

# ATTESTATION ENGAGEMENT

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City of Philadelphia  
Philadelphia County, Pennsylvania  
67-301  
Liquid Fuels Tax Fund  
For the Period  
January 1, 2013 to December 31, 2014

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December 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-965 With Adjustments for the Liquid Fuels Tax Fund of the City of Philadelphia, Philadelphia County, for the period January 1, 2013 to December 31, 2014. 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, 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 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, 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-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.

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 a certain deficiency in internal control, described in the finding listed below, that we consider to be a material weakness in internal control:

- Untimely Deposit Of Allocations And Turnback Allocations Deposited Into The General Fund - Recurring

Independent Auditor's Report (Continued)

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 a matter that, while not required to be included in this report by *Government Auditing Standards*, has been included in the finding below:

- Nonpermissible Expenditures - Recurring.

We are concerned that the municipality failed to comply with our prior examination findings for untimely deposit of allocations and Turnback allocations deposited into the General Fund and nonpermissible expenditures.

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, 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 \$213,763.90 to its Liquid Fuels Tax Fund.

The municipality should strive to comply with the recommendations and corrective action noted in this report.

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

October 2, 2015

# CONTENTS

	<u>Page</u>
Background.....	1
Financial Section:	
2013 Form MS-965 With Adjustments .....	2
2014 Form MS-965 With Adjustments .....	5
Notes To Forms MS-965 With Adjustments.....	8
Findings And Recommendations:	
Finding No. 1 - Untimely Deposit Of Allocations And Turnback Allocations Deposited Into The General Fund - Recurring .....	14
Finding No. 2 - Nonpermissible Expenditures - Recurring.....	16
Summary Of Prior Examination Recommendations.....	18
Summary Of Exit Conference.....	19
Report Distribution .....	20

CITY OF PHILADELPHIA  
PHILADELPHIA COUNTY  
LIQUID FUELS TAX FUND  
BACKGROUND  
FOR THE PERIOD  
JANUARY 1, 2013 TO DECEMBER 31, 2014

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  
 2013 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	\$ -	\$ 626,420.24	\$ 626,420.24
Minor equipment purchases	-	-	-
Computer/Computer related training	-	-	-
Agility projects	-	-	-
Cleaning streets and gutters	2,010,000.00	-	2,010,000.00
Winter maintenance services	1,507,041.11	-	1,507,041.11
Traffic control devices	1,460,150.77	-	1,460,150.77
Street lighting	14,586,362.04	-	14,586,362.04
Storm sewers and drains	-	-	-
Repairs of tools and machinery	-	-	-
Maintenance and repair of roads and bridges	4,245,552.87	(626,420.24)	3,619,132.63
Highway construction and rebuilding projects	-	-	-
Miscellaneous	-	-	-
 Total (To Section 2, Line 5)	 <u>\$23,809,106.79</u>	 <u>\$ -</u>	 <u>\$23,809,106.79</u>

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

CITY OF PHILADELPHIA  
 PHILADELPHIA COUNTY  
 LIQUID FUELS TAX FUND  
 2013 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, 2013	\$ 14,137,561.63	\$ 250,000.00	\$ 14,387,561.63
Receipts:			
2. State allocation	24,099,932.65	-	24,099,932.65
2a. Turnback allocation	88,800.00	-	88,800.00
2b. Interest on investments (Note 3)	1,336.05	-	1,336.05
2c. Miscellaneous	-	-	-
3. Total receipts	<u>24,190,068.70</u>	<u>-</u>	<u>24,190,068.70</u>
4. Total funds available	<u>38,327,630.33</u>	<u>250,000.00</u>	<u>38,577,630.33</u>
5. Expenditures (Section 1)	<u>23,809,106.79</u>	<u>-</u>	<u>23,809,106.79</u>
6. Balance, December 31, 2013	<u><u>\$ 14,518,523.54</u></u>	<u><u>\$ 250,000.00</u></u>	<u><u>\$ 14,768,523.54</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  
 2013 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	\$ 14,137,561.63	\$ (781,289.31)	\$ 13,356,272.32
2. Add: Current year equipment allocation (20% of Lines 2 + 2a, Section 2)	4,837,746.53	-	4,837,746.53
3. PENNDOT approved adjustments	-	-	-
4. Total funds available for equipment acquisition	18,975,308.16	(781,289.31)	18,194,018.85
5. Less: Major equipment expenditures	-	626,420.24	626,420.24
6. Remainder	<u>18,975,308.16</u>	<u>(1,407,709.55)</u>	<u>17,567,598.61</u>
7. Equipment balance available for subsequent year (Lesser of Line 6 or Section 2 balance, but not less than zero)	<u>\$ 14,518,523.54</u>	<u>\$ 250,000.00</u>	<u>\$ 14,768,523.54</u>

