

COLUMBIA COUNTY
19-000

LIQUID FUELS TAX FUND
EXAMINATION REPORT

FOR THE YEAR ENDED
DECEMBER 31, 2007

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COLUMBIA COUNTY
LIQUID FUELS TAX FUND
BACKGROUND
FOR THE YEAR ENDED
DECEMBER 31, 2007

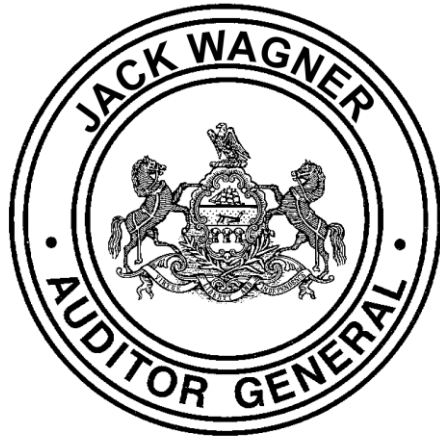
Background

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 Columbia County for the year ended December 31, 2007. 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 Columbia County's Form MS-991 for the year ended December 31, 2007 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.

As discussed in Finding No. 1, the county transferred \$37,775.00 from its Liquid Fuels Tax Fund to its General Fund for the same expenditures twice. Additionally, as discussed in Finding No. 2 the county transferred a total of \$2,194.32 in excess of approved Liquid Fuels Tax Fund expenditures from its Liquid Fuels Tax Fund to its General Fund. The municipality reimbursed \$37,775.00 and \$2,194.32 to its Liquid Fuels Tax Fund on January 28, 2008.

Independent Auditor's Report (Continued)

In our opinion, except for the matters discussed in the preceding paragraph, the Form 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 Columbia County for the year ended December 31, 2007, 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 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 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 Form 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 Columbia 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 Columbia County's Form MS-991 that is more than inconsequential will not be prevented or detected by Columbia County's internal control. We consider the deficiencies described in the findings below to be significant deficiencies in internal control over reporting on the Form MS-991:

- Duplicate Transfer To The General Fund.
- Excess Transfers To The General Fund.
- Internal Control Over The Preparation Of Form MS-991 Should Be Improved.

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 Columbia 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. However, we consider the significant deficiencies described above to be material weaknesses.

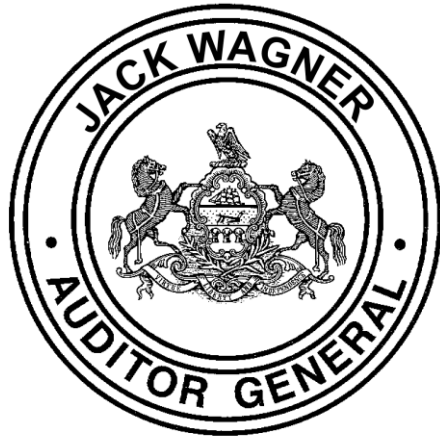
Independent Auditor's Report (Continued)

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 Columbia County and is not intended to be and should not be used by anyone other than these specified parties.

July 30, 2008

JACK WAGNER
Auditor General



COLUMBIA COUNTY
LIQUID FUELS TAX FUND
2007 FORM MS-991
WITH ADJUSTMENTS

	<u>Reported</u>	<u>Adjustments (Note 4)</u>	<u>Adjusted Amount</u>
Balance, January 1, 2007	\$ 968,326.49	\$ 10,240.54	\$ 978,567.03
<u>Receipts:</u>			
State allocations	199,618.22	-	199,618.22
Interest (Note 3)	44,925.32	-	44,925.32
Reimbursable agreements (Note 6)	894,148.57	(10,345.54)	883,803.03
Miscellaneous	102,502.80	(102,502.80)	-
Accounts receivable (Note 1)	95,756.38	-	95,756.38
Total receipts	<u>1,336,951.29</u>	<u>(112,848.34)</u>	<u>1,224,102.95</u>
Total funds available	<u>2,305,277.78</u>	<u>(102,607.80)</u>	<u>2,202,669.98</u>
<u>Expenditures:</u>			
Construction	841,752.74	(87,170.27)	754,582.47
Maintenance and repair	453,059.19	(130,876.14)	322,183.05
Administrative	-	-	-
Grants to political subdivisions	152,942.97	(32,500.97)	120,442.00
Accounts payable (Note 1)	-	108,029.16	108,029.16
Miscellaneous (Note 5)	58.90	39,956.52	40,015.42
Total expenditures	<u>1,447,813.80</u>	<u>(102,561.70)</u>	<u>1,345,252.10</u>
Balance, December 31, 2007	857,463.98	(46.10)	857,417.88
Unpaid encumbrances (Note 1)	<u>610,442.88</u>	<u>17,358.00</u>	<u>627,800.88</u>
Unencumbered balance, December 31, 2007	<u>\$ 247,021.10</u>	<u>\$ (17,404.10)</u>	<u>\$ 229,617.00</u>

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

COLUMBIA COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORM MS-991 WITH ADJUSTMENTS
FOR THE YEAR ENDED
DECEMBER 31, 2007

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 reporting requirements prescribed by the Pennsylvania Department of Transportation. Under this method, revenues are recognized when received and expenses are recorded when paid except for accounts receivable and accounts payable. In addition, counties are also permitted to encumber funds for county projects and grants to political subdivisions. As of December 31, 2007, \$627,800.88 was encumbered. This amount consists of \$595,242.88 for county projects and \$32,558.00 for grants to political subdivisions.

