290.74)</u>	<u>29,314,700.90</u>
5. Expenditures (Section 1)	<u>27,004,664.47</u>	<u>(2,587,759.72)</u>	<u>24,416,904.75</u>
6. Balance, December 31, 2008	<u><u>\$ 4,823,327.17</u></u>	<u><u>\$ 74,468.98</u></u>	<u><u>\$ 4,897,796.15</u></u>

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

CITY OF PHILADELPHIA
 PHILADELPHIA COUNTY
 LIQUID FUELS TAX FUND
 2008 FORM MS-965 – SECTION 3
 WITH ADJUSTMENTS

<u>Equipment Balance</u>	<u>Reported</u>	<u>Adjustments (Note 4)</u>	<u>Adjusted Amount</u>
1. Prior year equipment balance	\$ 3,420,323.94	\$ 89,961.88	\$ 3,510,285.82
2. Add: Current year equipment allocation (20% of Lines 2 + 2a, Section 2)	5,131,146.34	-	5,131,146.34
3. PENNDOT approved adjustments	<u>-</u>	<u>-</u>	<u>-</u>
4. Total funds available for equipment acquisition	8,551,470.28	89,961.88	8,641,432.16
5. Less: Major equipment expenditures	<u>33,268.00</u>	<u>359,399.54</u>	<u>392,667.54</u>
6. Remainder	<u>8,518,202.28</u>	<u>(269,437.66)</u>	<u>8,248,764.62</u>
7. Equipment balance available for subsequent year (Lesser of Line 6 or Section 2 balance, but not less than zero)	<u>\$ 4,823,327.17</u>	<u>\$ 74,468.98</u>	<u>\$ 4,897,796.15</u>

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

CITY OF PHILADELPHIA
 PHILADELPHIA 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	\$ -	\$ 817,931.27	\$ 817,931.27
Minor equipment purchases	-	-	-
Computer/Computer related training	-	-	-
Agility projects	-	-	-
Cleaning streets and gutters	1,000,000.00	-	1,000,000.00
Winter maintenance services	790,997.82	-	790,997.82
Traffic control devices	2,353,685.26	-	2,353,685.26
Street lighting	14,398,866.75	-	14,398,866.75
Storm sewers and drains	-	-	-
Repairs of tools and machinery	-	-	-
Maintenance and repair of roads and bridges	2,284,969.85	(804,031.27)	1,480,938.58
Highway construction and rebuilding projects	150,160.87	(13,900.00)	136,260.87
Miscellaneous (Bank service charges)	-	1,251.25	1,251.25
 Total (To Section 2, Line 5)	 <u>\$20,978,680.55</u>	 <u>\$ 1,251.25</u>	 <u>\$20,979,931.80</u>

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

CITY OF PHILADELPHIA
 PHILADELPHIA 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	\$ 4,897,796.15	\$ -	\$ 4,897,796.15
Receipts:			
2. State allocation	24,628,737.79	-	24,628,737.79
2a. Turnback allocation	-	-	-
2b. Interest on investments (Note 3)	6,155.66	(1,795.79)	4,359.87
2c. Miscellaneous (Refund for bank service charges)	-	3,047.04	3,047.04
3. Total receipts	<u>24,634,893.45</u>	<u>1,251.25</u>	<u>24,636,144.70</u>
4. Total funds available	<u>29,532,689.60</u>	<u>1,251.25</u>	<u>29,533,940.85</u>
5. Expenditures (Section 1)	<u>20,978,680.55</u>	<u>1,251.25</u>	<u>20,979,931.80</u>
6. Balance, December 31, 2009	<u><u>\$ 8,554,009.05</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 8,554,009.05</u></u>