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

CITY OF PHILADELPHIA  
 PHILADELPHIA COUNTY  
 LIQUID FUELS TAX FUND  
 2014 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	\$ -	\$ 384,337.01	\$ 384,337.01
Minor equipment purchases	-	-	-
Computer/Computer related training	-	-	-
Agility projects	-	-	-
Cleaning streets and gutters	1,010,000.00	-	1,010,000.00
Winter maintenance services	4,055,090.16	-	4,055,090.16
Traffic control devices	1,185,600.84	-	1,185,600.84
Street lighting	11,233,778.22	1,726,551.87	12,960,330.09
Storm sewers and drains	-	-	-
Repairs of tools and machinery	-	-	-
Maintenance and repair of roads and bridges	4,154,190.36	240,854.17	4,395,044.53
Highway construction and rebuilding projects	-	-	-
Miscellaneous (Note 5)	-	1,413,000.00	1,413,000.00
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total (To Section 2, Line 5)	<u>\$21,638,659.58</u>	<u>\$ 3,764,743.05</u>	<u>\$25,403,402.63</u>

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

CITY OF PHILADELPHIA  
 PHILADELPHIA COUNTY  
 LIQUID FUELS TAX FUND  
 2014 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, 2014	\$ 14,518,523.54	\$ 250,000.00	\$ 14,768,523.54
Receipts:			
2. State allocation	25,968,721.36	-	25,968,721.36
2a. Turnback allocation	88,800.00	-	88,800.00
2b. Interest on investments (Note 3)	1,456.09	-	1,456.09
2c. Miscellaneous (Note 5)	-	1,413,000.00	1,413,000.00
3. Total receipts	<u>26,058,977.45</u>	<u>1,413,000.00</u>	<u>27,471,977.45</u>
4. Total funds available	<u>40,577,500.99</u>	<u>1,663,000.00</u>	<u>42,240,500.99</u>
5. Expenditures (Section 1)	<u>21,638,659.58</u>	<u>3,764,743.05</u>	<u>25,403,402.63</u>
6. Balance, December 31, 2014	<u><u>\$ 18,938,841.41</u></u>	<u><u>\$ (2,101,743.05)</u></u>	<u><u>\$ 16,837,098.36</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  
 2014 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	\$ 14,518,523.54	\$ 250,000.00	\$ 14,768,523.54
2. Add: Current year equipment allocation (20% of Lines 2 + 2a, Section 2)	5,211,504.27	-	5,211,504.27
3. PENNDOT approved adjustments	-	-	-
4. Total funds available for equipment acquisition	19,730,027.81	250,000.00	19,980,027.81
5. Less: Major equipment expenditures	-	384,337.01	384,337.01
6. Remainder	<u>19,730,027.81</u>	<u>(134,337.01)</u>	<u>19,595,690.80</u>
7. Equipment balance available for subsequent year (Lesser of Line 6 or Section 2 balance, but not less than zero)	<u>\$ 18,938,841.41</u>	<u>\$ (2,101,743.05)</u>	<u>\$ 16,837,098.36</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, 2013 TO DECEMBER 31, 2014

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

Prior To 2012	2012	2013	2014
\$4,000.00	\$10,000.00	\$10,200.00	\$10,300.00

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

Prior To 2012	2012	2013	2014
\$4,000.00	\$10,000.00	\$10,200.00	\$10,300.00

- 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.

CITY OF PHILADELPHIA  
PHILADELPHIA COUNTY  
LIQUID FUELS TAX FUND  
NOTES TO FORMS MS-965 WITH ADJUSTMENTS  
FOR THE PERIOD  
JANUARY 1, 2013 TO DECEMBER 31, 2014

1. Criteria (Continued)

Section 2 (Continued)

- Expenditures include the total transferred from Section 1.

Section 3

This section of Form MS-965 With Adjustments determines if the municipality expended Liquid Fuels Tax Fund money in excess of the permissible amount for equipment and the balance that the municipality may carry forward for the purchase of equipment to the subsequent year.

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.

CITY OF PHILADELPHIA  
PHILADELPHIA COUNTY  
LIQUID FUELS TAX FUND  
NOTES TO FORMS MS-965 WITH ADJUSTMENTS  
FOR THE PERIOD  
JANUARY 1, 2013 TO DECEMBER 31, 2014

1. Criteria (Continued)

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.

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.

CITY OF PHILADELPHIA  
PHILADELPHIA COUNTY  
LIQUID FUELS TAX FUND  
NOTES TO FORMS MS-965 WITH ADJUSTMENTS  
FOR THE PERIOD  
JANUARY 1, 2013 TO DECEMBER 31, 2014

2. Deposits (Continued)

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 city's name.

