

FRANKLIN COUNTY
28-000

LIQUID FUELS TAX FUND
AND ACT 44 TAX FUND
EXAMINATION REPORT

FOR THE TWO YEARS ENDED
DECEMBER 31, 2009

CONTENTS

	<u>Page</u>
Background.....	1
Independent Auditor's Report	3
Financial Section:	
2008 Form MS-991 With Adjustments	7
2009 Form MS-991 With Adjustments	8
2008 Report Of Act 44 Tax Fund With Adjustments.....	9
2009 Report Of Act 44 Tax Fund With Adjustments.....	10
Notes To Forms MS-991 And Reports Of Act 44 Tax Fund With Adjustments	11
Findings And Recommendations:	
Finding No. 1 - Liquid Fuels And Act 44 Tax Monies Deposited Into The General Fund	19
Finding No. 2 - County Encumbered More Than Its Fund Balance	21
Comment.....	23
Summary Of Exit Conference.....	24
Report Distribution	25

FRANKLIN COUNTY
LIQUID FUELS TAX FUND
AND ACT 44 TAX FUND
BACKGROUND
FOR THE TWO YEARS ENDED
DECEMBER 31, 2009

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.





**Department of the Auditor General
Commonwealth of Pennsylvania
Harrisburg, Pennsylvania 17120-0018**

**JACK WAGNER
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-991 With Adjustments for the Liquid Fuels Tax Fund and the Reports of Act 44 Tax Fund With Adjustments of Franklin County for the two years ended December 31, 2009. 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 Franklin County's Forms MS-991 and Reports of Act 44 Tax Fund for the two years ended December 31, 2009 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 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 are made by the Department of the Auditor General.

Independent Auditor's Report (Continued)

As discussed in Finding No. 2, as of December 31, 2009, the county encumbered \$28,375.06 more than its fund balance without receiving prior approval from the Department of Transportation.

In our opinion, except for the matter discussed in the preceding paragraph, 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 Franklin County for the two years ended December 31, 2009, in conformity with the criteria set forth in Note 1.

In accordance with *Government Auditing Standards*, we are required to report findings of significant deficiencies in internal control, violations of provisions of contracts or grant agreements, and abuse that are material to the Forms MS-991 and the Reports of Act 44 Tax Fund and any fraud and illegal acts that are more than inconsequential that come to our attention during our examination. We are also required to obtain the views of management on those matters. We performed our examination to express an opinion on whether the Forms MS-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 the 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 control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Franklin County's ability to initiate, authorize, record, process, or report data reliably in accordance with the applicable criteria such that there is more than a remote likelihood that a misstatement of Franklin County's Forms MS-991 and the Reports of Act 44 Tax Fund that is more than inconsequential will not be prevented or detected by Franklin County's internal control.

A material weakness is a significant deficiency or combination of significant deficiencies that results in more than a remote likelihood that a material misstatement of the Forms MS-991 and the Reports of Act 44 Tax Fund will not be prevented or detected by Franklin County's internal control.

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 described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any significant deficiencies or material weaknesses, as defined above, in internal control over reporting on the Forms MS-991 and the Reports of Act 44 Tax Fund.

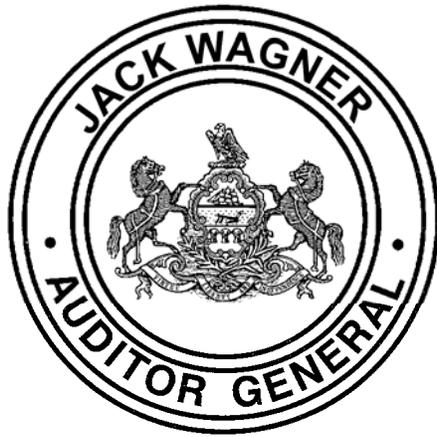
The results of our tests disclosed the following instances of noncompliance that are required to be reported under *Government Auditing Standards*:

- Liquid Fuels And Act 44 Tax Monies Deposited Into The General Fund.
- County Encumbered More Than Its Fund Balance.

