

ATTESTATION ENGAGEMENT

Washington County

Pennsylvania

62-000

Liquid Fuels Tax Fund

And Act 44 Tax Fund

For the Period

January 1, 2013 to December 31, 2014

October 2015



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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EUGENE A. DEPASQUALE
AUDITOR GENERAL

Independent Auditor's Report

The Honorable Leslie Richards
Secretary
Department of Transportation
Harrisburg, PA 17120

We examined the accompanying Forms MS-991 With Adjustments for the Liquid Fuels Tax Fund and the Reports of Act 44 Tax Fund With Adjustments of Washington County for the period January 1, 2013 to December 31, 2014. The county's management is responsible for the Forms MS-991 and the Reports of Act 44 Tax Fund. Our responsibility is to express an opinion on the Forms MS-991 With Adjustments and the Reports of Act 44 Tax Fund 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 Washington County's Forms MS-991 and Reports of Act 44 Tax Fund for the period January 1, 2013 to December 31, 2014 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 county's Liquid Fuels Tax Fund and Act 44 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-991 With Adjustments and the Reports of Act 44 Tax Fund With Adjustments are made by the Department of the Auditor General.

Independent Auditor's Report (Continued)

As discussed in Finding No. 1, the county expended \$140,247.81 during 2013 and \$74,060.10 during 2014 in excess of the ten percent limit on indirect/administrative costs from the Liquid Fuels Tax Fund. Additionally, as discussed in Finding No. 2, the county deposited its 2014 Act 44 Tax Fund allocation of \$93,021.63 into the Liquid Fuels Tax Fund. This amount was reimbursed to the county's Liquid Fuels Tax Fund on February 9, 2015, which was subsequent to our examination period.

Although management of the county provided us with a management representation letter on the date of our exit conference of May 11, 2015, held at the county, they did not respond to our request for an updated management representation letter including the disclosure of any subsequent events that affected the Forms MS-991 through the date of this report.

In our opinion, except for the effect of the over expenditure of Liquid Fuels Tax Fund money for indirect/administrative costs, the effect of depositing the 2014 Act 44 Tax Fund allocation into the Liquid Fuels Tax Fund, and the possible effects of the county's failure to provide an updated management representation letter, the Forms MS-991 With Adjustments and the Reports of Act 44 Tax Fund With Adjustments present, in all material respects, the information required by the Pennsylvania Department of Transportation for the Liquid Fuels Tax Fund and Act 44 Tax Fund of Washington County for the period January 1, 2013 to December 31, 2014, 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-991 and the Reports of Act 44 Tax Fund; 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-991 and the Reports of Act 44 Tax Fund. 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-991 and the Reports of Act 44 Tax Fund are presented in accordance with the criteria described above and not for the purpose of expressing an opinion on internal control over reporting on the Forms MS-991 and the Reports of Act 44 Tax Fund 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 Forms MS-991 and the Reports of Act 44 Tax Fund 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 internal control over reporting on the Forms MS-991 and the Reports of Act 44 Tax Fund was for the limited purpose of expressing an opinion on whether the Forms MS-991 and the Reports of Act 44 Tax Fund are presented in accordance with the criteria described above and would not necessarily identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our engagement we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

As part of obtaining reasonable assurance about whether the Forms MS-991 and the Reports of Act 44 Tax Fund are free from material misstatement, we performed tests of Washington 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-991 and the Reports of Act 44 Tax Fund. 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 the following instances of noncompliance that are required to be reported under *Government Auditing Standards*:

- Expenditures In Excess Of The 10 Percent Limit On Indirect/Administrative Costs.

- Act 44 Tax Fund Money Deposited Into The Liquid Fuels Tax Fund.