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

CITY OF PHILADELPHIA
 PHILADELPHIA COUNTY
 LIQUID FUELS TAX FUND
 2009 FORM MS-965 – SECTION 3
 WITH ADJUSTMENTS

<u>Equipment Balance</u>	<u>Reported</u>	<u>Adjustments (Note 4)</u>	<u>Adjusted Amount</u>
1. Prior year equipment balance	\$ 4,897,796.15	\$ -	\$ 4,897,796.15
2. Add: Current year equipment allocation (20% of Lines 2 + 2a, Section 2)	4,925,747.56	-	4,925,747.56
3. PENNDOT approved adjustments	<u>-</u>	<u>-</u>	<u>-</u>
4. Total funds available for equipment acquisition	9,823,543.71	-	9,823,543.71
5. Less: Major equipment expenditures	<u>-</u>	<u>817,931.27</u>	<u>817,931.27</u>
6. Remainder	<u>9,823,543.71</u>	<u>(817,931.27)</u>	<u>9,005,612.44</u>
7. Equipment balance available for subsequent year (Lesser of Line 6 or Section 2 balance, but not less than zero)	<u>\$ 8,554,009.05</u>	<u>\$ -</u>	<u>\$ 8,554,009.05</u>

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

CITY OF PHILADELPHIA
 PHILADELPHIA 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	\$ -	\$ 547,202.00	\$ 547,202.00
Minor equipment purchases	-	-	-
Computer/Computer related training	-	-	-
Agility projects	-	-	-
Cleaning streets and gutters	2,010,000.00	-	2,010,000.00
Winter maintenance services	3,306,026.77	-	3,306,026.77
Traffic control devices	1,476,979.26	-	1,476,979.26
Street lighting	15,134,616.76	-	15,134,616.76
Storm sewers and drains	-	-	-
Repairs of tools and machinery	-	-	-
Maintenance and repair of roads and bridges	2,308,457.63	952,274.50	3,260,732.13
Highway construction and rebuilding projects	6,400.00	-	6,400.00
Miscellaneous	-	-	-
 Total (To Section 2, Line 5)	 <u>\$24,242,480.42</u>	 <u>\$ 1,499,476.50</u>	 <u>\$25,741,956.92</u>

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

CITY OF PHILADELPHIA
 PHILADELPHIA 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	\$ 8,554,009.05	\$ -	\$ 8,554,009.05
Receipts:			
2. State allocation	23,683,191.54	-	23,683,191.54
2a. Turnback allocation	88,800.00	88,800.00	177,600.00
2b. Interest on investments (Note 3)	47,057.38	-	47,057.38
2c. Miscellaneous (Finding No. 1)	88,800.00	1,410,676.56	1,499,476.56
3. Total receipts	<u>23,907,848.92</u>	<u>1,499,476.56</u>	<u>25,407,325.48</u>
4. Total funds available	<u>32,461,857.97</u>	<u>1,499,476.56</u>	<u>33,961,334.53</u>
5. Expenditures (Section 1)	<u>24,242,480.42</u>	<u>1,499,476.50</u>	<u>25,741,956.92</u>
6. Balance, December 31, 2010	<u>\$ 8,219,377.55</u>	<u>\$.06</u>	<u>\$ 8,219,377.61</u>

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

CITY OF PHILADELPHIA
 PHILADELPHIA 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	\$ 8,554,009.05	\$ -	\$ 8,554,009.05
2. Add: Current year equipment allocation (20% of Lines 2 + 2a, Section 2)	4,772,158.31	-	4,772,158.31
3. PENNDOT approved adjustments	<u>-</u>	<u>-</u>	<u>-</u>
4. Total funds available for equipment acquisition	13,326,167.36	-	13,326,167.36
5. Less: Major equipment expenditures	<u>-</u>	<u>547,202.00</u>	<u>547,202.00</u>
6. Remainder	<u>13,326,167.36</u>	<u>(547,202.00)</u>	<u>12,778,965.36</u>
7. Equipment balance available for subsequent year (Lesser of Line 6 or Section 2 balance, but not less than zero)	<u>\$ 8,219,377.55</u>	<u>\$.06</u>	<u>\$ 8,219,377.61</u>