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

September 2, 2010

JACK WAGNER
Auditor General



FRANKLIN COUNTY
LIQUID FUELS TAX FUND
2008 FORM MS-991 WITH ADJUSTMENTS

	Reported	Adjustments (Note 4)	Adjusted Amount
Balance, January 1, 2008	\$ 2,450,954.75	\$ -	\$ 2,450,954.75
<u>Receipts:</u>			
State allocations	267,663.43	-	267,663.43
Interest (Note 3)	54,799.17	-	54,799.17
Reimbursable agreements (Note 5)	6,712.20	-	6,712.20
Miscellaneous (Comment)	94,061.30	(80,205.89)	13,855.41
Accounts receivable	-	-	-
Total receipts	<u>423,236.10</u>	<u>(80,205.89)</u>	<u>343,030.21</u>
Total funds available	<u>2,874,190.85</u>	<u>(80,205.89)</u>	<u>2,793,984.96</u>
<u>Expenditures:</u>			
Construction	166,422.55	(28,977.73)	137,444.82
Maintenance and repair	89,768.73	(15,302.88)	74,465.85
Administrative	13,995.45	(6,605.75)	7,389.70
Grants to political subdivisions	-	-	-
Accounts payable	-	56,105.13	56,105.13
Miscellaneous	-	-	-
Total expenditures	<u>270,186.73</u>	<u>5,218.77</u>	<u>275,405.50</u>
Balance, December 31, 2008	2,604,004.12	(85,424.66)	2,518,579.46
Unpaid encumbrances	<u>2,436,337.99</u>	<u>(236,728.62)</u>	<u>2,199,609.37</u>
Unencumbered balance, December 31, 2008	<u>\$ 167,666.13</u>	<u>\$ 151,303.96</u>	<u>\$ 318,970.09</u>

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

FRANKLIN COUNTY
LIQUID FUELS TAX FUND
2009 FORM MS-991 WITH ADJUSTMENTS

	Reported	Adjustments (Note 4)	Adjusted Amount
Balance, January 1, 2009	\$ 2,518,579.46	\$ -	\$ 2,518,579.46
<u>Receipts:</u>			
State allocations	253,738.95	-	253,738.95
Interest (Note 3)	41,599.99	-	41,599.99
Reimbursable agreements (Note 5)	86,344.78	-	86,344.78
Miscellaneous	-	-	-
Accounts receivable	-	-	-
Total receipts	<u>381,683.72</u>	<u>-</u>	<u>381,683.72</u>
Total funds available	<u>2,900,263.18</u>	<u>-</u>	<u>2,900,263.18</u>
<u>Expenditures:</u>			
Construction	233,144.75	-	233,144.75
Maintenance and repair	90,259.86	(11,557.12)	78,702.74
Administrative	16,211.11	(11,995.96)	4,215.15
Grants to political subdivisions	-	-	-
Accounts payable	5,882.21	23,551.22	29,433.43
Miscellaneous	-	-	-
Total expenditures	<u>345,497.93</u>	<u>(1.86)</u>	<u>345,496.07</u>
Balance, December 31, 2009	2,554,765.25	1.86	2,554,767.11
Unpaid encumbrances (Note 6)	<u>2,457,109.17</u>	<u>126,033.00</u>	<u>2,583,142.17</u>
Unencumbered balance, December 31, 2009	<u>\$ 97,656.08</u>	<u>\$ (126,031.14)</u>	<u>\$ (28,375.06)</u>

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

FRANKLIN COUNTY
LIQUID FUELS TAX FUND
2008 REPORT OF ACT 44 TAX FUND
WITH ADJUSTMENTS

	<u>Reported</u>	<u>Adjustments</u>	<u>Adjusted Amount</u>
Balance, January 1, 2008	\$ -	\$ -	\$ -
<u>Receipts:</u>			
Act 44 Funds	94,061.30	-	94,061.30
Interest	-	-	-
Accounts receivable	-	-	-
Total receipts	<u>94,061.30</u>	<u>-</u>	<u>94,061.30</u>
Total funds available	<u>94,061.30</u>	<u>-</u>	<u>94,061.30</u>
<u>Expenditures:</u>			
Construction	-	-	-
Maintenance and repair	-	-	-
Accounts payable	-	-	-
Miscellaneous	-	-	-
Total expenditures	<u>-</u>	<u>-</u>	<u>-</u>
Balance, December 31, 2008	<u><u>\$ 94,061.30</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 94,061.30</u></u>

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

FRANKLIN COUNTY
LIQUID FUELS TAX FUND
2009 REPORT OF ACT 44 TAX FUND
WITH ADJUSTMENTS

	<u>Reported</u>	<u>Adjustments</u>	<u>Adjusted Amount</u>
Balance, January 1, 2009	\$ 94,061.30	\$ -	\$ 94,061.30
<u>Receipts:</u>			
Act 44 Funds	92,647.23	-	92,647.23
Interest	-	-	-
Accounts receivable	-	-	-
Total receipts	<u>92,647.23</u>	<u>-</u>	<u>92,647.23</u>
Total funds available	<u>186,708.53</u>	<u>-</u>	<u>186,708.53</u>
<u>Expenditures:</u>			
Construction	-	-	-
Maintenance and repair	-	-	-
Accounts payable	-	-	-
Miscellaneous	-	-	-
Total expenditures	<u>-</u>	<u>-</u>	<u>-</u>
Balance, December 31, 2009	<u><u>\$ 186,708.53</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 186,708.53</u></u>

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

FRANKLIN 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 TWO YEARS ENDED
DECEMBER 31, 2009

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

FRANKLIN 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 TWO YEARS ENDED
DECEMBER 31, 2009

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.