This report is intended solely for the information and use of the Pennsylvania Department of Transportation and the management of Washington 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 Washington 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

September 23, 2015

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WASHINGTON COUNTY
LIQUID FUELS TAX FUND
AND ACT 44 TAX FUND
BACKGROUND
FOR THE PERIOD
JANUARY 1, 2013 TO DECEMBER 31, 2014

Background

The Vehicle Code makes provisions and provides funding for County Liquid Fuels and Act 44 Programs. The Pennsylvania Department of Transportation has regulatory administration and oversight of the funds supporting these county programs. Counties are required to comply with those provisions and to report annually.

The Vehicle Code imposes a state tax on liquid fuels and fuels used or sold and delivered by distributors within the Commonwealth (75 Pa. C.S. § 9004(a)). One-half cent of the tax collected on each gallon of liquid fuels is deposited in the Commonwealth's Liquid Fuels Tax Fund. The Vehicle Code further provides for the disposition and use of this tax, including the allocations to counties in June and December of each year to fund construction, reconstruction, maintenance and repair of county roads, streets and bridges. The allocation to the respective counties is made in the ratio that the average amount returned to each county during the three preceding years bears to the average amount returned to all counties during the three preceding years (75 Pa C.S. § 9010).

The Vehicle Code, as recently amended by Act 44 of 2007 (July 18, 2007, P.L.169), requires the Pennsylvania Turnpike Commission to make annual contributions for the benefit of the Pennsylvania Department of Transportation's Motor License Fund, and further requires the Department of Transportation to distribute \$5,000,000 of the annual contribution to counties (75 Pa. C.S. § 8915.6). The annual distribution to counties is determined based upon the ratio of square footage of deck area of a county's county-owned bridges to the total square footage of deck area of county-owned bridges throughout the Commonwealth. The reporting of the square footage of deck area of a county's county-owned bridges is required as part of the National Bridge Inspection Standards Program.

WASHINGTON COUNTY
LIQUID FUELS TAX FUND
2013 FORM MS-991 WITH ADJUSTMENTS

| | <u>Reported</u> | <u>Adjustments (Note 4)</u> | <u>Adjusted Amount</u> |
|--|---------------------|---------------------------------|----------------------------|
| Balance, January 1, 2013 | \$ 284,856.60 | \$ - | \$ 284,856.60 |
| <u>Receipts:</u> | | | |
| State allocations | 596,452.98 | - | 596,452.98 |
| Interest (Note 3) | 463.08 | - | 463.08 |
| Reimbursable agreements (Note 5) | 2,156,809.96 | - | 2,156,809.96 |
| Miscellaneous (Note 6) | 10,965.83 | - | 10,965.83 |
| Total receipts | <u>2,764,691.85</u> | <u>-</u> | <u>2,764,691.85</u> |
| Total funds available | <u>3,049,548.45</u> | <u>-</u> | <u>3,049,548.45</u> |
| <u>Expenditures:</u> | | | |
| Construction | 2,119,616.14 | 4,937.49 | 2,124,553.63 |
| Maintenance and repair | 616,443.93 | (59,937.49) | 556,506.44 |
| Administrative | 143,547.77 | 56,345.34 | 199,893.11 |
| Grants to political subdivisions | - | - | - |
| Miscellaneous | 1,345.34 | (1,345.34) | - |
| Total expenditures | <u>2,880,953.18</u> | <u>-</u> | <u>2,880,953.18</u> |
| Balance, December 31, 2013 | 168,595.27 | - | 168,595.27 |
| Unpaid encumbrances | <u>165,000.00</u> | <u>(152,293.29)</u> | <u>12,706.71</u> |
| Unencumbered balance, December 31, 2013 | <u>\$ 3,595.27</u> | <u>\$ 152,293.29</u> | <u>\$ 155,888.56</u> |

Notes To Forms MS-991 And Reports Of Act 44 Tax Fund With Adjustments are an integral part of this report.

