



POTTER COUNTY
52-000

LIQUID FUELS TAX FUND
EXAMINATION REPORT

FOR THE PERIOD
JANUARY 1, 2011 TO DECEMBER 31, 2012

COMMONWEALTH OF PENNSYLVANIA

EUGENE A. DEPASQUALE - AUDITOR GENERAL

DEPARTMENT OF THE AUDITOR GENERAL



Commonwealth of Pennsylvania
Department of the Auditor General
Harrisburg, PA 17120-0018
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EUGENE A. DePASQUALE
AUDITOR GENERAL

Independent Auditor's Report

The Honorable Barry J. Schoch, P.E.
Secretary
Department of Transportation
Harrisburg, PA 17120

We examined the accompanying Forms MS-991 With Adjustments for the Liquid Fuels Tax Fund With Adjustments of Potter County for the period January 1, 2011 to December 31, 2012. The county's management is responsible for the Forms MS-991. Our responsibility is to express an opinion on the Forms MS-991 With Adjustments.

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 Potter County's Forms MS-991 for the period January 1, 2011 to December 31, 2012 and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

We are mandated by Section 403 of *The Fiscal Code*, 72 P.S. § 403, to audit each 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 the Finding and Recommendations section of this report, the county expended \$1,265.44 in excess of the approved amount for administrative expenditures during 2012. Additionally, as discussed in the Comment section of this report, in our 2008 examination we noted that the county's unencumbered balance as of December 31, 2008 was greater than its total receipts for 2008 resulting in the requirement for the county to distribute \$66,002.78 to the political subdivisions within the county. As of the date of this report, the Department of Transportation had not determined if the distribution of \$66,002.78 would be required.

In our opinion, except for the matters discussed in the preceding paragraph, the Forms MS-991 With Adjustments present, in all material respects, the information required by the Pennsylvania Department of Transportation for the Liquid Fuels Tax Fund of Potter County for the period January 1, 2011 to December 31, 2012, in conformity with the criteria set forth in Note 1.

In accordance with *Government Auditing Standards*, we are required to report 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 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 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 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 Potter 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 Potter County's Forms MS-991 that is more than inconsequential will not be prevented or detected by Potter 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 will not be prevented or detected by Potter County's internal control.

Our consideration of internal control over reporting on the Forms MS-991 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.

Independent Auditor's Report (Continued)

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

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

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

A handwritten signature in black ink, appearing to read "Eugene A. DePasquale". The signature is fluid and cursive, with a long horizontal stroke at the end.

May 27, 2014

EUGENE A. DEPASQUALE
Auditor General

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POTTER COUNTY
LIQUID FUELS TAX FUND
BACKGROUND
FOR THE PERIOD
JANUARY 1, 2011 TO DECEMBER 31, 2012

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).

POTTER COUNTY
LIQUID FUELS TAX FUND
2011 FORM MS-991 WITH ADJUSTMENTS

	<u>Reported</u>	<u>Adjustments (Note 4)</u>	<u>Adjusted Amount</u>
Balance, January 1, 2011	\$ 112,429.81	\$ -	\$ 112,429.81
<u>Receipts:</u>			
State allocations	72,813.38	-	72,813.38
Interest (Note 3)	232.95	-	232.95
Reimbursable agreements	-	-	-
Miscellaneous	-	-	-
Total receipts	<u>73,046.33</u>	<u>-</u>	<u>73,046.33</u>
Total funds available	<u>185,476.14</u>	<u>-</u>	<u>185,476.14</u>
<u>Expenditures:</u>			
Construction	-	-	-
Maintenance and repair	-	-	-
Administrative	76.91	(76.91)	-
Grants to political subdivisions	70,868.12	(2,080.98)	68,787.14
Miscellaneous	-	76.91	76.91
Total expenditures	<u>70,945.03</u>	<u>(2,080.98)</u>	<u>68,864.05</u>
Balance, December 31, 2011	114,531.11	2,080.98	116,612.09
Unpaid encumbrances	<u>48,196.79</u>	<u>3,829.21</u>	<u>52,026.00</u>
Unencumbered balance, December 31, 2011	<u>\$ 66,334.32</u>	<u>\$ (1,748.23)</u>	<u>\$ 64,586.09</u>

Notes To Forms MS-991 With Adjustments are an integral part of this report.

