

ATTESTATION ENGAGEMENT

Berks County

Pennsylvania

06-000

Liquid Fuels, Act 44, and Act 89

Tax Funds

For the Period

January 1, 2015 to December 31, 2016

July 2019



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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

Independent Auditor's Report

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

We examined the accompanying Forms MS-991 With Adjustments for the Liquid Fuels Tax Fund, the Reports of Act 44 and Act 89 Tax Funds With Adjustments of Berks County for the period January 1, 2015 to December 31, 2016. The county's management is responsible for presenting the Forms MS-991 and the Reports of Act 44 and Act 89 Tax Funds in accordance with the criteria set forth in Note 1. Our responsibility is to express an opinion on the Forms MS-991 With Adjustments and the Reports of Act 44 and Act 89 Tax Funds 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. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether the Forms MS-991 and the Reports of Act 44 and Act 89 Tax Funds are presented in accordance with the criteria described above, in all material respects. An examination involves performing procedures to obtain evidence about the Forms MS-991 and the Reports of Act 44 and Act 89 Tax Funds. The nature, timing and extent of the procedures selected depend on our judgement, including an assessment of the risks of material misstatement of the Forms MS-991 and the Reports of Act 44 and Act 89 Tax Funds, whether due to fraud or error. We believe that the evidence we obtained is sufficient and appropriate to provide 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, Act 44, and Act 89 Tax funds 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*.

Independent Auditor's Report (Continued)

As described in Note 4, the adjustments included on the Forms MS-991 With Adjustments and the Reports of Act 44 and Act 89 Tax Funds With Adjustments are made by the Department of the Auditor General.

In our opinion, the Forms MS-991 With Adjustments and the Reports of Act 44 and Act 89 Tax Funds With Adjustments present, in all material respects, the information required by the Pennsylvania Department of Transportation for the Liquid Fuels Tax Fund, Act 44 Tax Fund, and Act 89 Tax Fund of Berks County for the period January 1, 2015 to December 31, 2016, in accordance with the criteria set forth in Note 1.

In accordance with *Government Auditing Standards*, we are required to report all deficiencies that are considered to be significant deficiencies or material weaknesses in internal control; fraud and noncompliance with provisions of laws or regulations that have a material effect on the Forms MS-991 and the Reports of Act 44 and Act 89 Tax Funds; and any other instances that warrant the attention of those charged with governance; noncompliance with provisions of contracts or grant agreements, and abuse that has a material effect on the Forms MS-991 and the Reports of Act 44 and Act 89 Tax Funds. We are also required to obtain and report the views of responsible officials concerning the findings, conclusions, and recommendations, as well as any planned corrective actions. We performed our examination to express an opinion on whether the Forms MS-991 and the Reports of Act 44 and Act 89 Tax Funds are presented in accordance with the criteria described above and not for the purpose of expressing an opinion on internal control over reporting on the Forms MS-991 and the Reports of Act 44 and Act 89 Tax Funds or on compliance and other matters; accordingly, we express no such opinions.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Forms MS-991 and the Reports of Act 44 and Act 89 Tax Funds will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Independent Auditor's Report (Continued)

Our consideration of internal control over reporting on the Forms MS-991 and the Reports of Act 44 and Act 89 Tax Fund was for the limited purpose of expressing an opinion on whether the Forms MS-991 and the Reports of Act 44 and Act 89 Tax Funds are presented in accordance with the criteria described above and would not necessarily identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our engagement we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

As part of obtaining reasonable assurance about whether the Forms MS-991 and the Reports of Act 44 and Act 89 Tax Funds are free from material misstatement, we performed tests of Berks County's compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of amounts on the Forms MS-991 and the Reports of Act 44 and Act 89 Tax Funds. However, providing an opinion on compliance with those provisions was not an objective of our engagement, and accordingly, we do not express such an opinion. The results of our tests disclosed the following instance of noncompliance that is required to be reported under *Government Auditing Standards*:

- Failure To Obtain Project Approval - Recurring.

The examination finding contained in this report cites a condition that existed in the operation of the municipality during the previous engagement period and was not corrected during the current examination period. The county should strive to comply with the recommendations noted in this report.

The purpose of this report is to determine whether the county's Liquid Fuels Tax Fund, Act 44 Tax Fund, and Act 89 Tax Fund money is spent in accordance with the laws and regulations identified in the Background section of this report and the Department of Transportation's *Publication 9*. This report is not suitable for any other purpose.