WASHINGTON COUNTY
LIQUID FUELS TAX FUND
2014 FORM MS-991 WITH ADJUSTMENTS

| | <u>Reported</u> | <u>Adjustments (Note 4)</u> | <u>Adjusted Amount</u> |
|--|----------------------|---------------------------------|----------------------------|
| Balance, January 1, 2014 | \$ 168,595.27 | \$ - | \$ 168,595.27 |
| <u>Receipts:</u> | | | |
| State allocations | 578,368.91 | - | 578,368.91 |
| Interest (Note 3) | 417.56 | - | 417.56 |
| Reimbursable agreements (Note 5) | 1,834,626.60 | (125,882.82) | 1,708,743.78 |
| Miscellaneous (Note 6) | 457,265.13 | 125,882.82 | 583,147.95 |
| Total receipts | <u>2,870,678.20</u> | <u>-</u> | <u>2,870,678.20</u> |
| Total funds available | <u>3,039,273.47</u> | <u>-</u> | <u>3,039,273.47</u> |
| <u>Expenditures:</u> | | | |
| Construction | 1,844,623.33 | - | 1,844,623.33 |
| Maintenance and repair | 541,465.92 | 17,865.50 | 559,331.42 |
| Administrative | 129,877.25 | 2,019.74 | 131,896.99 |
| Grants to political subdivisions | - | - | - |
| Miscellaneous (Note 7) | 19,907.33 | (19,885.24) | 22.09 |
| Total expenditures | <u>2,535,873.83</u> | <u>-</u> | <u>2,535,873.83</u> |
| Balance, December 31, 2014 | 503,399.64 | - | 503,399.64 |
| Unpaid encumbrances (Note 8) | 141,439.07 | (128,732.36) | 12,706.71 |
| Unencumbered balance, December 31, 2014 | <u>\$ 361,960.57</u> | <u>\$ 128,732.36</u> | <u>\$ 490,692.93</u> |

Notes To Forms MS-991 And Reports Of Act 44 Tax Fund With Adjustments are an integral part of this report.

WASHINGTON COUNTY
LIQUID FUELS TAX FUND
2013 REPORT OF ACT 44 TAX FUND
WITH ADJUSTMENTS

| | <u>Reported</u> | <u>Adjustments (Note 4)</u> | <u>Adjusted Amount</u> |
|---------------------------------|-----------------------------|---------------------------------|-----------------------------|
| Balance, January 1, 2013 | \$ 311,097.34 | \$ - | \$ 311,097.34 |
| <u>Receipts:</u> | | | |
| Act 44 Funds | - | 92,482.41 | 92,482.41 |
| Interest (Note 3) | 456.07 | - | 456.07 |
| Reimbursable Agreement Receipts | - | - | - |
| Miscellaneous Receipts | 92,482.41 | (92,482.41) | - |
| Total receipts | <u>92,938.48</u> | <u>-</u> | <u>92,938.48</u> |
| Total funds available | <u>404,035.82</u> | <u>-</u> | <u>404,035.82</u> |
| <u>Expenditures:</u> | | | |
| Construction | - | - | - |
| Maintenance and repair | 21,583.00 | - | 21,583.00 |
| Miscellaneous | - | - | - |
| Total expenditures | <u>21,583.00</u> | <u>-</u> | <u>21,583.00</u> |
| Balance, December 31, 2013 | <u><u>\$ 382,452.82</u></u> | <u><u>\$ -</u></u> | <u><u>\$ 382,452.82</u></u> |

Notes To Forms MS-991 And Reports Of Act 44 Tax Fund With Adjustments are an integral part of this report.