Fund Balance

The fund balance consists of the following:

Cash	<u>\$16,837,098.36</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 \$1,336.05 during 2013, and \$1,456.09 during 2014, thus providing additional funds for road maintenance and repairs.

4. Adjustments

2013 - Section 1

Adjustments were made to "Major equipment purchases" and "Maintenance and repair of roads and bridges" because expenditures of \$626,420.24 were misclassified.

2013 - Section 2

An adjustment of 250,000.00 was made to "Balance, January 1, 2013" because of prior report adjustments that were not carried forward in the fund balance.

2013 - Section 3

An adjustment of \$(781,289.31) was made to "Prior year equipment balance" because of prior report adjustments that were not carried forward in the equipment balance.

An adjustment of \$626,420.24 was made to "Major equipment expenditures" to reflect the adjustment made to major equipment purchases in 2013 - Section 1.



CITY OF PHILADELPHIA  
PHILADELPHIA COUNTY  
LIQUID FUELS TAX FUND  
NOTES TO FORMS MS-965 WITH ADJUSTMENTS  
FOR THE PERIOD  
JANUARY 1, 2013 TO DECEMBER 31, 2014

4. Adjustments (Continued)

2014 - Section 1

An adjustment of \$384,337.01 was made to "Major equipment purchases" because these expenditures were misclassified as maintenance and repair of roads and bridges.

An adjustment of \$1,726,551.87 was made to "Street lighting" because these expenditures were understated.

An adjustment of \$240,854.17 was made to "Maintenance and repair of roads and bridges" because expenditures of \$384,337.01 for major equipment purchases were misclassified and these expenditures were understated by \$625,191.18.

An adjustment of \$1,413,000.00 was made to "Miscellaneous" because these expenditures were not reported.

2014 - Section 2

Adjustment of \$250,000.00 was made to "Balance, January 1, 2014" to reflect the adjustment made to the fund balance in 2013 - Section 2.

An adjustment of \$1,413,000.00 was made to "Miscellaneous" because these receipts were not reported.

2014 - Section 3

Adjustment of \$250,000.00 was made to "Prior equipment balance" to reflect the adjustment made to the equipment balance in 2013 - Section 3.

An adjustment of \$384,337.01 was made to "Major equipment expenditures" to reflect the adjustment made to major equipment purchases in 2014 - Section 1.

5. Transfers In Error

On January 10, 2014 the city transferred \$1,392,000.00 from its General Fund to its Liquid Fuels Tax Fund in error. On January 10, 2014 the city 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  
NOTES TO FORMS MS-965 WITH ADJUSTMENTS  
FOR THE PERIOD  
JANUARY 1, 2013 TO DECEMBER 31, 2014

5. Transfers In Error (Continued)

On February 4, 2014 the city transferred \$21,000.00 from its Liquid Fuels Tax Fund to its General Fund in error. On March 14, 2014 the city transferred this amount from its General Fund to its Liquid Fuels Tax Fund to correct the transfer in error.

CITY OF PHILADELPHIA  
PHILADELPHIA COUNTY  
LIQUID FUELS TAX FUND  
FINDINGS AND RECOMMENDATIONS  
FOR THE PERIOD  
JANUARY 1, 2013 TO DECEMBER 31, 2014

**Finding No. 1 - Untimely Deposit Of Allocations And Turnback Allocations Deposited Into  
The General Fund - Recurring**

We cited the city for untimely deposit of allocations and turnback allocations deposited into the General Fund in our prior report for the period January 1, 2008 to December 31, 2012. However, our current examination disclosed that the 2013 Liquid Fuels Tax Fund allocation of \$24,099,932.65, which was received on April 1, 2013, was not deposited into the Liquid Fuels Tax Fund until May 3, 2013. Additionally, the 2014 allocation of \$25,968,721.36, which was received on March 30, 2014, was not deposited into the Liquid Fuels Tax Fund until April 21, 2014.

Additionally, the 2013 and 2014 Turnback allocations of \$88,800.00 each, which were received on April 1, 2013 and March 1, 2014, respectively, should have been immediately deposited into the city's Liquid Fuels Tax Fund. However, the allocations were deposited into the city's General Fund. On both June 19, 2013 and April 21, 2014, the city transferred \$88,800.00 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 an incorrect account so the error can be corrected. In this instance the error was not corrected for about two months in both instances.