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

CITY OF PHILADELPHIA
 PHILADELPHIA COUNTY
 LIQUID FUELS TAX FUND
 2011 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	\$ -	\$ 58,641.30	\$ 58,641.30
Minor equipment purchases	-	-	-
Computer/Computer related training	-	-	-
Agility projects	-	-	-
Cleaning streets and gutters	1,729,364.97	-	1,729,364.97
Winter maintenance services	3,045,754.89	-	3,045,754.89
Traffic control devices	1,757,951.35	-	1,757,951.35
Street lighting	12,548,724.61	-	12,548,724.61
Storm sewers and drains	-	-	-
Repairs of tools and machinery	-	-	-
Maintenance and repair of roads and bridges	3,875,978.43	(58,641.30)	3,817,337.13
Highway construction and rebuilding projects	-	-	-
Miscellaneous	-	-	-
 Total (To Section 2, Line 5)	 <u>\$22,957,774.25</u>	 <u>\$ -</u>	 <u>\$22,957,774.25</u>

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

CITY OF PHILADELPHIA
 PHILADELPHIA COUNTY
 LIQUID FUELS TAX FUND
 2011 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, 2011	\$ 8,219,377.61	\$ -	\$ 8,219,377.61
Receipts:			
2. State allocation	24,254,275.23	-	24,254,275.23
2a. Turnback allocation	88,800.00	-	88,800.00
2b. Interest on investments (Note 3)	10,975.20	-	10,975.20
2c. Miscellaneous	-	-	-
3. Total receipts	<u>24,354,050.43</u>	<u>-</u>	<u>24,354,050.43</u>
4. Total funds available	<u>32,573,428.04</u>	<u>-</u>	<u>32,573,428.04</u>
5. Expenditures (Section 1)	<u>22,957,774.25</u>	<u>-</u>	<u>22,957,774.25</u>
6. Balance, December 31, 2011	<u><u>\$ 9,615,653.79</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 9,615,653.79</u></u>

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

CITY OF PHILADELPHIA
 PHILADELPHIA 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	\$ 8,219,377.61	\$ -	\$ 8,219,377.61
2. Add: Current year equipment allocation (20% of Lines 2 + 2a, Section 2)	4,868,615.05	-	4,868,615.05
3. PENNDOT approved adjustments	<u>-</u>	<u>-</u>	<u>-</u>
4. Total funds available for equipment acquisition	13,087,992.66	-	13,087,992.66
5. Less: Major equipment expenditures	<u>-</u>	<u>58,641.30</u>	<u>58,641.30</u>
6. Remainder	<u>13,087,992.66</u>	<u>(58,641.30)</u>	<u>13,029,351.36</u>
7. Equipment balance available for subsequent year (Lesser of Line 6 or Section 2 balance, but not less than zero)	<u>\$ 9,615,653.79</u>	<u>\$ -</u>	<u>\$ 9,615,653.79</u>

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

CITY OF PHILADELPHIA
 PHILADELPHIA COUNTY
 LIQUID FUELS TAX FUND
 2012 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	\$ -	\$ 1,179,485.88	\$ 1,179,485.88
Minor equipment purchases	-	-	-
Computer/Computer related training	-	-	-
Agility projects	-	-	-
Cleaning streets and gutters	2,010,000.00	-	2,010,000.00
Winter maintenance services	1,022,840.98	-	1,022,840.98
Traffic control devices	1,430,881.62	-	1,430,881.62
Street lighting	10,837,523.51	-	10,837,523.51
Storm sewers and drains	-	-	-
Repairs of tools and machinery	-	-	-
Maintenance and repair of roads and bridges	4,778,551.05	(1,429,485.88)	3,349,065.17
Highway construction and rebuilding projects	-	-	-
Miscellaneous (Note 5)	-	24,600,522.03	24,600,522.03
 Total (To Section 2, Line 5)	 <u>\$20,079,797.16</u>	 <u>\$24,350,522.03</u>	 <u>\$44,430,319.19</u>