WASHINGTON COUNTY
LIQUID FUELS TAX FUND
2014 REPORT OF ACT 44 TAX FUND
WITH ADJUSTMENTS

| | <u>Reported</u> | <u>Adjustments</u> | <u>Adjusted Amount</u> |
|---------------------------------|-----------------------------|--------------------|-----------------------------|
| Balance, January 1, 2014 | \$ 382,452.82 | \$ - | \$ 382,452.82 |
| <u>Receipts:</u> | | | |
| Act 44 Funds | - | - | - |
| Interest (Note 3) | 383.75 | - | 383.75 |
| Reimbursable Agreement Receipts | - | - | - |
| Miscellaneous Receipts | - | - | - |
| Total receipts | <u>383.75</u> | <u>-</u> | <u>383.75</u> |
| Total funds available | <u>382,836.57</u> | <u>-</u> | <u>382,836.57</u> |
| <u>Expenditures:</u> | | | |
| Construction | - | - | - |
| Maintenance and repair | 143,282.68 | - | 143,282.68 |
| Miscellaneous | - | - | - |
| Total expenditures | <u>143,282.68</u> | <u>-</u> | <u>143,282.68</u> |
| Balance, December 31, 2014 | <u><u>\$ 239,553.89</u></u> | <u><u>\$ -</u></u> | <u><u>\$ 239,553.89</u></u> |

Notes To Forms MS-991 And Reports Of Act 44 Tax Fund With Adjustments are an integral part of this report.

WASHINGTON COUNTY
LIQUID FUELS TAX FUND AND ACT 44 TAX FUND
NOTES TO FORMS MS-991 AND
REPORTS OF ACT 44 TAX FUND WITH ADJUSTMENTS
FOR THE PERIOD
JANUARY 1, 2013 TO DECEMBER 31, 2014

1. Criteria

A. *The Vehicle Code* prescribes criteria for liquid fuels program funds (75 Pa C.S. § 9010). The Pennsylvania Department of Transportation's *Publication 9* provides more specific policies and procedures to counties for the administration and reporting of the liquid fuels program funds. In the event of any discrepancies between the two, the legislation governs.

(1) Funds received by the counties must be deposited in a special fund designated as the County Liquid Fuels Tax Fund and no other money may be deposited and commingled. Money should be invested to earn interest until expended.

- For purposes of payments under (2), below, the county may borrow and place in the special fund money not in excess of the liquid fuels tax funds to be received during the current calendar year.

(2) Payments from the special fund may be used for:

- construction, reconstruction, maintenance and repair of roads, highways, bridges and curb ramps from a road or highway to provide for access by individuals with disabilities consistent with Federal and State law;
- property damages and compensation of viewers for services in eminent domain proceedings involving roads, highways, and bridges;
- construction, reconstruction, operation and maintenance of publicly owned ferryboat operations;
- interest and principal payments on road, bridge, or publicly owned ferryboat operation bonds or sinking fund charges;
- acquisition, maintenance, repair and operation of traffic signs and signals;
- erection and maintenance of stop and go signal lights, blinkers and other like traffic control devices;
- indirect costs, including benefit costs, overhead and other administrative charges for those county employees directly engaged in eligible projects, not to exceed 10 percent of the yearly allocation to the county; and

WASHINGTON COUNTY
LIQUID FUELS TAX FUND AND ACT 44 TAX FUND
NOTES TO FORMS MS-991 AND
REPORTS OF ACT 44 TAX FUND WITH ADJUSTMENTS
FOR THE PERIOD
JANUARY 1, 2013 TO DECEMBER 31, 2014

1. Criteria (Continued)

- individual vehicle liability insurance for equipment purchased under the fund, not to exceed 10 percent of the yearly allocation to the county.
- (3) Counties may not make expenditures from the special fund for new construction on roads, bridges, curb ramps, or publicly owned ferryboat operations without the approval of the plans for construction by the Pennsylvania Department of Transportation. And, counties may not allocate money from the special fund to political subdivisions within the county until the application and the contracts or plans for the proposed expenditures have been made on a form prescribed by the Pennsylvania Department of Transportation.
- (4) Counties may encumber current funds for future road and bridge construction, reconstruction, and maintenance projects including viable municipal projects. Counties must redistribute any unencumbered balance in the special fund to political subdivisions if the unencumbered balance is more than the county's receipts during the preceding twelve month period.
- (5) Counties must submit a report to the Pennsylvania Department of Transportation by January 15 for the period ending December 31 on prescribed Form MS-991, The Report of County Liquid Fuels Tax Fund, showing the receipts and expenditures of the money received by the county from the Commonwealth. Upon failure to file the report or instances of any non-compliant payments, allocations, or expenditures, the Pennsylvania Department of Transportation will withhold further funding until the delinquent report is filed, the money is allocated, or the expenditures for the prior 12 months are approved.
- B. *The Vehicle Code*, as recently amended by Act 44 of 2007 (July 18, 2007, P.L. 169), prescribes the Pennsylvania Department of Transportation with oversight authority of the Act 44 funds distributed to the counties from the Pennsylvania Turnpike Commission's annual contribution of \$5,000,000 to the Commonwealth's Motor License Fund. The County's Act 44 Tax Fund is used to account for the distribution made to the county from the Department of Transportation and the payments made for construction and maintenance of county-owned bridges.