We appreciate the courtesy extended by Berks 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

June 24, 2019

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BERKS COUNTY
LIQUID FUELS, ACT 44, AND ACT 89
TAX FUNDS
BACKGROUND
FOR THE PERIOD
JANUARY 1, 2015 TO DECEMBER 31, 2016

Background

The Vehicle Code makes provisions and provides funding for County Liquid Fuels, Act 44, and Act 89 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 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.

The Vehicle Code, as amended by Act 89 of 2013 (November 25, 2013, P.L. 974, No.89) provides for semi-annual allocations to all that own public bridges (75 Pa. C.S. § 9502(a)(2)(iv)). These allocations are made on the first business day of June and December each year. The Commonwealth allocates the funds available through Act 89 to counties 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.

BERKS COUNTY
LIQUID FUELS TAX FUND
2015 FORM MS-991 WITH ADJUSTMENTS

	<u>Reported</u>	<u>Adjustments (Note 4)</u>	<u>Adjusted Amount</u>
Balance, January 1, 2015	\$ 5,095,814.80	\$ -	\$ 5,095,814.80
<u>Receipts:</u>			
State allocations	875,284.19	-	875,284.19
Interest (Note 3)	43,976.37	-	43,976.37
Reimbursable agreements (Note 5)	4,603,432.56	-	4,603,432.56
Miscellaneous (Note 6)	<u>3,009,061.77</u>	<u>(16,986.85)</u>	<u>2,992,074.92</u>
Total receipts	<u>8,531,754.89</u>	<u>(16,986.85)</u>	<u>8,514,768.04</u>
Total funds available	<u>13,627,569.69</u>	<u>(16,986.85)</u>	<u>13,610,582.84</u>
<u>Expenditures:</u>			
Construction	6,043,708.07	155,348.44	6,199,056.51
Maintenance and repair	665,144.32	(68,879.44)	596,264.88
Administrative	86,204.72	-	86,204.72
Grants to political subdivisions	275,000.00	-	275,000.00
Miscellaneous (Note 7)	<u>118,623.48</u>	<u>(103,455.85)</u>	<u>15,167.63</u>
Total expenditures	<u>7,188,680.59</u>	<u>(16,986.85)</u>	<u>7,171,693.74</u>
Balance, December 31, 2015	6,438,889.10	-	6,438,889.10
Unpaid encumbrances	<u>1,053,464.69</u>	<u>458,730.11</u>	<u>1,512,194.80</u>
Unencumbered balance, December 31, 2015	<u>\$ 5,385,424.41</u>	<u>\$ (458,730.11)</u>	<u>\$ 4,926,694.30</u>

Notes To Forms MS-991 And Reports of Act 44 and Act 89 Tax Funds With Adjustments are an integral part of this report.

BERKS COUNTY
LIQUID FUELS TAX FUND
2016 FORM MS-991 WITH ADJUSTMENTS

	<u>Reported</u>	<u>Adjustments (Note 4)</u>	<u>Adjusted Amount</u>
Balance, January 1, 2016	\$ 6,438,889.10	\$ -	\$ 6,438,889.10
<u>Receipts:</u>			
State allocations	884,864.21	-	884,864.21
Interest (Note 3)	38,720.59	-	38,720.59
Reimbursable agreements (Note 5)	6,349,240.91	-	6,349,240.91
Miscellaneous (Note 6)	<u>2,273,763.34</u>	<u>-</u>	<u>2,273,763.34</u>
Total receipts	<u>9,546,589.05</u>	<u>-</u>	<u>9,546,589.05</u>
Total funds available	<u>15,985,478.15</u>	<u>-</u>	<u>15,985,478.15</u>
<u>Expenditures:</u>			
Construction	12,202,663.76	-	12,202,663.76
Maintenance and repair	332,023.36	87,528.00	419,551.36
Administrative	57,793.25	-	57,793.25
Grants to political subdivisions	-	-	-
Miscellaneous (Note 7)	<u>119,438.07</u>	<u>(87,528.00)</u>	<u>31,910.07</u>
Total expenditures	<u>12,711,918.44</u>	<u>-</u>	<u>12,711,918.44</u>
Balance, December 31, 2016	3,273,559.71	-	3,273,559.71
Unpaid encumbrances (Note 8)	<u>1,288,902.87</u>	<u>(34,875.00)</u>	<u>1,254,027.87</u>
Unencumbered balance, December 31, 2016	<u>\$ 1,984,656.84</u>	<u>\$ 34,875.00</u>	<u>\$ 2,019,531.84</u>

Notes To Forms MS-991 And Reports of Act 44 and Act 89 Tax Funds With Adjustments are an integral part of this report.