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

CITY OF PHILADELPHIA
 PHILADELPHIA COUNTY
 LIQUID FUELS TAX FUND
 2012 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, 2012	\$ 9,615,653.79	\$ -	\$ 9,615,653.79
Receipts:			
2. State allocation	24,511,722.03	-	24,511,722.03
2a. Turnback allocation	88,800.00	-	88,800.00
2b. Interest on investments (Note 3)	1,182.97	-	1,182.97
2c. Miscellaneous (Note 5)	-	24,600,522.03	24,600,522.03
3. Total receipts	<u>24,601,705.00</u>	<u>24,600,522.03</u>	<u>49,202,227.03</u>
4. Total funds available	<u>34,217,358.79</u>	<u>24,600,522.03</u>	<u>58,817,880.82</u>
5. Expenditures (Section 1)	<u>20,079,797.16</u>	<u>24,350,522.03</u>	<u>44,430,319.19</u>
6. Balance, December 31, 2012	<u><u>\$14,137,561.63</u></u>	<u><u>\$ 250,000.00</u></u>	<u><u>\$14,387,561.63</u></u>

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

CITY OF PHILADELPHIA
 PHILADELPHIA COUNTY
 LIQUID FUELS TAX FUND
 2012 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	\$ 9,615,653.79	\$ -	\$ 9,615,653.79
2. Add: Current year equipment allocation (20% of Lines 2 + 2a, Section 2)	4,920,104.41	-	4,920,104.41
3. PENNDOT approved adjustments	-	-	-
4. Total funds available for equipment acquisition	14,535,758.20	-	14,535,758.20
5. Less: Major equipment expenditures	-	1,179,485.88	1,179,485.88
6. Remainder	<u>14,535,758.20</u>	<u>(1,179,485.88)</u>	<u>13,356,272.32</u>
7. Equipment balance available for subsequent year (Lesser of Line 6 or Section 2 balance, but not less than zero)	<u>\$14,137,561.63</u>	<u>\$ (781,289.31)</u>	<u>\$13,356,272.32</u>

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

CITY OF PHILADELPHIA
PHILADELPHIA COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE PERIOD
JANUARY 1, 2008 TO DECEMBER 31, 2012

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 prior to 2012 and in excess of \$10,000.00 during 2012 and subsequent years.
- Minor equipment purchases are purchases of road machinery and road equipment that cost \$4,000.00 or less prior to 2012 and \$10,000.00 or less during 2012 and subsequent years.
- 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.

CITY OF PHILADELPHIA
PHILADELPHIA COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE PERIOD
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1. Criteria (Continued)

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.

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.

CITY OF PHILADELPHIA
PHILADELPHIA COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE PERIOD
JANUARY 1, 2008 TO DECEMBER 31, 2012

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 Third Class City Code, Title 53 P.S § 36804.1, authorizes the city 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, 2012. 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.

CITY OF PHILADELPHIA
PHILADELPHIA COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE PERIOD
JANUARY 1, 2008 TO DECEMBER 31, 2012

2. Deposits (Continued)

Fund Balance

The fund balance as of December 31, 2012 consists of the following:

Cash	<u>\$14,387,561.63</u>
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3. Interest On Investments

Our examination disclosed that the municipality deposited idle liquid fuels tax money in an interest-bearing account which earned \$147,957.33 during 2008, \$4,359.87 during 2009, \$47,057.38 during 2010, \$10,975.20 during 2011, and \$1,182.97 during 2012 thus providing additional funds for road maintenance and repairs.

4. Adjustments

2008 - Section 1

- An adjustment of \$359,399.54 was made to “Major equipment purchases” because expenditures of \$150,884.62 were misclassified as maintenance and repair of roads and bridges and expenditures of \$208,514.92 were misclassified as highway construction and rebuilding projects.
- An adjustment of \$(149,413.37) was made to “Maintenance and repair of roads and bridges” because expenditures of \$150,884.62 for major equipment purchases were misclassified and these expenditures were understated by \$1,471.25.
- An adjustment of \$(208,514.92) was made to “Highway construction and rebuilding projects” because expenditures for major equipment purchases were misclassified.
- An adjustment of \$(2,589,230.97) was made to “Miscellaneous” because bank service charges of \$725.03 were not reported and these expenditures were overstated by \$2,589,956.00.

