

CAMERON COUNTY
12-000

LIQUID FUELS TAX FUND
EXAMINATION REPORT

FOR THE YEAR ENDED
DECEMBER 31, 2006

CONTENTS

	<u>Page</u>
Background.....	1
Independent Auditor's Report.....	3
Financial Section:	
2006 Form MS-991 With Adjustments	7
Notes To Form MS-991 With Adjustments	8
Finding And Recommendations:	
Finding - Duplicate Payment Of A Grant To A Political Subdivision.....	11
Comments	12
Summary Of Exit Conference.....	13
Report Distribution	15

CAMERON COUNTY
LIQUID FUELS TAX FUND
BACKGROUND
FOR THE YEAR ENDED
DECEMBER 31, 2006

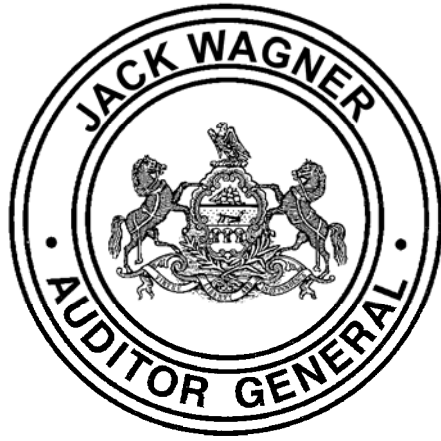
Background

The Liquid Fuels and Fuels Tax Act, Title 75 P.S. § 9010, provides counties with allocations of liquid fuels taxes from the Commonwealth of Pennsylvania's Liquid Fuels Tax Fund in June and December of each year.

The allocations are based on the ratio of a county's average gas consumption in the years 1927, 1928, and 1929 to the total statewide consumption in those years. These allocations must be deposited into a separate fund called the County Liquid Fuels Tax Fund, from which payments may be made for construction, maintenance, and repair of county roads and bridges. Additionally, the Act provides that counties may allocate money from this fund to the political subdivisions within the county for these same purposes. It also allows counties to encumber current funds for future road and bridge construction, reconstruction, and maintenance projects. Furthermore, counties are allowed to use up to ten percent of its Liquid Fuels Tax Fund allocation each year for indirect costs, including benefit costs, overhead and other administrative charges for those county employees directly engaged in eligible projects.

The Department of Transportation has been given the regulatory authority for the administration of these funds. In order to receive Liquid Fuels Tax Funds as scheduled, each county must submit an annual report showing receipts, expenditures, and encumbrances for the preceding 12 months.

Department of Transportation *Publication 9* contains the policies and procedures that govern the use of Liquid Fuels Tax Fund money. However, if there is a difference between *Publication 9* and any legislation, the legislation shall govern.



Independent Auditor's Report

The Honorable Allen D. Biehler, P.E.
Secretary
Department of Transportation
Harrisburg, PA 17120

We examined the accompanying Form MS-991 With Adjustments for the Liquid Fuels Tax Fund of Cameron County for the year ended December 31, 2006. The county's management is responsible for the Form MS-991. Our responsibility is to express an opinion on the Form MS-991 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 Cameron County's Form MS-991 for the year ended December 31, 2006 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 Form 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 paid a grant to a political subdivision of \$7,500.00 from the Liquid Fuels Tax Fund twice. Additionally, as discussed in Comment No. 1 of this report, during our prior audit period the county deposited bridge inspection reimbursements of \$5,056.05 into the General Fund. The county reimbursed \$5,056.05 to its Liquid Fuels Tax Fund on September 18, 2007, which was subsequent to our examination period.

In our opinion, except for the matters discussed in the preceding paragraph, the Form MS-991 With Adjustments presents, in all material respects, the information required by the Pennsylvania Department of Transportation for the Liquid Fuels Tax Fund of Cameron County for the year ended December 31, 2006, in conformity with the criteria set forth in Note 1.

In accordance with *Government Auditing Standards*, we are required to report findings of deficiencies in internal control, violations of provisions of contracts or grant agreements, and abuse that are material to the Form 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 Form MS-991 is presented in accordance with the criteria described above and not for the purpose of expressing an opinion on the internal control over the Form MS-991 or on compliance with 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 Cameron 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 Cameron County's Form MS-991 that is more than inconsequential will not be prevented or detected by Cameron County's internal control. We consider the deficiencies described in the finding below to be significant deficiencies in internal control over reporting on the Form MS-991:

- Duplicate Payment Of A Grant To A Political Subdivision.