BERKS COUNTY
LIQUID FUELS TAX FUND
2015 REPORT OF ACT 44 TAX FUND
WITH ADJUSTMENTS

	<u>Reported</u>	<u>Adjustments</u>	<u>Adjusted Amount</u>
Balance, January 1, 2015	\$ 1,055,153.08	\$ -	\$ 1,055,153.08
<u>Receipts:</u>			
Act 44 Funds	-	-	-
Interest (Note 3)	1,584.58	-	1,584.58
Reimbursable agreements	-	-	-
Miscellaneous	-	-	-
Total receipts	<u>1,584.58</u>	<u>-</u>	<u>1,584.58</u>
Total funds available	<u>1,056,737.66</u>	<u>-</u>	<u>1,056,737.66</u>
<u>Expenditures:</u>			
Construction	-	-	-
Maintenance and repair	-	-	-
Miscellaneous	-	-	-
Total expenditures	<u>-</u>	<u>-</u>	<u>-</u>
Balance, December 31, 2015	<u>\$ 1,056,737.66</u>	<u>\$ -</u>	<u>\$ 1,056,737.66</u>

Notes To Forms MS-991 And Reports of Act 44 and Act 89 Tax Funds With Adjustments are an integral part of this report.

BERKS COUNTY
LIQUID FUELS TAX FUND
2016 REPORT OF ACT 44 TAX FUND
WITH ADJUSTMENTS

	<u>Reported</u>	<u>Adjustments</u>	<u>Adjusted Amount</u>
Balance, January 1, 2016	\$ 1,056,737.66	\$ -	\$ 1,056,737.66
<u>Receipts:</u>			
Act 44 Funds	259,476.58	-	259,476.58
Interest (Note 3)	2,266.65	-	2,266.65
Reimbursable agreements	-	-	-
Miscellaneous	-	-	-
Total receipts	<u>261,743.23</u>	<u>-</u>	<u>261,743.23</u>
Total funds available	<u>1,318,480.89</u>	<u>-</u>	<u>1,318,480.89</u>
<u>Expenditures:</u>			
Construction	-	-	-
Maintenance and repair	-	-	-
Miscellaneous	-	-	-
Total expenditures	<u>-</u>	<u>-</u>	<u>-</u>
Balance, December 31, 2016	<u><u>\$ 1,318,480.89</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 1,318,480.89</u></u>

Notes To Forms MS-991 And Reports of Act 44 and Act 89 Tax Funds With Adjustments are an integral part of this report.

BERKS COUNTY
LIQUID FUELS TAX FUND
2015 REPORT OF ACT 89 TAX FUND
WITH ADJUSTMENTS

	<u>Reported</u>	<u>Adjustments (Note 4)</u>	<u>Adjusted Amount</u>
Balance, January 1, 2015	\$ 91,657.76	\$ -	\$ 91,657.76
<u>Receipts:</u>			
Act 89 Funds	204,941.36	-	204,941.36
Interest (Note 3)	123.45	-	123.45
Reimbursable agreements	-	-	-
Miscellaneous	-	-	-
Total receipts	<u>205,064.81</u>	<u>-</u>	<u>205,064.81</u>
Total funds available	<u>296,722.57</u>	<u>-</u>	<u>296,722.57</u>
<u>Expenditures:</u>			
Construction	-	-	-
Maintenance and repair	17.03	(17.03)	-
Miscellaneous (Bank service charges)	-	17.03	17.03
Total expenditures	<u>17.03</u>	<u>-</u>	<u>17.03</u>
Balance, December 31, 2015	<u>\$ 296,705.54</u>	<u>\$ -</u>	<u>\$ 296,705.54</u>

Notes To Forms MS-991 And Reports of Act 44 and Act 89 Tax Funds With Adjustments are an integral part of this report.