CITY OF PHILADELPHIA
PHILADELPHIA COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE PERIOD
JANUARY 1, 2008 TO DECEMBER 31, 2012

4. Adjustments (Continued)

2008 - Section 2

- An adjustment of \$89,961.88 was made to “Balance, January 1, 2008” because an incorrect fund balance was reported.
- An adjustment of \$(14,022.67) was made to “Interest on investments” because interest earnings were overstated.
- An adjustment of \$(2,589,229.95) was made to “Miscellaneous” because refunds for bank service charges of \$726.05 were not reported and these receipts were overstated by \$2,589,956.00.

2008 - Section 3

- An adjustment of \$89,961.88 was made to “Prior year equipment balance” because an incorrect equipment balance was carried forward.
- An adjustment of \$359,399.54 was made to “Major equipment expenditures” to reflect the adjustment made to major equipment purchases in 2008 - Section 1.

2009 - Section 1

- Adjustments were made to “Major equipment purchases,” “Maintenance and repair of roads and bridges,” and “Highway construction and rebuilding projects” because expenditures of \$817,931.27 were misclassified.
- An adjustment of \$1,251.25 was made to “Miscellaneous” because bank service charges were not reported.

2009 - Section 2

- An adjustment of \$(1,795.79) was made to “Interest on investments” because interest earnings were overstated.
- An adjustment of \$3,047.04 was made to “Miscellaneous” because refunds for bank service charges were not reported.

CITY OF PHILADELPHIA
PHILADELPHIA COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE PERIOD
JANUARY 1, 2008 TO DECEMBER 31, 2012

4. Adjustments (Continued)

2009 - Section 3

- An adjustment of \$817,931.27 was made to “Major equipment expenditures” to reflect the adjustment made to major equipment purchases in 2009 - Section 1.

2010 - Section 1

- An adjustment of \$547,202.00 was made to “Major equipment purchases” because these expenditures were misclassified as maintenance and repair of roads and bridges.
- An adjustment of \$952,274.50 was made to “Maintenance and repair of roads and bridges” because expenditures of \$547,202.00 for major equipment purchases were misclassified and these expenditures were understated by \$1,499,476.50.

2010 - Section 2

- An adjustment of \$88,800.00 was made to “Turnback allocation” because this receipt was misclassified as miscellaneous.
- An adjustment of \$1,410,676.56 was made to “Miscellaneous” because the turnback allocation of \$88,800.00 was misclassified and these receipts were understated by \$1,499,476.56.

2010 - Section 3

- An adjustment of \$547,202.00 was made to “Major equipment expenditures” to reflect the adjustment made to major equipment purchases in 2010 - Section 1.

2011 - Section 1

- Adjustments were made to “Major equipment purchases” and “Maintenance and repair of roads and bridges” because expenditures of \$58,641.30 were misclassified.

CITY OF PHILADELPHIA
PHILADELPHIA COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE PERIOD
JANUARY 1, 2008 TO DECEMBER 31, 2012

4. Adjustments (Continued)

2011 - Section 3

- An adjustment of \$58,641.30 was made to “Major equipment expenditures” to reflect the adjustment made to major equipment purchases in 2011 - Section 1.

2012 - Section 1

- An adjustment of \$1,179,485.88 was made to “Major equipment purchases” because these expenditures were misclassified as maintenance and repair of roads and bridges.
- An adjustment of \$(1,429,485.88) was made to “Maintenance and repair of roads and bridges” because expenditures of \$1,179,485.88 for major equipment purchases were misclassified and these expenditures were overstated by \$250,000.00.
- An adjustment of \$24,600,522.03 was made to “Miscellaneous” because a payment to the General Fund to correct a transfer in error was not reported (Note 5).

2012 - Section 2

- An adjustment of \$24,600,522.03 was made to “Miscellaneous” because a transfer in error from the General Fund was not reported (Note 5).

2012 - Section 3

- An adjustment of \$1,179,485.88 was made to “Major equipment expenditures” to reflect the adjustment made to major equipment purchases in 2012 - Section 1.

5. Transfer In Error

On June 26, 2012, the municipality transferred \$24,600,522.03 from its General Fund to its Liquid Fuels Tax Fund in error. On July 27, 2012, the municipality transferred this amount from its Liquid Fuels Tax Fund to its General Fund to correct the transfer in error.