The turnback allocation was made to the municipality in accordance with the *Vehicle Code*, 75Pa. 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, 2013 TO DECEMBER 31, 2014

**Finding No. 1 - Untimely Deposit Of Allocations And Turnback Allocations Deposited Into  
The General Fund - Recurring (Continued)**

This condition occurred because the municipality failed to comply with our prior examination recommendation to establish and implement procedures to ensure all allocations are deposited immediately upon receipt and into the proper account.

Recommendations

We again 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 are aware of the untimely deposit of allocations that we receive; at this time we are working with the Treasurer to establish an ACH account with the state. If this application is approved, future allocations will be deposited in a timely manner. The application will have to be completed by the Treasurer and approved by the state, thus it might take some time before the ACH account is established.

Auditor's Conclusion

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, 2013 TO DECEMBER 31, 2014

**Finding No. 2 - Nonpermissible Expenditures - Recurring**

We cited the city for making nonpermissible expenditures in our prior report for the period January 1, 2008 to December 31, 2012. However, our examination again disclosed that the municipality expended \$173,150.40 during 2013 for eight Chevy Equinoxes and \$40,613.50 during 2014 for a Clark forklift from the Liquid Fuels Tax Fund, which are nonpermissible 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 Chevrolet Equinoxes (SUV's) and forklifts, 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 \$213,763.90 to its Liquid Fuels Tax Fund.

This condition occurred because the city failed to comply with our prior examination recommendation to comply with the Liquid Fuels Tax Municipal Allocation Law and the Department of Transportation's Regulations regarding permissible expenditures.

**Recommendations**

We recommend that the municipality reimburse \$213,763.90 to its Liquid Fuels Tax Fund upon official notification by the Department of Transportation.

We again further recommend that, in the future, the municipality complies with the Liquid Fuels Tax Municipal Allocation Law and the Department of Transportation's Regulations regarding permissible expenditures.

CITY OF PHILADELPHIA  
PHILADELPHIA COUNTY  
LIQUID FUELS TAX FUND  
FINDINGS AND RECOMMENDATIONS  
FOR THE PERIOD  
JANUARY 1, 2013 TO DECEMBER 31, 2014

**Finding No. 2 - Nonpermissible Expenditures – Recurring (Continued)**

Management's Response

The municipal officials stated:

Regarding the SUVs, we believe that the purchases of these vehicles are an integral part of the Department's roadway maintenance activities. Thus, we intend to appeal these findings with PENNDOT.

Auditor's Conclusion

Department of Transportation Regulations do not permit municipalities to purchase SUV's using Liquid Fuels Tax Fund money. 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 PRIOR EXAMINATION RECOMMENDATIONS  
FOR THE PERIOD  
JANUARY 1, 2013 TO DECEMBER 31, 2014

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 \$338,133.18 to its Liquid Fuels Tax Fund for nonpermissible expenditures.

During our current examination we reviewed a letter dated October 6, 2014, from the Department of Transportation informing the municipality to reimburse \$338,133.18 to its Liquid Fuels Tax Fund. We noted that the municipality reimbursed this amount to its Liquid Fuels Tax Fund on April 7, 2015, which was subsequent to our examination period.

In our prior report we also recommended:

- That the municipality ensure that its Forms MS-965 are complete and accurate.
- That the municipality maintain adequate documentation to support all receipts.
- That the municipality establish and implement procedures to ensure all allocations are deposited immediately upon receipt and into the proper account.
- That the municipality complies with the Liquid Fuels Tax Municipal Allocation Law and the Department of Transportation's Regulations regarding permissible expenditures.

During our current examination we noted that the municipality complied with our first two bulleted recommendations but did not comply with the third and fourth bulleted recommendations (see Findings No. 1 and No 2).

CITY OF PHILADELPHIA  
PHILADELPHIA COUNTY  
LIQUID FUELS TAX FUND  
SUMMARY OF EXIT CONFERENCE  
FOR THE PERIOD  
JANUARY 1, 2013 TO DECEMBER 31, 2014

An exit conference was held September 18, 2015. Those participating were:

CITY OF PHILADELPHIA

Mr. Thomas O'Farrell, Fiscal Officer - Streets Department  
Mr. Christopher Newman, Deputy Commissioner of Administration

DEPARTMENT OF THE AUDITOR GENERAL

Mr. Matthew R. Hotchkiss, Auditor  
Mr. Alfred Casella, 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, 2013 TO DECEMBER 31, 2014

This report was initially distributed to:

The Honorable Leslie Richards  
Secretary  
Department of Transportation

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

Mr. Christopher Newman

Deputy Commissioner of Administration

Mr. Thomas O'Farrell

Fiscal Officer - Streets Department

The Honorable Darrell L. Clarke

President of Council

This report is a matter of public record and is available online at [www.PaAuditor.gov](http://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](mailto:news@PaAuditor.gov).