BERKS COUNTY
LIQUID FUELS TAX FUND
2016 REPORT OF ACT 89 TAX FUND
WITH ADJUSTMENTS

	<u>Reported</u>	<u>Adjustments</u>	<u>Adjusted Amount</u>
Balance, January 1, 2016	\$ 296,705.54	\$ -	\$ 296,705.54
<u>Receipts:</u>			
Act 89 Funds	226,015.57	-	226,015.57
Interest (Note 3)	646.94	-	646.94
Reimbursable agreements	-	-	-
Miscellaneous	-	-	-
Total receipts	<u>226,662.51</u>	<u>-</u>	<u>226,662.51</u>
Total funds available	<u>523,368.05</u>	<u>-</u>	<u>523,368.05</u>
<u>Expenditures:</u>			
Construction	-	-	-
Maintenance and repair	-	-	-
Miscellaneous	-	-	-
Total expenditures	<u>-</u>	<u>-</u>	<u>-</u>
Balance, December 31, 2016	<u>\$ 523,368.05</u>	<u>\$ -</u>	<u>\$ 523,368.05</u>

Notes To Forms MS-991 And Reports of Act 44 and Act 89 Tax Funds With Adjustments are an integral part of this report.

BERKS COUNTY
LIQUID FUELS, ACT 44, AND ACT 89 TAX FUNDS,
NOTES TO FORMS MS-991 AND REPORTS OF
ACT 44 AND ACT 89 TAX FUNDS WITH ADJUSTMENTS
FOR THE PERIOD
JANUARY 1, 2015 TO DECEMBER 31, 2016

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;

BERKS COUNTY
LIQUID FUELS, ACT 44, AND ACT 89 TAX FUNDS,
NOTES TO FORMS MS-991 AND REPORTS OF
ACT 44 AND ACT 89 TAX FUNDS WITH ADJUSTMENTS
FOR THE PERIOD
JANUARY 1, 2015 TO DECEMBER 31, 2016

1. Criteria (Continued)

- 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
 - 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 31 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 may 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 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.

BERKS COUNTY
LIQUID FUELS, ACT 44, AND ACT 89 TAX FUNDS,
NOTES TO FORMS MS-991 AND REPORTS OF
ACT 44 AND ACT 89 TAX FUNDS WITH ADJUSTMENTS
FOR THE PERIOD
JANUARY 1, 2015 TO DECEMBER 31, 2016

1. Criteria (Continued)

(1) Funds received by the counties must be deposited in a special fund designated as the County Act 44 Fund and no other money may be deposited and commingled. (Note: Act 44 and Act 89 Funds may be deposited in a single account. However, the county must account for these funds independently for auditing). 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 public bridges for which the county is legally responsible.
- Interest and principal payments on bridge loans and bonds or sinking fund charges for such bonds becoming due within that current calendar year.
- County Engineer's salary and benefit costs for bridge work (that portion of the total calculated to be relevant to bridge work only).
- Engineering fees related to bridge work (fees in excess of 10% of the total contract price must be documented and justified to the satisfaction of the District Municipal Services Office).
- Liability insurance for bridge equipment and vehicles when the named beneficiary is the entity's Act 44 Fund.
- Inspection costs associated with bridges.
- Purchase of right-of-way for bridge construction, reconstruction, or maintenance.

BERKS COUNTY
LIQUID FUELS, ACT 44, AND ACT 89 TAX FUNDS,
NOTES TO FORMS MS-991 AND REPORTS OF
ACT 44 AND ACT 89 TAX FUNDS WITH ADJUSTMENTS
FOR THE PERIOD
JANUARY 1, 2015 TO DECEMBER 31, 2016

1. Criteria (Continued)

- (3) For bridge maintenance/preservation activities, the county must confer with a District Municipal Services Representative to determine if Department of Transportation approval is required. All rehabilitations, replacements or any other work that affects the carrying capacity of the structure or the waterway areas requires the approval of the Department of Transportation.
- (4) In order to receive Act 44 funds as scheduled, each county must submit an annual report showing the receipts and expenditures for the preceding 12 months. The use of the funds must be in compliance with the Act. Failure to do so may result in the county's not receiving allocations until such deficiencies are resolved.

C. *The Vehicle Code*, as amended by Act 89 of 2013 (November 25, 2013, P.L. 169), prescribes the Pennsylvania Department of Transportation with oversight authority of the Act 89 funds distributed to the counties from the Department of Transportation. The County's Act 89 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.

- (1) Funds received by the counties must be deposited in a special fund designated as the County Act 89 Fund and no other money may be deposited and commingled. (Note: Act 89 and Act 44 Funds may be deposited in a single account. However, the county must account for these funds independently for auditing). 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 public bridges for which the county is legally responsible.
 - Interest and principal payments on bridge loans and bonds or sinking fund charges for such bonds becoming due within that current calendar year.