CITY OF PHILADELPHIA
PHILADELPHIA COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2008 TO DECEMBER 31, 2012

Finding No. 1 - Internal Control Over Receipts Should Be Improved

Our examination disclosed that there was no documentation to describe or support the receipt of \$1,499,476.56 that was received November 16, 2010.

Good internal controls ensure that the municipality prepares its Forms MS-965 accurately and completely. Documentation to support the information that appears on Forms MS-965 should include descriptions of the source and purpose of all receipts. Because documentation for this receipt was not maintained, we were unable to determine if this money should have been deposited into the Liquid Fuels Tax Fund. In addition, the failure to properly complete Forms MS-965 increases the risk that errors or misappropriations may occur and remain undetected.

Recommendations

We recommend that the municipality ensure that its Forms MS-965 are complete and accurate. The municipality should also determine the source of this money to determine if it was properly deposited into the Liquid Fuels Tax Fund.

We further recommend that the municipality maintain adequate documentation to support all receipts.

Management's Response

The municipal officials stated:

Internal controls have been identified and implemented.

Auditor's Conclusion

The municipality should ensure that all receipts are adequately documented and reported on the Form MS-965. During our next examination we will determine if the municipality complied with our recommendations.

CITY OF PHILADELPHIA
 PHILADELPHIA COUNTY
 LIQUID FUELS TAX FUND
 FINDINGS AND RECOMMENDATIONS
 FOR THE PERIOD
 JANUARY 1, 2008 TO DECEMBER 31, 2012

Finding No. 2 - Untimely Deposit Of Allocations And Turnback Allocation Deposited Into The General Fund

Our examination disclosed that the below Liquid Fuels Tax Fund allocations, were not deposited into the Liquid Fuels Tax Fund account on a timely basis. Details of the delays in making deposits are as follows.

<u>Year</u>	<u>Date Received</u>	<u>Amount</u>	<u>Date Deposited</u>
2009	April 1, 2009	\$24,628,737.79	April 14, 2009
2011	April 1, 2011	24,254,275.23	April 26, 2011
2012	April 1, 2012	<u>24,511,722.03</u>	May 29, 2012
Total		<u>\$73,394,735.05</u>	

Additionally, the 2009 Turnback allocation of \$88,800.00 was received on April 1, 2009 and should have been immediately deposited into the city’s Liquid Fuels Tax Fund but it was deposited into the city’s General Fund. On February 16, 2010, the city transferred this amount from its General Fund to its Liquid Fuels Tax Fund. The City should have internal controls in place to prevent the allocation from being deposited into the incorrect account. Furthermore, the City should have additional internal controls in place to timely detect if an allocation is deposited into in incorrect account so the error can be corrected. In this instance the error was not corrected for nearly ten (10) months

The turnback allocation was made to the municipality in accordance with the *Vehicle Code*, 75 Pa. C.S.A. § 9511(4), which requires that “Annual maintenance payments...shall be deposited into the municipality’s liquid fuels tax account....”

Good internal control procedures require that all funds received be deposited immediately upon receipt. The failure to do so increases the risk that errors and misappropriations may occur and remain undetected. In addition, the risk that Liquid Fuels Tax Fund money may be used for unauthorized purposes increases when liquid fuels money is commingled with other funds. Furthermore, had the Liquid Fuels Tax Fund and Turnback allocations been deposited into the Liquid Fuels Tax Fund in a timely manner, money may have been available for investment, potentially earning interest income which could have been used for road maintenance and repairs.

CITY OF PHILADELPHIA
PHILADELPHIA COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2008 TO DECEMBER 31, 2012

**Finding No. 2 - Untimely Deposit Of Allocations And Turnback Allocation Deposited Into
The General Fund (Continued)**

Recommendations

We strongly recommend that, in the future, the municipality establish and implement procedures to ensure all allocations are deposited immediately upon receipt and into the proper account. The failure to deposit allocations timely and into the proper account increases the risk of error and misappropriations occurring and remaining undetected for long periods of time.

In addition, the municipal officials should consider using the electronic transfer of funds offered by the Department of Transportation.

