

CHESTER COUNTY  
15-000

LIQUID FUELS TAX FUND  
EXAMINATION REPORT

FOR THE YEAR ENDED  
DECEMBER 31, 2006



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

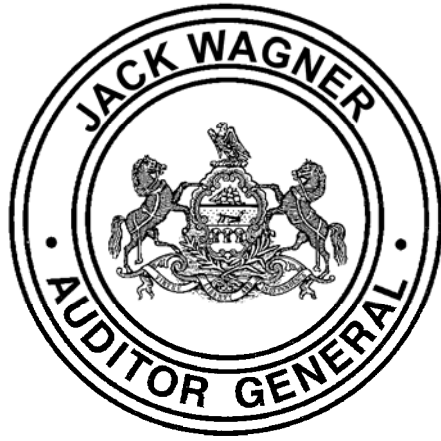
Background

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 Chester 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 Chester 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.

In our opinion, 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 Chester County for the year ended December 31, 2006, in conformity with the criteria set forth in Note 1.

Independent Auditor's Report (Continued)

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 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 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 Form MS-991 or on compliance with other matters; accordingly, we express no such opinion. The results of our examination disclosed no matters that are required to be reported under *Government Auditing Standards*. However, we have noted an other matter which is described, along with the views of management, in the Finding and Recommendations section of this report.

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

August 28, 2007

JACK WAGNER  
Auditor General



CHESTER 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	\$ 59,932.46	\$ -	\$ 59,932.46
<u>Receipts:</u>			
State allocations	602,816.97	-	602,816.97
Interest (Note 3)	4,821.70	(274.30)	4,547.40
Reimbursable agreements (Note 5)	-	44,393.39	44,393.39
Miscellaneous (Note 6)	<u>539,571.73</u>	<u>(251,743.08)</u>	<u>287,828.65</u>
Total receipts	<u>1,147,210.40</u>	<u>(207,623.99)</u>	<u>939,586.41</u>
Total funds available	<u>1,207,142.86</u>	<u>(207,623.99)</u>	<u>999,518.87</u>
<u>Expenditures:</u>			
Construction	-	-	-
Maintenance and repair	817,924.76	-	817,924.76
Administrative	65,806.07	-	65,806.07
Grants to political subdivisions	-	-	-
Miscellaneous	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>883,730.83</u>	<u>-</u>	<u>883,730.83</u>
Balance, December 31, 2006	323,412.03	(207,623.99)	115,788.04
Unpaid encumbrances	<u>-</u>	<u>-</u>	<u>-</u>
Unencumbered balance, December 31, 2006	<u>\$ 323,412.03</u>	<u>\$ (207,623.99)</u>	<u>\$ 115,788.04</u>

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

CHESTER 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.

CHESTER 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 financial institutions. 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.

CHESTER 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>\$115,788.04</u>
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3. Interest Earnings

Our examination disclosed that the county deposited idle liquid fuels tax money in interest-bearing accounts which earned \$4,547.40 during 2006, thus providing additional funds for road maintenance and repairs.

4. Adjustments

An adjustment of \$(274.30) was made to "Interest" because interest earned was overstated.

An adjustment of \$44,393.39 was made to "Reimbursable agreements" because bridge inspection reimbursements were misclassified as miscellaneous receipts.

An adjustment of \$(251,743.08) was made to "Miscellaneous" receipts because a grant from the General Fund for maintenance and repair was overstated by \$207,349.69 and receipts of \$44,393.39 for bridge inspection reimbursements were misclassified.

5. Reimbursable Agreements

The county entered into reimbursement agreements with the Commonwealth of Pennsylvania for bridge inspections. During 2006 the county received a total of \$44,393.39 as a result of these agreements.