BERKS COUNTY
LIQUID FUELS, ACT 44, AND ACT 89 TAX FUNDS,
NOTES TO FORMS MS-991 AND REPORTS OF
ACT 44 AND ACT 89 TAX FUNDS WITH ADJUSTMENTS
FOR THE PERIOD
JANUARY 1, 2015 TO DECEMBER 31, 2016

1. Criteria (Continued)

- County Engineer's salary and benefit costs for bridge work (that portion of the total calculated to be relevant to bridge work only).
 - Engineering fees related to bridge work (fees in excess of 10% of the total contract price must be documented and justified to the satisfaction of the District Municipal Services Office).
 - Liability insurance for bridge equipment and vehicles when the named beneficiary is the entity's Act 89 Fund.
 - Inspection costs associated with bridges.
 - Purchase of right-of-way for bridge construction, reconstruction, or maintenance.
- (3) For bridge maintenance/preservation activities, the county must confer with a District Municipal Services Representative to determine if Department of Transportation approval is required. All rehabilitations, replacements or any other work that affects the carrying capacity of the structure or the waterway areas requires the approval of the Department of Transportation.
- (4) In order to receive Act 89 funds as scheduled, each county must submit an annual report showing the receipts and expenditures for the preceding 12 months. The use of the funds must be in compliance with the Act. Failure to do so may result in the county's not receiving allocations until such deficiencies are resolved.

BERKS COUNTY
LIQUID FUELS, ACT 44, AND ACT 89 TAX FUNDS,
NOTES TO FORMS MS-991 AND REPORTS OF
ACT 44 AND ACT 89 TAX FUNDS WITH ADJUSTMENTS
FOR THE PERIOD
JANUARY 1, 2015 TO DECEMBER 31, 2016

1. Criteria (Continued)

Basis Of Presentation

In accordance with reporting requirements prescribed by the Pennsylvania Department of Transportation, the Report of County Liquid Fuels Tax Fund With Adjustments and the Reports of Act 44 and Act 89 Tax Funds 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 and Act 89 Tax Funds, respectively.

The Pennsylvania Department of Transportation prescribes that the county report the following on the Form MS-991, *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 the County's Liquid Fuels Tax Fund allocations, interest, reimbursable agreements, and miscellaneous items such as loans, sale of salvageable material, and damage claims to road or bridge property.

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

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

Refer to the related Note: Note 7, Miscellaneous Expenditures.

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

Refer to the related Note: Note 8, Encumbrances.

BERKS COUNTY
LIQUID FUELS, ACT 44, AND ACT 89 TAX FUNDS,
NOTES TO FORMS MS-991 AND REPORTS OF
ACT 44 AND ACT 89 TAX FUNDS WITH ADJUSTMENTS
FOR THE PERIOD
JANUARY 1, 2015 TO DECEMBER 31, 2016

1. Criteria (Continued)

The Pennsylvania Department of Transportation prescribes that the county report the following on the Reports Of Act 44 Tax Fund and Act 89 Tax Fund:

- A. The balance in the County Act 44 and Act 89 Tax Fund at the beginning of the report calendar year.
- B. Receipts which must be itemized and include the County's Act 44 and Act 89 allocations, 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.

- C. Total Act 44 and Act 89 funds available for expenditure.
- D. Expenditures for county-owned bridges.
- E. The balance in the fund at the close of the report calendar year.

2. Deposits and Investments

The County Code, Title 16 P.S § 17067, authorizes the county to deposit its funds in the following:

- United States Treasury Bills.
- Short-term obligations of the United States government or its agencies or instrumentalities.
- 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.

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2. Deposits and Investments (Continued)

- Obligations of the United States of America or any of its agencies or instrumentalities backed by the full faith and credit of the United States of America, the Commonwealth of Pennsylvania, or any of its agencies or instrumentalities backed by the full faith and credit of the Commonwealth of Pennsylvania, or any political subdivision of the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the political subdivision.
- Shares of an investment company registered under the Investment Company Act of 1940, whose shares are registered under the Securities Act of 1933, provided that the only investments of that company are in authorized investments for county funds.
- Certificates of deposit purchased from institutions insured by the FDIC or other like insurance to the extent that such accounts are so insured. For any amounts in excess of the insured maximum, such deposits shall be collateralized by a pledge or assignment of assets. Certificates of deposit may not exceed 20 percent of a bank's total capital surplus or 20 percent of a savings and loan or savings bank's assets minus liabilities.

Deposits

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, 2016. Custodial credit risk, as defined by GASB No. 40, as amended, 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.