FRANKLIN 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 TWO YEARS ENDED
DECEMBER 31, 2009

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.

- 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.
- 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 6, Encumbrances.

FRANKLIN 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 TWO YEARS ENDED
DECEMBER 31, 2009

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 from institutions having their principal place of business in or outside the Commonwealth of Pennsylvania that are insured by the FDIC or other like insurance. 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, 2009. 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 as of December 31, 2009, consists of the following:

Cash	2,554,767.11
------	--------------

The fund balance for the Act 44 Tax Fund as of December 31, 2009, consists of the following:

Cash	\$186,708.53
------	--------------

FRANKLIN 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 TWO YEARS ENDED
DECEMBER 31, 2009

3. Interest Earnings

Our examination disclosed that the county deposited idle liquid fuels tax money in an interest-bearing account which earned \$54,799.17 during 2008, and \$41,599.99 during 2009, thus providing additional funds for road maintenance and repairs.

4. Adjustments

2008 Form MS-991

An adjustment of \$(80,205.89) was made to “Miscellaneous” because Act 44 Tax Fund monies of \$94,061.30 were incorrectly reported as Liquid Fuels Tax Fund receipts and a miscellaneous receipt of \$13,855.41 was not reported.

An adjustment of \$(28,977.73) was made to “Construction” because accounts payable of \$34,196.50 were misclassified and expenditures of \$5,218.77 were not reported.

An adjustment of \$(15,302.88) was made to “Maintenance and repair” because accounts payable of \$15,302.88 was misclassified.

An adjustment of \$(6,605.75) was made to “Administrative” because accounts payable of \$6,605.75 was misclassified.

An adjustment of \$56,105.13 was made to “Accounts payable” because \$34,196.50 was misclassified as construction, \$15,302.88 was misclassified as maintenance and repair, and \$6,605.75 was misclassified as administrative.

FRANKLIN 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 TWO YEARS ENDED
DECEMBER 31, 2009

4. Adjustments (Continued)

2008 Form MS-991 (Continued)

An adjustment of \$(236,728.62) 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>
C-97-28000-04	\$ 50,712.00	\$210,712.00	\$(160,000.00)
C-99-28000-04	47,907.00	247,907.00	(200,000.00)
C-04-28000-02	79,322.45	1,221.07	78,101.38
C-05-28000-01	287,362.50	242,192.50	45,170.00
Totals	<u>\$465,303.95</u>	<u>\$702,032.57</u>	<u>\$(236,728.62)</u>

2009 Form MS-991

An adjustment of \$(11,557.12) was made to “Maintenance and repair” because accounts payable of \$11,555.26 were misclassified and these expenditures were overstated by \$1.86.

An adjustment of \$(11,995.96) was made to “Administrative” because accounts payable of \$11,995.96 was misclassified.

An adjustment of \$23,551.22 was made to “Accounts payable” because \$11,555.26 was misclassified as maintenance and repair and \$11,995.96 was misclassified as administrative.

FRANKLIN 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 TWO YEARS ENDED
DECEMBER 31, 2009

4. Adjustments (Continued)

2009 Form MS-991 (Continued)

An adjustment of \$126,033.00 was made to “Unpaid encumbrances” because the balances of the following encumbrances were reported incorrectly:

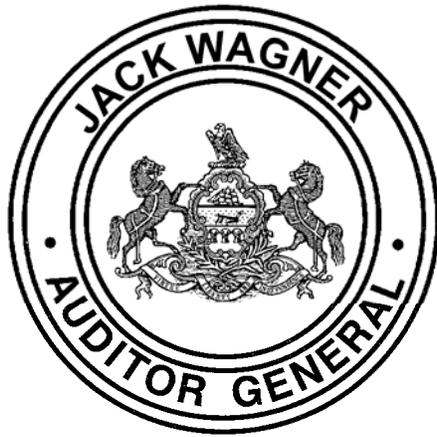
<u>Encumbrance No.</u>	<u>Actual Amount</u>	<u>Reported Amount</u>	<u>Adjustment</u>
C-95-28000-06	\$ 50,000.00	\$ 200,000.00	\$(150,000.00)
C-97-28000-03	454,875.80	509,744.05	(54,868.25)
C-97-28000-04	210,712.00	31,834.50	178,877.50
C-98-28000-01	10,586.50	-	10,586.50
C-99-28000-02	-	22,105.75	(22,105.75)
C-99-28000-04	247,907.00	47,907.00	200,000.00
C-04-28000-01	426,863.00	430,255.00	(3,392.00)
C-05-28000-01	233,203.75	266,268.75	(33,065.00)
Totals	<u>\$1,634,148.05</u>	<u>\$1,508,115.05</u>	<u>\$126,033.00</u>