WASHINGTON COUNTY
LIQUID FUELS TAX FUND AND ACT 44 TAX FUND
NOTES TO FORMS MS-991 AND
REPORTS OF ACT 44 TAX FUND WITH ADJUSTMENTS
FOR THE PERIOD
JANUARY 1, 2013 TO DECEMBER 31, 2014

1. Criteria (Continued)

Basis Of Presentation

In accordance with reporting requirements prescribed by the Pennsylvania Department of Transportation, the Report of County Liquid Fuels Tax Fund With Adjustments and the Report of Act 44 Tax Fund With Adjustments do not constitute complete financial presentations of the county's assets, liabilities, expenses, and fund balance but include the receipts, expenditures, and fund balances of the County Liquid Fuels Tax Fund and the County Act 44 Tax Fund, respectively.

The Pennsylvania Department of Transportation prescribes that the county report the following on the MS-991 form, *Report of County Liquid Fuels Tax Fund*:

- A. The balance in the County Liquid Fuels Tax Fund at the beginning of the report calendar year.
- B. Receipts which must be itemized and include interest, reimbursable agreements, and miscellaneous items such as loans, sale of salvageable material, and damage claims to road or bridge property.

Refer to the related Notes: Note 3, Interest Earnings; Note 5, Reimbursable Agreements; and Note 6, Miscellaneous Receipts.

- C. Accounts receivable (to be realized within 60 days of the year end).
- D. Total Liquid Fuels Tax funds available for expenditure and encumbrances.
- E. Expenditures for county-owned roads, highways, and bridges.

Refer to related Note: Note 7, Miscellaneous Expenditures.

- F. Accounts payable (accrued wages, accrued payroll taxes, and accounts payable vendors to be realized within 60 days of the year end).
- G. The balance in the fund at the close of the report calendar year.
- H. Encumbered and unencumbered balances on hand at the close of the report calendar year.

Refer to Note 8, Encumbrances.

WASHINGTON COUNTY
LIQUID FUELS TAX FUND AND ACT 44 TAX FUND
NOTES TO FORMS MS-991 AND
REPORTS OF ACT 44 TAX FUND WITH ADJUSTMENTS
FOR THE PERIOD
JANUARY 1, 2013 TO DECEMBER 31, 2014

2. Deposits

The County Code, Title 16 P.S. § 17067, authorizes the county 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 or savings bank's assets minus liabilities.

Deposits consist of receipts and deposits in financial institutions. Pennsylvania statutes require all deposits to be insured and, for any amount above the insured maximum, to be secured with approved collateral as defined.

There were no deposits exposed to custodial credit risk as of December 31, 2014. 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 county's name.

Fund Balance

The fund balance for the Liquid Fuels Tax Fund consists of the following:

| | |
|------|--------------|
| Cash | \$503,399.64 |
|------|--------------|

The fund balance for the Act 44 Tax Fund consists of the following:

| | |
|------|--------------|
| Cash | \$239,553.89 |
|------|--------------|

WASHINGTON COUNTY
LIQUID FUELS TAX FUND AND ACT 44 TAX FUND
NOTES TO FORMS MS-991 AND
REPORTS OF ACT 44 TAX FUND WITH ADJUSTMENTS
FOR THE PERIOD
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3. Interest Earnings

Our examination disclosed that the county deposited idle liquid fuels tax money in interest-bearing accounts which earned \$463.08 during 2013 and \$417.56 during 2014, thus providing additional funds for road maintenance and repairs.