Investments

The county is authorized to invest Liquid Fuels Tax Fund money in legal investments permitted by *The County Code* (see above).

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2. Deposits and Investments (Continued)

As of December 31, 2016, the county's Liquid Fuels Tax Fund had the following investments:

<u>Investment Type</u>	<u>Maturity Date</u>	<u>Cost</u>	<u>Fair Value</u>
FHLMC Note	03/08/2017	\$266,483.61	\$265,212.00
FNMA Note	04/27/2017	267,933.55	265,400.15
FHLMC Note	06/29/2017	276,166.00	275,423.50
		<u>\$810,583.16</u>	<u>\$806,035.65</u>

There were no investments exposed to custodial credit risk as of December 31, 2016.

Credit risk: As of December 31, 2016, the county's investments in FHLMC notes and FNMA notes are rated AA+ by Standard and Poor's.

Fund Balance

The fund balance for the Liquid Fuels Tax Fund as of December 31, 2016, consists of the following:

Cash	\$ 968,976.55
Certificates of deposit	1,494,000.00
Investments	<u>810,583.16</u>
Total	<u>\$3,273,559.71</u>

The fund balance for the Act 44 Tax Fund as of December 31, 2016, consists of the following:

Cash	<u>\$1,318,480.89</u>
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The fund balance for the Act 89 Tax Fund as of December 31, 2016, consists of the following:

Cash	<u>\$523,368.05</u>
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3. Interest Earnings

Our examination disclosed that the county deposited idle liquid fuels tax money in an interest-bearing account and approved investments which earned \$43,976.37 during 2015 and \$38,720.59 during 2016, thus providing additional funds for road maintenance and repairs.

Additionally, the county deposited idle Act 44 tax money in an interest-bearing account which earned \$1,584.58 during 2015 and \$2,266.65 during 2016, thus providing additional funds for bridge maintenance and repairs.

Additionally, the county deposited idle Act 89 tax money in an interest-bearing account which earned \$123.45 during 2015 and \$646.94 during 2016, thus providing additional funds for bridge maintenance and repairs.

4. Adjustments

2015 Form MS-991

An adjustment of \$(16,986.85) was made to “Miscellaneous” because these receipts were overstated.

An adjustment of \$155,348.44 was made to “Construction” because these expenditures were misclassified as maintenance and repair.

An adjustment of \$(68,879.44) was made to “Maintenance and repairs” because expenditures of \$155,348.44 for construction were misclassified and expenditures of \$86,469.00 were misclassified as miscellaneous.

An adjustment of \$(103,455.85) was made to “Miscellaneous” because expenditures of \$86,469.00 for maintenance and repair were misclassified and these expenditures were overstated by \$16,986.85.

An adjustment of \$458,730.11 was made to “Unpaid encumbrances” because the balance for encumbrance No. 09-06000-003 was \$566,396.11 by was reported as \$107,666.00.

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4. Adjustments (Continued)

2016 Form MS-991

An adjustment of \$87,528.00 was made to “Maintenance and repair” and “Miscellaneous” because these expenditures were misclassified.

An adjustment of \$(34,875.00) was made to “Unpaid encumbrances” because the balance for encumbrance No. 07-06000-001 was \$128,383.67 by was reported as \$163,258.67.

2015 Report of Act 89 Tax Fund

An adjustment of \$17.03 was made to “Maintenance and Repair” and “Miscellaneous” because these expenditures were misclassified.

5. Reimbursable Agreements

During our examination we noted that the county entered into reimbursable agreements with the Department of Transportation for bridge construction. During our current examination period the county received \$4,603,432.56 for 2015 and \$6,349,240.91 for 2016 as a result of these agreements and deposited this money into the Liquid Fuels Tax Fund. As of December 31, 2016, \$3,324,730.22 was due the Liquid Fuels Tax Fund.

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6. Miscellaneous Receipts

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

Source	Description	2014	2015
Commonwealth of Pennsylvania	Act 13 distribution	\$1,107,888.72	\$ 545,127.44
Commonwealth of Pennsylvania	Act 13 distribution - Reimbursement for Phillips Bridge (Finding)	711,557.75	-
Vendors	Lease of Buttonwood Street Utilities	296,910.00	8,600.00
General Fund	Reimbursement (Summary of 2012-2012 Examination Recommendations)	95,514.41	-
Insurance company	Reimbursement for damages	4,158.84	1,522.11
Vendor	Reimbursement for damages	2,636.73	-
Berks County Redevelopment Authority	Reimbursement (Summary of 2013-2014 Examination Recommendations)	20,302.63	110,530.88
Berks County Redevelopment Authority	Bridge reimbursements (Finding)	750,307.65	1,115,704.38
Berks County Redevelopment Authority	Reimbursement for materials	2,798.19	-
Financial institution	Reimbursement for check cashed fraudulently	-	31,206.93
Vendors	Refund for returned supplies	-	39.10
Vendors	Reimbursement for utility work	-	461,032.50
Totals		<u>\$2,992,074.92</u>	<u>\$2,273,763.34</u>