COLUMBIA COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORM MS-991 WITH ADJUSTMENTS
FOR THE YEAR ENDED
DECEMBER 31, 2007

1. Criteria (Continued)

Basis Of Accounting (Continued)

The total accounts receivable are \$95,756.38. This amount consists of \$55,787.06 due from the Commonwealth of Pennsylvania for bridge inspections, \$37,775.00 due from the General Fund for a duplicate transfer (See Finding No. 1) and \$2,194.32 due from the General Fund for excess transfers (see Finding No. 2).

Accounts payable are costs incurred during the current audit period, but paid subsequent to the end of the current audit period. The \$108,029.16 is for the following:

<u>Description</u>	<u>Amount</u>
Construction	\$ 87,170.27
Maintenance and repair	20,799.99
Miscellaneous	<u>58.90</u>
Total	<u>\$108,029.16</u>

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.

COLUMBIA COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORM MS-991 WITH ADJUSTMENTS
FOR THE YEAR ENDED
DECEMBER 31, 2007

2. Deposits (Continued)

- 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, 2007. 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 consists of the following:

Cash	<u>\$857,417.88</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 which earned \$44,925.32 during 2007, thus providing additional funds for road maintenance and repairs.

4. Adjustments

An adjustment of \$10,240.54 was made to "Balance, January 1, 2007" because of prior report adjustments that were not carried forward in the fund balance

An adjustment of \$(10,345.54) was made to "Reimbursable agreements" because bridge inspection reimbursements were overstated.

COLUMBIA COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORM MS-991 WITH ADJUSTMENTS
FOR THE YEAR ENDED
DECEMBER 31, 2007

4. Adjustments (Continued)

An adjustment of \$(102,502.80) was made to “Miscellaneous” receipts because these receipts were reported but not received.

An adjustment of \$(87,170.27) was made to “Construction” because accounts payable were misclassified.

An adjustment of \$(130,876.14) was made to “Maintenance and repair” because expenditures of \$32,500.97 were misclassified as grants to political subdivisions, accounts payable of \$20,799.99 were misclassified, expenditures of \$102,607.80 were reported but not made, and a duplicate transfer of \$37,775.00 and excess transfers of \$2,194.32 were misclassified.

An adjustment of \$(32,500.97) was made to “Grants to political subdivisions” because expenditures for maintenance and repair were misclassified.

An adjustment of \$108,029.16 was made to “Accounts payable” because expenditures of \$87,170.27 were misclassified as construction, \$20,799.99 were misclassified as maintenance and repair, and \$58.90 were misclassified as miscellaneous.

An adjustment of \$39,956.52 was made to “Miscellaneous” because a duplicate transfer of \$37,775.00 and excess transfers of \$2,194.32 were misclassified as maintenance and repair, accounts payable of \$58.90 were misclassified, and an excess transfer of \$46.10 was not reported.

An adjustment of \$17,358.00 was made to “Unpaid encumbrances” because an encumbrance for project No. C071922401CA was not reported.

5. Miscellaneous Expenditures

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

<u>Payee</u>	<u>Description</u>	<u>Amount</u>
General Fund	Duplicate payment (Finding No. 1)	\$37,775.00
General Fund	Excess transfer (Finding No. 2)	2,194.32
General Fund	Transfer to General Fund	<u>46.10</u>
Total		<u>\$40,015.42</u>

COLUMBIA COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORM MS-991 WITH ADJUSTMENTS
FOR THE YEAR ENDED
DECEMBER 31, 2007

6. Reimbursable Agreements

During our examination, we noted that the county entered into reimbursement agreements with Department of Transportation for bridge inspections. During our current examination period, the county received \$883,803.03 for bridge inspections as a result of these agreements. As of December 31, 2007, \$55,787.06 is due the Liquid Fuels Tax Fund.

COLUMBIA COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED
DECEMBER 31, 2007

Finding No. 1 - Duplicate Transfer To The General Fund

Our examination disclosed that the county transferred \$37,775.00 from its Liquid Fuels Tax Fund to its General Fund on August 7, 2007 for the reimbursement of expenditures paid on behalf of the Liquid Fuels Tax Fund. The municipality transferred the same amount for the same expenditures on August 31, 2007.

On January 28, 2008, the county reimbursed \$37,775.00 to the Liquid Fuels Tax Fund.

Although this money was returned to the Liquid Fuels Tax Fund, the primary concern is the inadequate internal controls which enabled the duplicate transfer of \$37,775.00 to remain undetected for five months.

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

Recommendation

We recommend that the county establish and implement internal controls to ensure transfers are reviewed timely to avoid duplicate transfers.

Management's Response

The county officials stated:

All were corrected.