Additionally, the county deposited idle Act 44 tax money in an interest-bearing account which earned \$456.07 during 2013, and \$383.75 during 2014, thus providing additional funds for road maintenance and repairs.

4. Adjustments

2013 Form MS-991

Adjustments were made to “Construction,” “Maintenance and repair,” “Administrative,” and “Miscellaneous” because expenditures of \$61,282.83 were misclassified.

An adjustment of \$(152,293.29) was made to “Unpaid encumbrances” because the balances of the following encumbrances were reported incorrectly:

| <u>Encumbrance No.</u> | <u>Actual Amount</u> | <u>Reported Amount</u> | <u>Adjustment</u> |
|------------------------|----------------------|------------------------|-----------------------|
| 11-62-000-17 | \$ - | \$ 30,000.00 | \$ (30,000.00) |
| 11-62-000-18 | - | 60,000.00 | (60,000.00) |
| 11-62-000-20 | - | 45,000.00 | (45,000.00) |
| 11-62-000-22 | - | 10,000.00 | (10,000.00) |
| 11-62-000-23 | - | 20,000.00 | (20,000.00) |
| 00-62-000-04 | 1,559.73 | - | 1,559.73 |
| 01-62-000-01 | 3,187.53 | - | 3,187.53 |
| 01-62-000-02 | 7,959.45 | - | 7,959.45 |
| Totals | <u>\$12,706.71</u> | <u>\$165,000.00</u> | <u>\$(152,293.29)</u> |

2014 Form MS-991

An adjustment of \$125,882.82 was made to “Reimbursable agreements” and “Miscellaneous” because these receipts were misclassified.

WASHINGTON COUNTY
LIQUID FUELS TAX FUND AND ACT 44 TAX FUND
NOTES TO FORMS MS-991 AND
REPORTS OF ACT 44 TAX FUND WITH ADJUSTMENTS
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4. Adjustments (Continued)

Adjustments were made to “Maintenance and repair,” “Administrative,” and “Miscellaneous” because expenditures of \$19,885.24 were misclassified.

An adjustment of \$(128,732.36) was made to “Unpaid encumbrances” because the balances of the following encumbrances were reported incorrectly:

| Encumbrance No. | Actual Amount | Reported Amount | Adjustment |
|-----------------|--------------------|---------------------|-----------------------|
| 11-62-000-17 | \$ - | \$ 30,000.00 | \$(30,000.00) |
| 11-62-000-18 | - | 60,000.00 | (60,000.00) |
| 11-62-000-20 | - | 45,000.00 | (45,000.00) |
| 11-62-000-22 | - | 6,439.07 | (6,439.07) |
| 00-62-000-04 | 1,559.73 | - | 1,559.73 |
| 01-62-000-01 | 3,187.53 | - | 3,187.53 |
| 01-62-000-02 | 7,959.45 | - | 7,959.45 |
| | <u> </u> | <u> </u> | <u> </u> |
| Totals | <u>\$12,706.71</u> | <u>\$141,439.07</u> | <u>\$(128,732.36)</u> |

2013 Report of Act 44 Tax Fund

Adjustments were made to “Act 44 Funds” and “Miscellaneous” because receipts of \$92,482.41 were misclassified.

5. Reimbursable Agreements

During our examination, we noted that the county entered into reimbursement agreements with the Department for Transportation for bridge construction and bridge inspections. During our current examination period, the county received \$2,156,809.96 for 2013 and \$1,708,743.78 for 2014 as a result of these agreements and deposited the money into its Liquid Fuels Tax Fund. As of December 31, 2014, \$16,080.00 was due the Liquid Fuels Tax Fund.