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

6. Miscellaneous Receipts

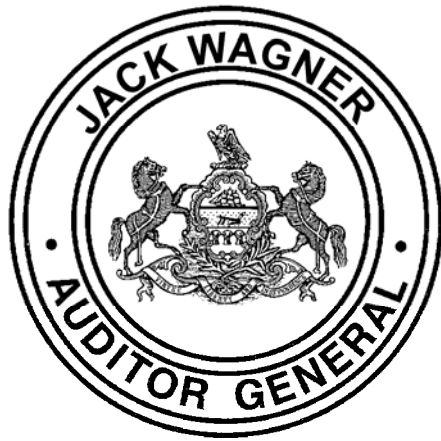
The following miscellaneous receipts were deposited into the Liquid Fuels Tax Fund during the examination period:

<u>Source</u>	<u>Description</u>	<u>Amount</u>
General Fund	Grant for maintenance and repair	\$256,941.35
Insurance company West Brandywine Township	Reimbursement for damages	29,662.63
Private concern	Sale of surveying station	1,000.00
Private concern	Sale of scrap metal	145.60
	Reimbursement for materials	79.07
Total		<u>\$287,828.65</u>

7. General Obligation Note

On December 1, 2006, the county refinanced its series 2002 General Obligation Note for \$86,725,000.00. The county had previously allocated \$1,100,000.00 of that amount for bridge construction and maintenance. With the approval of the Department of Transportation, the county applies debt service charges to the Liquid Fuels Tax Fund for the pro-rated portion of the note each year.

The county paid interest of \$79,589.55 during prior years and interest of \$51,234.00 during 2006 from the Liquid Fuels Tax Fund. This amount is included in maintenance and repair on the 2006 Form MS-991 With Adjustments. As of December 31, 2006, the balance eligible to be paid from the Liquid Fuels Tax Fund was \$1,100,000.00, plus interest.



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

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

Our examination disclosed that the county expended a total of \$65,806.07 from the Liquid Fuels Tax Fund in the 2006 calendar year for indirect/administrative costs, which is greater than 10 percent of the yearly Liquid Fuels Tax Fund allocation of \$602,816.97 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 indirect/administrative costs charged to the Liquid Fuels Tax Fund by the county during 2006 are as follows:

<u>Description</u>	<u>Amount</u>
Telephone	\$ 258.07
Work station charges	548.00
Indirect costs	<u>65,000.00</u>
Total indirect/administrative costs	65,806.07
Less 10% permissible amount	<u>60,281.70</u>
Excess expenditures for indirect/administrative costs	<u><u>\$ 5,524.37</u></u>

The failure to comply with the Liquid Fuels and Fuels Tax Act could result in the county having to reimburse \$5,524.37 to its Liquid Fuels Tax Fund.

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

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

Recommendations

We recommend that the county reimburse \$5,524.37 to its Liquid Fuels Tax Fund upon official notification by the Department of Transportation.

We 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.

Management's Response

The accounting manager stated:

We concur with the finding and controls are now in place to avoid this occurrence in the future.



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

An exit conference was held August 28, 2007. Those participating were:

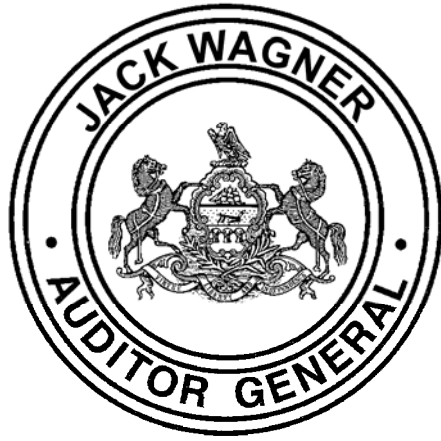
CHESTER COUNTY

Mr. Robert L. Beckershoff, Accounting Manager  
Mr. Robert E. Park, Account III

DEPARTMENT OF THE AUDITOR GENERAL

Mr. Robert Rosenfeldt, Auditor

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



CHESTER 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

Chester County  
2 North High Street, Suite 120  
P. O. Box 2748  
West Chester, PA 19380

The Honorable Carol Aichele

Chairperson of the Board of Commissioners

The Honorable Alan J. Randzin

Treasurer

Valentino F. DiGiorgio III, Esquire

Controller

Mr. Robert L. Beckershoff

Accounting Manager

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](http://www.auditorgen.state.pa.us).