Management's Response

The municipal officials stated:

We do monthly reconciliations on our funds at the end of the month and most of these deposits in question were a combination of revenue being brought in and expenditures being taken out. In the past this was done to decrease the number of wire transfers due to being easier and more cost effective. However, in the future we will process each transaction individually.

Auditor's Conclusion

The municipality should ensure that allocations are deposited into the Liquid Fuels Tax Fund immediately upon receipt to reduce the risk of errors and misappropriations occurring and remaining undetected. During our next examination we will determine if the municipality complied with our recommendations.

CITY OF PHILADELPHIA
 PHILADELPHIA COUNTY
 LIQUID FUELS TAX FUND
 FINDINGS AND RECOMMENDATIONS
 FOR THE PERIOD
 JANUARY 1, 2008 TO DECEMBER 31, 2012

Finding No. 3 - Nonpermissible Expenditures

Our examination disclosed that the municipality expended \$338,133.18 from the Liquid Fuels Tax Fund for the following nonpermissible items:

<u>Description</u>	<u>Amount</u>	<u>Totals</u>
<u>2008</u>		
22 gal. recycled plastic boxes	\$27,037.92	
6 gal. hazardous material pails	22,750.00	
2008 Total	<hr/>	\$ 49,787.92
<u>2009</u>		
(2) Ford Escape SUV's	35,583.14	
2009 Total	<hr/>	35,583.14
<u>2011</u>		
(3) Ford Escape SUV's	58,641.30	
(2) All Terrain Vehicles	18,773.82	
2011 Total	<hr/>	77,415.12
<u>2012</u>		
(9) Jeep Liberty SUV's	175,347.00	
2012 Total	<hr/>	175,347.00
Five Year Total		<hr/> <hr/>

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 the above listed items, are outside the scope of permissible expenditures.

The failure to follow the Liquid Fuels Tax Municipal Allocation Law and the Department of Transportation's Regulations as noted above could result in the municipality having to reimburse \$338,133.18 to its Liquid Fuels Tax Fund.

CITY OF PHILADELPHIA
PHILADELPHIA COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2008 TO DECEMBER 31, 2012

Finding No. 3 - Nonpermissible Expenditures (Continued)

Recommendations

We recommend that the municipality reimburse \$338,133.18 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 Liquid Fuels Tax Municipal Allocation Law and the Department of Transportation's Regulations regarding permissible expenditures.

Management's Response

The municipal officials stated:

We assert the expenditures were permissible in accordance with *Publication 9*.

Auditor's Conclusion

Department of Transportation Regulations do not permit municipalities to use Liquid Fuels Tax Fund money to purchase recycled plastic boxes, hazardous material pails, and SUVs . The Department of Transportation will determine if the municipality is required to reimburse \$338,133.18 to its Liquid Fuels Tax Fund. During our next examination we will determine if the municipality complied with our recommendations.

CITY OF PHILADELPHIA
PHILADELPHIA COUNTY
LIQUID FUELS TAX FUND
SUMMARY OF EXIT CONFERENCE
FOR THE PERIOD
JANUARY 1, 2008 TO DECEMBER 31, 2012

An exit conference was held April 15, 2014. Those participating were:

CITY OF PHILADELPHIA

Ms. Patricia McConnell, Deputy Streets Commissioner

Mr. Thomas O'Farrell, Fiscal Officer-Streets Department

DEPARTMENT OF THE AUDITOR GENERAL

Mr. Matthew Hotchkiss, Auditor

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

CITY OF PHILADELPHIA
PHILADELPHIA COUNTY
LIQUID FUELS TAX FUND
REPORT DISTRIBUTION
FOR THE PERIOD
JANUARY 1, 2008 TO DECEMBER 31, 2012

This report was initially distributed to:

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

City of Philadelphia
Philadelphia County
Municipal Services Building-Room 700
1401 JFK Boulevard
Philadelphia, PA 19102

The Honorable David J. Perri

Streets Commissioner

Ms. Patricia McConnell

Deputy Streets Commissioner

Mr. Thomas O'Farrell

Fiscal Officer-Streets Department

This report is a matter of public record and is available online at 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.