WASHINGTON COUNTY
LIQUID FUELS TAX FUND AND ACT 44 TAX FUND
NOTES TO FORMS MS-991 AND
REPORTS OF ACT 44 TAX FUND WITH ADJUSTMENTS
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6. Miscellaneous Receipts

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

| Source | Description | 2013 | 2014 |
|------------------------------|------------------------------------|--------------------|---------------------|
| General Fund | Reimbursement for health benefits | \$ 5,493.69 | \$ - |
| Payroll Fund | Reimbursement for health benefits | - | 6,082.28 |
| Vendor | Reimbursement for damages | 5,000.00 | - |
| Commonwealth of Pennsylvania | Bridge lighting | 472.14 | - |
| Act 44 Tax Fund | Reimbursement of bridge invoices | - | 143,282.68 |
| Vendor | Reimbursement for road resurfacing | - | 134,023.24 |
| Vendor | Refund of overpayment | - | 15,070.40 |
| Commonwealth of PA | Act 44 Allocation (Finding No. 2) | - | 93,021.63 |
| Act 89 | Act 89 allocation (Note 9) | - | 65,784.90 |
| Capital Expense Accounts | Grants | - | 125,882.82 |
| Total | | <u>\$10,965.83</u> | <u>\$583,147.95</u> |

7. Miscellaneous Expenditures

On various dates during 2014, the county expended \$22.09 from the Liquid Fuels Tax Fund to various vendors for payments in error.

8. Encumbrances

As of December 31, 2014, \$12,706.71 was encumbered for county projects.

WASHINGTON COUNTY
LIQUID FUELS TAX FUND AND ACT 44 TAX FUND
NOTES TO FORMS MS-991 AND
REPORTS OF ACT 44 TAX FUND WITH ADJUSTMENTS
FOR THE PERIOD
JANUARY 1, 2013 TO DECEMBER 31, 2014

9. Deposit In Error

On December 23, 2014, the county deposited its Act 89 allocation of \$65,784.90 from the Commonwealth of Pennsylvania into its Liquid Fuels Tax Fund in error. The county transferred \$65,784.90 to its Act 89 Tax Fund to correct the deposit in error on February 2, 2015, which was subsequent to our examination period.

WASHINGTON COUNTY
LIQUID FUELS TAX FUND
AND ACT 44 TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2013 TO DECEMBER 31, 2014

Finding No. 1 - Expenditures In Excess Of The 10 Percent Limit On Indirect/Administrative Costs

Our examination disclosed that the county expended a total of \$199,893.11 in 2013 and \$131,896.99 in 2014 from the Liquid Fuels Tax Fund for indirect/administrative costs, which were greater than 10 percent of the yearly Liquid Fuels Tax Fund allocations of \$596,452.98 and \$578,368.91 to the county for 2013 and 2014, respectively.

The Liquid Fuels and Fuels Tax Act of 75 Pa. C.S.A. § 9010(b)(2)(i)(G) permits the use of county liquid fuels tax funds for “Indirect costs, including benefit costs, overhead and other administrative charges for those county employees directly engaged in eligible projects. . .” However, the use of liquid fuels tax funds for indirect costs “. . . may not exceed 10% of the yearly allocation to the county.” By way of correspondence to county liquid fuels tax fund administrators dated October 28, 1994, and other correspondence, the Department of Transportation explained the use of county Liquid Fuels Tax Fund money for documented, permissible indirect costs.

The indirect/administrative costs charged to the Liquid Fuels Tax Fund by the county during 2013-2014 are as follows:

| <u>Description</u> | <u>2013</u> | <u>2014</u> |
|---|---------------------|---------------------|
| Total indirect/administrative costs | \$199,893.11 | \$131,896.99 |
| Less 10% permissible amount | <u>59,645.30</u> | <u>57,836.89</u> |
| Excess expenditures for indirect/administrative costs | <u>\$140,247.81</u> | <u>\$ 74,060.10</u> |

The failure to comply with the Liquid Fuels and Fuels Tax Act could result in the county having to reimburse \$214,307.91 to its Liquid Fuels Tax Fund.