Independent Auditor's Report (Continued)

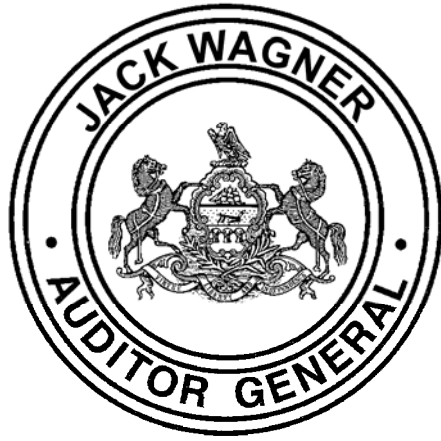
A material weakness is a significant deficiency or combination of significant deficiencies that results in more than a remote likelihood that a material misstatement of the Form MS-991 will not be prevented or detected by Cameron County's internal control. Our consideration of the internal control over reporting on the Form MS-991 would not necessarily disclose all matters in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We consider the significant deficiency described above to be a material weakness.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

November 7, 2007

JACK WAGNER
Auditor General



CAMERON COUNTY
LIQUID FUELS TAX FUND
2006 FORM MS-991
WITH ADJUSTMENTS

	<u>Reported</u>	<u>Adjustments (Note 4)</u>	<u>Adjusted Amount</u>
Balance, January 1, 2006	\$ 12,002.97	\$ -	\$ 12,002.97
<u>Receipts:</u>			
State allocations	20,881.91	-	20,881.91
Interest (Note 3)	61.07	-	61.07
Reimbursable agreements (Note 5)	11,522.82	-	11,522.82
Miscellaneous	-	-	-
Total receipts	<u>32,465.80</u>	<u>-</u>	<u>32,465.80</u>
Total funds available	<u>44,468.77</u>	<u>-</u>	<u>44,468.77</u>
<u>Expenditures:</u>			
Construction	-	-	-
Maintenance and repair	14,177.22	-	14,177.22
Administrative	-	-	-
Grants to political subdivisions	-	11,500.00	11,500.00
Miscellaneous	<u>11,500.00</u>	<u>(11,500.00)</u>	<u>-</u>
Total expenditures	<u>25,677.22</u>	<u>-</u>	<u>25,677.22</u>
Balance, December 31, 2006	18,791.55	-	18,791.55
Unpaid encumbrances (Note 1)	<u>-</u>	<u>-</u>	<u>-</u>
Unencumbered balance, December 31, 2006	<u>\$ 18,791.55</u>	<u>\$ -</u>	<u>\$ 18,791.55</u>

Notes to Form MS-991 With Adjustments are an integral part of this report.

CAMERON COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORM MS-991 WITH ADJUSTMENTS
FOR THE YEAR ENDED
DECEMBER 31, 2006

1. Criteria

Form MS-991 With Adjustments provides a summary of Liquid Fuels Tax Fund receipts, expenditures, fund balance, encumbrances and unencumbered balance by category. Categories requiring explanation include:

- State allocations are generally received from the Department of Transportation during June and December of each year. The amount the county receives is based on the ratio of a county's average gas consumption in the years 1927, 1928, and 1929 to the total statewide consumption in those years.
- Reimbursable agreements are agreements with the Commonwealth of Pennsylvania or another entity to reimburse the county for money expended for construction, maintenance, and repairs of county roads and bridges.
- Encumbrances are funds reserved for future county road or bridge projects or grants to political subdivisions for these same purposes.

Basis Of Presentation

The financial activities of the county are accounted for in separate funds. The Liquid Fuels Tax Fund is used to account for state aid revenues from the Pennsylvania Department of Transportation used primarily for building and improving local roads and bridges. The financial presentation has been prepared in accordance with reporting requirements prescribed by the Pennsylvania Department of Transportation as a result of the County Liquid Fuels Tax Act of 1931, which does not constitute a complete presentation of the entity's assets, liabilities, expenses, and fund balance. Accordingly, the presentation of Form MS-991 With Adjustments is restricted to the Liquid Fuels Tax Fund, which represents a segment of the entity.

Basis Of Accounting

The accompanying Form MS-991 With Adjustments is prepared in accordance with the reporting requirements prescribed by the Pennsylvania Department of Transportation. Under this method, revenues are recognized when received and expenses are recorded when paid. In addition, counties are also permitted to encumber funds for county projects and grants to political subdivisions.

CAMERON COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORM MS-991 WITH ADJUSTMENTS
FOR THE YEAR ENDED
DECEMBER 31, 2006

1. Criteria (Continued)

General Fixed Assets

General fixed assets are recognized as expenditures at the time of purchase. No depreciation has been provided on the heavy equipment used to maintain and repair roads and bridges.

2. Deposits

The 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, 2006. 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.

CAMERON COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORM MS-991 WITH ADJUSTMENTS
FOR THE YEAR ENDED
DECEMBER 31, 2006

2. Deposits (Continued)

Fund Balance

The fund balance consists of the following:

Cash	<u>\$18,791.55</u>
------	--------------------

3. Interest Earnings

Our examination disclosed that the county deposited idle liquid fuels tax money in an interest-bearing account which earned \$61.07 during 2006 (see Comment No. 2).