Auditor's Conclusion

We will determine if the county complied with our recommendation during our next examination.

COLUMBIA COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED
DECEMBER 31, 2007

Finding No. 2 - Excess Transfers To The General Fund

Our examination disclosed that during 2007 the county transferred a total of \$2,194.32 in excess of approved Liquid Fuels Tax Fund expenditures from its Liquid Fuels Tax Fund to its General Fund. Counties should only transfer funds from the Liquid Fuels Tax Fund to other funds for the reimbursement of expenditures already made.

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

On January 28, 2008, the county reimbursed \$2,194.32 to its Liquid Fuels Tax Fund.

Recommendation

We recommend that the county establish and implement internal controls to ensure transfers are reviewed timely to avoid excess transfers.

Management's Response

The county officials stated:

All were corrected within 2007.

Auditor's Conclusion

We will determine if the county complied with our recommendation during our next examination.

COLUMBIA COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED
DECEMBER 31, 2007

Finding No. 3 - Internal Control Over The Preparation Of Form MS-991 Should Be Improved

Our examination disclosed that there were numerous errors made in the preparation of the county's 2007 Form MS-991. These adjustments, which are disclosed in Note 4, are as follows:

- An adjustment of \$10,240.54 was made to "Balance, January 1, 2007" because of prior report adjustments that were not carried forward in the fund balance.
- An adjustment of \$(10,345.54) was made to "Reimbursable agreements" because bridge inspection reimbursements were overstated.
- An adjustment of \$(102,502.80) was made to "Miscellaneous" receipts because these receipts were reported but not received.
- An adjustment of \$(87,170.27) was made to "Construction" because accounts payable were misclassified.
- An adjustment of \$(130,876.14) was made to "Maintenance and repair" because expenditures of \$32,500.97 were misclassified as grants to political subdivisions, accounts payable of \$20,799.99 were misclassified, expenditures of \$102,607.80 were reported but not made, and a duplicate transfer of \$37,775.00 and excess transfers of \$2,194.32 were misclassified.
- An adjustment of \$(32,500.97) was made to "Grants to political subdivisions" because expenditures for maintenance and repair were misclassified.
- An adjustment of \$108,029.16 was made to "Accounts payable" because expenditures of \$87,170.27 were misclassified as construction, \$20,799.99 were misclassified as maintenance and repair, and \$58.90 were misclassified as miscellaneous.
- An adjustment of \$39,956.52 was made to "Miscellaneous" because a duplicate transfer of \$37,775.00 and excess transfers of \$2,194.32 were misclassified as maintenance and repair, accounts payable of \$58.90 were misclassified, and an excess transfer of \$46.10 was not reported.
- An adjustment of \$17,358.00 was made to "Unpaid encumbrances" because an encumbrance for project No. C071922401CA was not reported.

COLUMBIA COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED
DECEMBER 31, 2007

Finding No. 3 - Internal Control Over The Preparation Of Form MS-991 Should Be Improved
(Continued)

Good internal controls ensure that the county completes its Form MS-991 accurately and completely. The failure to properly complete Form MS-991 increases the risk that errors or irregularities may occur and remain undetected.

Recommendation

We recommend that the county ensure that its Form MS-991 is complete and accurate.

Management's Response

The county officials stated:

County was providing services to the municipality, therefore we thought they were grants to municipalities.

Auditor's Conclusion

The services the county believed were grants were payments made to vendors for LED bulbs that were provided by the vendor to municipalities. According to PENNDOT regulations, grants are payments made directly to the municipality and they require PENNDOT approval. Additionally, there were numerous other adjustments made to the Form MS-991. The county should comply with our recommendation as stated above.

COLUMBIA COUNTY
LIQUID FUELS TAX FUND
SUMMARY OF EXIT CONFERENCE
FOR THE YEAR ENDED
DECEMBER 31, 2007

An exit conference was held July 30, 2008. Those participating were:

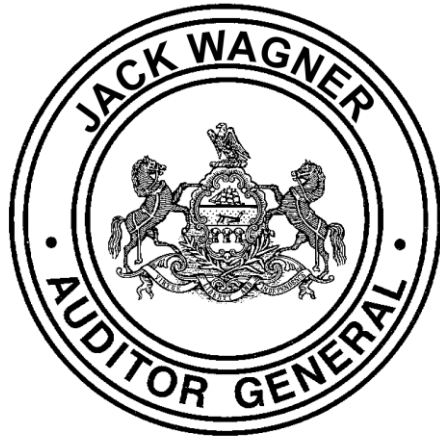
COLUMBIA COUNTY

Mrs. Gail S. Kipp, Chief Clerk

DEPARTMENT OF THE AUDITOR GENERAL

Ms. Georgeanne Walacavage, Auditor

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



COLUMBIA COUNTY
LIQUID FUELS TAX FUND
REPORT DISTRIBUTION
FOR THE YEAR ENDED
DECEMBER 31, 2007

This report was initially distributed to:

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

Columbia County
P. O. Box 380
Bloomsburg, PA 17815

The Honorable Chris E. Young	County Commissioner
The Honorable Shirley Turner	Treasurer
Mrs. Gail S. Kipp	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.