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7. Miscellaneous Expenditures

The following miscellaneous expenditures were paid from the Liquid Fuels Tax Fund during the examination period:

<u>Source</u>	<u>Description</u>	<u>2015</u>	<u>2016</u>
Financial institution	Bank service charges	\$ 9,230.39	\$ 8,096.36
Financial institution	Realized loss on investments	5,937.24	23,813.71
Total		<u>\$15,167.63</u>	<u>\$31,910.07</u>

8. Encumbrances

As of December 31, 2016, \$1,254,027.87 was encumbered. This amount consists of \$378,383.67 for county projects and \$875,644.20 for grants to political subdivisions.

BERKS COUNTY
LIQUID FUELS, ACT 44, AND ACT 89
TAX FUNDS
FINDING AND RECOMMENDATIONS
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Finding - Failure To Obtain Project Approval - Recurring

We cited the county for failing to obtain project approval in our prior report for the period January 1, 2010 to December 31, 2014. Our current examination disclosed that the county expended \$697,952.54 during 2015 and \$81,456.46 during 2016 for the planning and reconstruction of Bridge No. 24A, Temple Bridge, in Muhlenberg Township, without obtaining the approval of the Department of Transportation. Additionally, the county expended \$75,570.78 during 2015 and \$1,057,053.28 during 2016 for the planning and reconstruction of Bridge No. 10A, Normal Avenue Bridge, in Kutztown Borough, without obtaining the approval of the Department of Transportation. Finally, the county expended \$74,610.58 during 2015 and \$636,947.17 during 2016 for the planning and reconstruction of Bridge No. 39B, Phillips Bridge, in Centre Township, without obtaining the approval of the Department of Transportation. All rehabilitations, replacements or any other work that affects the carrying capacity of the structure or the waterway areas require the approval of the Department of Transportation. We further noted that the county did not file an application with the Department of Transportation for the projects and also failed to submit specifications for approval.

The Department of Transportation's *Publication 9* contains the policies and procedures for the administration of the Liquid Fuels Tax Fund. *Publication 9*, Chapter One, Section 6.6.1, states:

County Liquid Fuels Tax Fund monies may not be allocated or expended for construction or reconstruction projects by the county or any of its political subdivisions, without the prior approval of the application, contract or plans for the proposed expenditure by the Department of Transportation.

Furthermore, *Publication 9*, Chapter One, Section 6.6.2, states:

Completed work by the county or one of its political subdivisions must be approved by the Municipal Services district office before payment can be made.

The county reimbursed \$676,705.82 during 2015 and \$70,903.15 during 2016 for Temple Bridge; \$73,601.83 during 2015 and \$1,044,801.23 during 2016 for Normal Avenue Bridge; and \$711,557.75 for Phillips Bridge during 2015 to the Liquid Fuels Tax Fund.

The failure to comply with the Department of Transportation's *Publication 9* could result in the county having to reimburse \$46,021.03 to its Liquid Fuels Tax Fund.

BERKS COUNTY
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Finding - Failure To Obtain Project Approval - Recurring (Continued)

Recommendations

We recommend that the county reimburse \$46,021.03 to its Liquid Fuels Tax Fund upon official notification by the Department of Transportation.

We again further recommend that, before the county expends money on a project, it applies for and obtains prior approval of the project, and when the project is completed it obtains approval for the completed work.

Management's Response

The county officials offered no formal response at this time.

Auditor's Conclusion

This is a recurring finding. We strongly recommend that the county complies with our recommendations. During our next examination we will determine if the county complied with our recommendations.

BERKS COUNTY
LIQUID FUELS, ACT 44, AND ACT 89
TAX FUNDS
SUMMARY OF PRIOR EXAMINATIONS' RECOMMENDATIONS
FOR THE PERIOD
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Summary Of 2010-2012 Examination Recommendation

In our prior 2010-2012 we recommended that the Department of Transportation review our examination finding to determine if the county should reimburse \$95,514.41 to its Liquid Fuels Tax Fund for retroactive expenditures.