POTTER COUNTY
LIQUID FUELS TAX FUND
2012 FORM MS-991 WITH ADJUSTMENTS

	<u>Reported</u>	<u>Adjustments (Note 4)</u>	<u>Adjusted Amount</u>
Balance, January 1, 2012	\$ 114,531.11	\$ 2,080.98	\$ 116,612.09
<u>Receipts:</u>			
State allocations	76,869.05	-	76,869.05
Interest (Note 3)	219.99	-	219.99
Reimbursable agreements	-	-	-
Miscellaneous	-	-	-
Total receipts	<u>77,089.04</u>	<u>-</u>	<u>77,089.04</u>
Total funds available	<u>191,620.15</u>	<u>2,080.98</u>	<u>193,701.13</u>
<u>Expenditures:</u>			
Construction	-	-	-
Maintenance and repair	-	-	-
Administrative	8,952.35	-	8,952.35
Grants to political subdivisions	81,813.80	1,109.10	82,922.90
Miscellaneous	-	-	-
Total expenditures	<u>90,766.15</u>	<u>1,109.10</u>	<u>91,875.25</u>
Balance, December 31, 2012	100,854.00	971.88	101,825.88
Unpaid encumbrances (Note 5)	<u>43,595.56</u>	<u>2,884.21</u>	<u>46,479.77</u>
Unencumbered balance, December 31, 2012	<u>\$ 57,258.44</u>	<u>\$ (1,912.33)</u>	<u>\$ 55,346.11</u>

Notes To Forms MS-991 With Adjustments are an integral part of this report.

POTTER COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-991 WITH ADJUSTMENTS
FOR THE PERIOD
JANUARY 1, 2011 TO DECEMBER 31, 2012

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

POTTER COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-991 WITH ADJUSTMENTS
FOR THE PERIOD
JANUARY 1, 2011 TO DECEMBER 31, 2012

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.

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 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, respectively.

POTTER COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-991 WITH ADJUSTMENTS
FOR THE PERIOD
JANUARY 1, 2011 TO DECEMBER 31, 2012

1. Criteria (Continued)

Basis Of Presentation (Continued)

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 related note: Note 3, Interest Earnings.

- 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 related note: Note 5, Encumbrances.

POTTER COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-991 WITH ADJUSTMENTS
FOR THE PERIOD
JANUARY 1, 2011 TO DECEMBER 31, 2012

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, 2012. Custodial credit risk, as defined by GASB No. 40, includes deposits that are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the county's name.

Fund Balance

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

Cash	\$ 101,825.88
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POTTER COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-991 WITH ADJUSTMENTS
FOR THE PERIOD
JANUARY 1, 2011 TO DECEMBER 31, 2012

3. Interest Earnings

Our examination disclosed that the county deposited idle liquid fuels tax money in an interest-bearing account which earned \$232.95 during 2011, and \$219.99 during 2012, thus providing additional funds for road maintenance and repairs.

4. Adjustments

2011 Form MS-991

Adjustments were made to “Administrative” and “Miscellaneous” because expenditures of \$76.91 were misclassified.

An adjustment of \$(2,080.98) was made to “Grants to political subdivisions” because check Nos. 1192 and 1208 for \$971.88 and \$1,109.10, respectively, were voided but were included as expenditures.

An adjustment of \$3,829.21 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>
10-52201-01	\$2,472.16	\$2,471.61	\$.55
11-52203-01	3,623.54	2,623.54	1,000.00
09-52211-01	2,828.66	-	2,828.66
Totals	<u>\$8,924.36</u>	<u>\$5,095.15</u>	<u>\$3,829.21</u>

2012 Form MS-991

An adjustment of \$2,080.98 was made to “Balance, January 1, 2012” to reflect the adjustment made to the fund balance in 2011 Form MS-991.

An adjustment of \$1,109.10 was made to “Grants to political subdivisions” because these expenditures were understated.