4. Adjustments

Adjustments were made to “Grants to political subdivisions” and “Miscellaneous” because expenditures of \$11,500.00 were misclassified.

5. Reimbursable Agreements

During our examination, we noted that the county entered into a reimbursement agreement with the Department of Transportation for bridge inspections. During our current examination period, the county received \$11,522.82 as a result of this agreement. As of December 31, 2006, \$11,341.78 is due the Liquid Fuels Tax Fund.

CAMERON COUNTY
LIQUID FUELS TAX FUND
FINDING AND RECOMMENDATIONS
FOR THE YEAR ENDED
DECEMBER 31, 2006

Finding - Duplicate Payment Of A Grant To A Political Subdivision

Our examination disclosed that the county paid the following grant to a political subdivision twice:

<u>Project No.</u>	<u>First Check No.</u>	<u>First Date Paid</u>	<u>Second Check No.</u>	<u>Second Date Paid</u>	<u>Invoice Amount</u>
05-12-204-CA1	243	09/26/2005	245	02/15/2006	<u>\$7,500.00</u>

Although this money should be reimbursed to the Liquid Fuels Tax Fund the primary concern is the inadequate internal controls which enabled the duplicate payment of \$7,500.00 to remain undetected.

Good internal controls ensure that all invoices are reviewed timely to avoid duplicate payments. The failure to follow this procedure increases the possibility that duplicate payments can be made on vendor invoices and go undetected for long periods of time.

Recommendations

We recommend that the county reimburse \$7,500.00 to its Liquid Fuels Tax Fund. We also recommend that the county officials contact the municipality as soon as possible to obtain reimbursement.

We further recommend that the county establish and implement internal controls to ensure vendor invoices are reviewed timely to avoid duplicate payments.

Management's Response

The chief clerk stated:

The county is working with the Department of Transportation and Portage Township to resolve this problem.

CAMERON COUNTY
LIQUID FUELS TAX FUND
COMMENTS
FOR THE YEAR ENDED
DECEMBER 31, 2006

Comment No. 1 - Summary Of Prior Examination Recommendations

In our prior report we recommended that the Department of Transportation review our examination finding to determine if the county should reimburse \$5,056.05 to its Liquid Fuels Tax Fund for depositing bridge inspection reimbursements into the General Fund.

During our current examination we reviewed a letter dated February 9, 2007, from the Department of Transportation informing the county to reimburse \$5,056.05 to its Liquid Fuels Tax Fund. We further noted that the county reimbursed this amount to its Liquid Fuels Tax Fund on September 18, 2007, which was subsequent to our current examination period.

In our prior report we also recommended that the county comply with the Liquid Fuels and Fuels Tax Act by depositing all liquid fuels tax money promptly into the Liquid Fuels Tax Fund.

During our current examination, we noted that the county complied with our recommendation.

Comment No. 2 - Insufficient Interest Earned On Liquid Fuels Tax Fund Deposits

During our prior and current examination periods, the county maintained its Liquid Fuels Tax Fund deposits in a checking account. As of December 31, 2006, the county was earning interest on this account at a rate of only .50 percent. The county should consider transferring its idle funds to a higher yielding account to increase interest earnings.

CAMERON COUNTY
LIQUID FUELS TAX FUND
SUMMARY OF EXIT CONFERENCE
FOR THE YEAR ENDED
DECEMBER 31, 2006

An exit conference was held November 7, 2007. Those participating were:

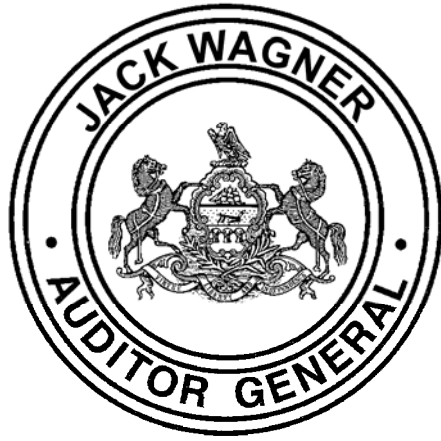
CAMERON COUNTY

The Honorable Patrick E. Rodgers, County Commissioner
Mrs. Brenda G. Munz, Chief Clerk
The Honorable Staci L. Brown, Treasurer

DEPARTMENT OF THE AUDITOR GENERAL

Mrs. Edith M. Carpenter, Auditor

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



CAMERON COUNTY
LIQUID FUELS TAX FUND
REPORT DISTRIBUTION
FOR THE YEAR ENDED
DECEMBER 31, 2006

This report was initially distributed to:

The Honorable Allen D. Biehler, P.E.
Secretary
Department of Transportation

Cameron County
20 East Fifth Street
Emporium, PA 15834

The Honorable Anthony C. Moscato	Chairman of the Board of Commissioners
The Honorable Staci L. Brown	Treasurer
Mrs. Brenda G. Munz	Chief Clerk

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.