During our 2013-2014 examination we reviewed a letter dated May 6, 2015, from the Department of Transportation informing the county to reimburse \$95,514.41 to its Liquid Fuels Tax Fund. We noted that the county reimbursed that amount to its Liquid Fuels Tax Fund on May 27, 2015, which was subsequent to our examination period.

Summary Of 2013-2014 Examination Recommendations

In our 2013-2014 report we recommended that the Department of Transportation review our examination finding to determine if the county should reimburse \$195,833.51 to its Liquid Fuels Tax Fund. This amount consists of \$9,058.95 for duplicate transfers of liquid fuels money to the General Fund; \$113,273.08 for failure to obtain project approval; \$65,000.00 for failure to timely submit final completion report; \$6,294.55 for nonpermissible expenditures; and \$2,206.93 for expenditures in excess of the 10 percent limit on indirect/administrative costs.

During our current examination we reviewed a letter dated March 2, 2018, from the Department of Transportation informing the county to reimburse \$130,833.51 of the \$195,833.51 to its Liquid Fuels Tax Fund. We noted that the county reimbursed \$989.04 on March 6, 2015; \$17,504.44 on March 26, 2015; \$1,809.15 on May 29, 2015; \$37,573.42 on August 25, 2016 and \$72,957.46 on November 10, 2016 to its Liquid Fuels Tax Fund.

Additionally, in our 2013-2014 report we also recommended that the county:

- Establish and implement internal controls to avoid duplicate transfers.
- Ensure that its Forms MS-991 and Reports Of Act 44 Tax Fund are complete and accurate.
- Before the county expends money on a project, it applies for and obtains prior approval of the project, and when the project is completed it obtains approval for the completed work.
- Submit a completed Form MS-999 to the Department of Transportation for project No. 09-06000-02.

BERKS COUNTY
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SUMMARY OF PRIOR EXAMINATIONS' RECOMMENDATIONS
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Summary Of 2013-2014 Examination Recommendations (Continued)

- Complies with the Department of Transportation's *Publication 9* by submitting a Final Completion Report Form MS-999 for completed projects in a timely manner.
- Complies with the Liquid Fuels and Fuels Tax Act and the Department of Transportation's Regulations regarding permissible expenditures.
- 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.

During our current examination we noted that the county:

- Did not make duplicate transfers.
- Ensured that its Forms MS-991 and Reports Of Act 44 Tax Fund were substantially complete and accurate.
- Did not obtain project approval for three bridge projects (see Finding).
- Submitted a completed Form MS-999 to the Department of Transportation for project No. 09-06000-02.
- Complied with the Department of Transportation's *Publication 9* by submitting a Final Completion Report Form MS-999 for completed projects in a timely manner.
- Complied with the Liquid Fuels and Fuels Tax Act and the Department of Transportation's Regulations regarding permissible expenditures.
- Limited 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.

BERKS COUNTY
LIQUID FUELS, ACT 44, AND ACT 89
TAX FUNDS
SUMMARY OF EXIT CONFERENCE
FOR THE PERIOD
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An exit conference was held June 20, 2019. Those participating were:

BERKS COUNTY

The Honorable Sandy Graffius, Controller

Mr. Ronald Rutkowski, Deputy Controller

Mr. Scott S. Poch, CPA, Senior Government Accountant

Ms. Jen Lawler, Budget Manager

Ms. Kaylee Weaver, Fiscal Officer

DEPARTMENT OF THE AUDITOR GENERAL

Ms. Tammy Fleisher, Audit Supervisor

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

BERKS COUNTY
LIQUID FUELS, ACT 44, AND ACT 89
TAX FUNDS
REPORT DISTRIBUTION
FOR THE PERIOD
JANUARY 1, 2015 TO DECEMBER 31, 2016

This report was initially distributed to:

The Honorable Leslie Richards
Secretary
Department of Transportation

Berks County
633 Court Street
Reading, PA 19601

The Honorable Christian Y. Leinbach
Chairman of the Board of Commissioners

The Honorable Sandy Graffius
Controller

The Honorable A. Dennis Adams
Treasurer

Mr. Scott S. Poch, CPA
Senior Government Accountant

This report is a matter of public record and is available online at www.PaAuditor.gov. Media questions about the report can be directed to the Pennsylvania Department of the Auditor General, Office of Communications, 229 Finance Building, Harrisburg, PA 17120; via email to: news@PaAuditor.gov.