5. Reimbursable Agreements

During our examination, we noted that the county entered into reimbursement agreements with the Pennsylvania Department of Transportation for bridge reconstruction and bridge inspections. During our current examination period, the county received \$6,712.20 during 2008 and \$86,344.78 during 2009 as a result of these agreements.

6. Encumbrances

As of December 31, 2009, \$2,583,142.17 was encumbered for county projects.



FRANKLIN COUNTY
LIQUID FUELS TAX FUND
AND ACT 44 TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE TWO YEARS ENDED
DECEMBER 31, 2009

Finding No. 1 - Liquid Fuels And Act 44 Tax Monies Deposited Into The General Fund

Our examination disclosed that the county deposited Liquid Fuels Tax Fund money of \$6,712.20 during 2008 and \$86,344.78 during 2009 into the General Fund, which is in noncompliance with the Liquid Fuels and Fuels Tax Act. These deposits were as follows:

<u>Description</u>	<u>Date of Deposit</u>	<u>Date Transferred to the Liquid Fuels Tax Fund</u>	<u>Amount</u>
Bridge reimbursement	02/02/08	06/05/08	\$ 6,712.20
Bridge reimbursement	02/19/09	09/18/09	75,804.67
Bridge reimbursement	07/30/09	09/18/09	<u>10,540.11</u>
Total			<u><u>\$93,056.98</u></u>

The practice of depositing liquid fuels money into any account other than the Liquid Fuels Tax Fund account is contrary to the Liquid Fuels and Fuels Tax Act, 75 Pa. C.S.A. § 9010(b)(2), which states, in part:

All money received by the counties...shall be deposited and maintained in a special fund designated as the County Liquid Fuels Tax Fund. No other money shall be deposited and commingled into the County Liquid Fuels Tax Fund, except in a county which does not have sufficient money in such special fund to provide for payments designated in the current annual budget.

Additionally, the municipality deposited its 2009 Act 44 Tax Fund allocation of \$92,647.23 into its General Fund on January 16, 2009, which is in noncompliance with the Department of Transportation's *Publication 9*. This amount was reimbursed to the Act 44 Tax Fund on September 18, 2009.

The practice of depositing Act 44 Tax Fund money into any account other than the Act 44 Tax Fund account is contrary to the Department of Transportation's *Publication 9*, Chapter Four, Section 4.6, which 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 only exception to this is explained in Section 4.6.2, Transfer of Monies into the County Act 44 Fund.

FRANKLIN COUNTY
LIQUID FUELS TAX FUND
AND ACT 44 TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE TWO YEARS ENDED
DECEMBER 31, 2009

Finding No. 1 - Liquid Fuels And Act 44 Tax Monies Deposited Into The General Fund
(Continued)

When Liquid Fuels Tax Fund money and Act 44 Tax Fund money are commingled with the General Fund or other funds, the potential for Liquid Fuels Tax Fund and Act 44 Tax Fund money to be used for unauthorized purposes increases significantly.

Recommendation

We recommend that, in the future, the county deposit all liquid fuels tax money promptly into the proper fund upon receipt.

Management's Response

The county officials offered no formal response at this time.

FRANKLIN COUNTY
LIQUID FUELS TAX FUND
AND ACT 44 TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE TWO YEARS ENDED
DECEMBER 31, 2009

Finding No. 2 - County Encumbered More Than Its Fund Balance

Our examination disclosed that the county's encumbered balance exceeded its fund balance by \$28,375.06 as of December 31, 2009. The only time this condition should occur is with the prior approval of the Department of Transportation. The encumbered balance exceeded the fund balance as follows:

Fund balance	\$2,554,767.11
Less: Unpaid encumbrances	<u>2,583,142.17</u>
Excess amount encumbered	<u>\$ 28,375.06</u>

The Department of Transportation's *Publication 9*, Chapter One, Section 1.10, states:

. . . that a county's handling of its County Liquid Fuels Tax Fund is normally on a year-to-year basis. However, in an emergency, and with the prior approval of the Municipal Services district office, a county may obligate itself for the expenditure of estimated receipts from the State Liquid Fuels Tax Fund for a period of two years. The county will then receive a credit for such expenditures against such subsequent receipts. Except for this, no county may carryover a credit balance against future receipts from the state from one year to the next.