POTTER COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-991 WITH ADJUSTMENTS
FOR THE PERIOD
JANUARY 1, 2011 TO DECEMBER 31, 2012

4. Adjustments (Continued)

2012 Form MS-991 (Continued)

An adjustment of \$2,884.21 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>
10-52201-01	\$2,472.16	\$2,416.61	\$ 55.55
09-52211-01	2,828.66	-	2,828.66
Totals	<u>\$5,300.82</u>	<u>\$2,416.61</u>	<u>\$2,884.21</u>

5. Encumbrances

As of December 31, 2012, \$46,479.77 was encumbered for grants to political subdivisions.

POTTER COUNTY
LIQUID FUELS TAX FUND
FINDING AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2011 TO DECEMBER 31, 2012

Finding - Expenditures In Excess Of The 10 Percent Limit On Administrative Costs

Our examination disclosed that the county expended a total of \$8,952.35 from the Liquid Fuels Tax Fund in the 2012 calendar year for administrative costs, which is greater than 10 percent of the yearly Liquid Fuels Tax Fund allocation of \$76,869.05 to the county.

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 administrative costs charged to the Liquid Fuels Tax Fund by the county during 2012 are as follows:

<u>Description</u>	<u>Amount</u>
2011 Administrative costs	\$4,285.75
2012 Administrative costs	4,666.60
	<hr/>
Total indirect/administrative costs	8,952.35
Less 10% permissible amount	7,686.91
	<hr/>
Excess expenditures for administrative costs	<u>\$1,265.44</u>

The failure to comply with the Liquid Fuels and Fuels Tax Act could result in the county having to reimburse \$1,265.44 to its Liquid Fuels Tax Fund.

Recommendations

We recommend that the county reimburse \$1,265.44 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.

POTTER COUNTY
LIQUID FUELS TAX FUND
FINDING AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2011 TO DECEMBER 31, 2012

Finding - Expenditures In Excess Of The 10 Percent Limit On Administrative Costs (Continued)

Management's Response

The county officials stated:

The 2011 administrative expense was paid in 2012 as instructed by PennDOT.

Auditor's Conclusion

The Department of Transportation's *Publication 9* does not permit administrative expenditures in excess of 10 percent of the current year's Liquid Fuels Tax Fund allocation to be paid from the Liquid Fuels Tax Fund. The county expended more than 10 percent of the allocation. During our next examination we will determine if the county complied with our recommendations.

POTTER COUNTY
LIQUID FUELS TAX FUND
COMMENT
FOR THE PERIOD
JANUARY 1, 2011 TO DECEMBER 31, 2012

Comment - Summary of 2008 Examination Recommendation

In our 2008 report, we recommended that the Department of Transportation review our examination finding to determine if the county should distribute \$66,002.78 to the political subdivisions within the county because the county's unencumbered balance was greater than receipts for the previous twelve months.

As of the date of this report the Department of Transportation had not determined if the distribution of \$66,002.78 to the political subdivisions within the county would be required.

POTTER COUNTY
LIQUID FUELS TAX FUND
SUMMARY OF EXIT CONFERENCE
FOR THE PERIOD
JANUARY 1, 2011 TO DECEMBER 31, 2012

An exit conference was held November 19, 2013. Those participating were:

POTTER COUNTY

Mrs. Kathleen H. Majot, Chief Clerk

DEPARTMENT OF THE AUDITOR GENERAL

Mr. Christopher Heglen, Auditor

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

POTTER COUNTY
LIQUID FUELS TAX FUND
REPORT DISTRIBUTION
FOR THE PERIOD
JANUARY 1, 2011 TO DECEMBER 31, 2012

This report was initially distributed to:

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

Potter County
Gunzberger Building
One North Main Street
Coudersport, PA 16915

The Honorable Douglas C. Morley	Chairman of the Board of Commissioners
The Honorable Krista M. Miller	Treasurer
Mrs. Kathleen H. Majot	Chief Clerk

This report is a matter of public record and is available online at <http://www.auditorgen.state.pa.us>. Media questions about the report can be directed to the Pennsylvania Department of the Auditor General, Office of Communications, 231 Finance Building, Harrisburg, PA 17120; via email to: news@auditorgen.state.pa.us.