Recommendations

We recommend that the county reimburse \$214,307.91 to its Liquid Fuels Tax Fund upon official notification by the Department of Transportation.

We further recommend that, in the future, the county limit all indirect/administrative costs charged to the Liquid Fuels Tax Fund to the 10 percent maximum permitted by the Liquid Fuels and Fuels Tax Act.

WASHINGTON COUNTY
LIQUID FUELS TAX FUND
AND ACT 44 TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2013 TO DECEMBER 31, 2014

**Finding No. 1 - Expenditures In Excess Of The 10 Percent Limit On
Indirect/Administrative Costs (Continued)**

Management's Response

The county officials stated:

County will monitor and track all administrative expenditures to ensure they do not exceed 10% of the annual allocation from the State Liquid Fuels Tax Fund (allowable amount). Upon exceeding the allowable amount, administrative expenditures will be charged directly to the General Fund for the remainder of the calendar year.

County personnel met with PA DOT officials on May 1, 2015, to discuss this same matter and await their responses from our discussion following the completion of this examination.

Auditor's Conclusion

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

WASHINGTON COUNTY
LIQUID FUELS TAX FUND
AND ACT 44 TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2013 TO DECEMBER 31, 2014

Finding No. 2 - Act 44 Tax Fund Money Deposited Into The Liquid Fuels Tax Fund

Our examination disclosed that the county deposited its 2014 Act 44 allocation of \$93,021.63 into the Liquid Fuels Tax Fund on December 23, 2014, which is in noncompliance of the Department of Transportation's *Publication 9*.

The Department of Transportation's *Publication 9*, Chapter Four, Section 4.5, states:

Each county must deposit the Act 44 funds it receives into a special fund called the County Act 44 Fund, which may be used only for those purposes permitted by the Act.

The risk that Act 44 Tax Fund money may be used for unauthorized purposes increases when Act 44 money is commingled with other funds.

The county reimbursed \$93,021.63 to its Act 44 Tax Fund on February 9, 2015, which was subsequent to our examination period.

Recommendation

We recommend that, in the future, the county deposit all Act 44 tax money promptly into the Act 44 Tax Fund.

Management's Response

The county officials stated:

County will ensure that upon receipt of the Act 44 allocation, funds will be properly deposited into the Act 44 bank account and not the Liquid Fuels bank account.

Upon discovery of this error, the Act 44 monies were immediately transferred into the appropriate bank account.

Auditor's Conclusion

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

WASHINGTON COUNTY
LIQUID FUELS TAX FUND
AND ACT 44 TAX FUND
SUMMARY OF EXIT CONFERENCE
FOR THE PERIOD
JANUARY 1, 2013 TO DECEMBER 31, 2014

An exit conference was held May 11, 2015. Those participating were:

WASHINGTON COUNTY

Mrs. Lisa Cessna, Executive Director

Mr. Joshua J. Hatfield, Deputy Controller

Mrs. Irene Reese, Financial Analyst I

Mrs. Holly Dames, Grants Administrator

DEPARTMENT OF THE AUDITOR GENERAL

Brian Delaney, CFE, Auditor

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

WASHINGTON COUNTY
LIQUID FUELS TAX FUND
AND ACT 44 TAX FUND
REPORT DISTRIBUTION
FOR THE PERIOD
JANUARY 1, 2013 TO DECEMBER 31, 2014

This report was initially distributed to:

The Honorable Leslie Richards
Secretary
Department of Transportation

Washington County
100 West Beau Street
Washington, PA 15301-4470

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|--------------------------------|--|
| The Honorable Larry Maggi | Chairman of the Board of Commissioners |
| The Honorable Michael L. Namie | Controller |
| The Honorable Francis L. King | Treasurer |
| Mrs. Lisa Cessna | Executive Director |

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.