The county did not obtain approval from the Department of Transportation for the credit balance of \$28,375.06. Therefore, the county should not have carried over a credit balance against future receipts from the state as indicated above.

The failure to comply with the Department of Transportation's *Publication 9* could result in the county having to transfer \$28,375.06 from its General Fund to its Liquid Fuels Tax Fund to pay for future Liquid Fuels Tax Fund obligations.

FRANKLIN COUNTY
LIQUID FUELS TAX FUND
AND ACT 44 TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE TWO YEARS ENDED
DECEMBER 31, 2009

Finding No. 2 - County Encumbered More Than Its Fund Balance (Continued)

Recommendations

We recommend that the county transfer \$28,375.06 from its General Fund to its Liquid Fuels Tax Fund upon official notification by the Department of Transportation.

We further recommend that, in the future, the county comply with the policies and procedures outlined in the Department of Transportation's *Publication 9*.

Management's Response

The county officials stated:

Act 44 funds were taken into consideration when encumbering funds at the end of the 2009 year. Our 2008 Act 44 audit was not completed until February of 2010 at which time we learned that Act 44 monies did not need to be encumbered. Now realizing that the county would be over encumbered we called PENNDOT. PENNDOT came to the county and we had a meeting to discuss how to resolve our issue. PENNDOT recommended we unencumber funds. The county unencumbered funds and entered this into PENNDOT's new online Dotgrants system as we were instructed to do. After many attempts to make the program work, the county decided to file the paper copy of the Liquid Fuels report. Since the new encumbrances were not signed by the Board of PENNDOT until 2010, these new encumbrances were not considered for the 2009 Liquid Fuels report and therefore we were still over encumbered.

Auditor's Conclusion

The Department of Transportation will determine if the municipality should reimburse \$28,375.06 to its Liquid Fuels Tax Fund. During our next examination we will determine if the municipality complied with our recommendations.

FRANKLIN COUNTY
LIQUID FUELS TAX FUND
AND ACT 44 TAX FUND
COMMENT
FOR THE TWO YEARS ENDED
DECEMBER 31, 2009

Comment - Summary Of 2003 Audit Recommendation

In our 2003 report we recommended that the Department of Transportation review our audit finding to determine if the county should reimburse \$15,389.92 to its Liquid Fuels Tax Fund. This amount includes \$7,888.20 for retroactive expenditures, \$4,453.01 for duplicate indirect/administrative costs, and \$3,048.71 for nonpermissible indirect/administrative costs.

During our prior examination we reviewed a letter dated October 25, 2007, from the Department of Transportation informing the county to reimburse \$13,855.41 of the \$15,389.92 to its Liquid Fuels Tax Fund. We noted that the county reimbursed this amount to its Liquid Fuels Tax Fund on February 13, 2008.

FRANKLIN COUNTY
LIQUID FUELS TAX FUND
AND ACT 44 TAX FUND
SUMMARY OF EXIT CONFERENCE
FOR THE TWO YEARS ENDED
DECEMBER 31, 2009

An exit conference was held September 2, 2010. Those participating were:

FRANKLIN COUNTY

Mr. John A. Hart, County Administrator
Ms. Nancy Johns, Accounting Manager
Ms. Dawn DeSalis, Administrative Assistant
Ms. Jean Byers, Administrative Assistant
Ms. Tracey Schroder, Administrative Assistant

DEPARTMENT OF THE AUDITOR GENERAL

Mr. Michael Klassen, Auditor

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

FRANKLIN COUNTY
LIQUID FUELS TAX FUND
AND ACT 44 TAX FUND
REPORT DISTRIBUTION
FOR THE TWO YEARS ENDED
DECEMBER 31, 2009

This report was initially distributed to:

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

Franklin County
218 North Second Street
Chambersburg, PA 17201

The Honorable David S. Keller	Chairman of the Board of Commissioners
The Honorable David M. Secor	Treasurer
Ms. Nancy Johns	Accounting Manager
Mr. John A. Hart	County Administrator

This report is a matter of public record. Copies of this report may be obtained from the Pennsylvania Department of the Auditor General, Office of Communications, 318 Finance Building, Harrisburg, PA 17120. To view this report online or to contact the Department of the Auditor General, please access our web site at www.auditorgen.state.pa.us.