

DELAWARE COUNTY
23-000

LIQUID FUELS TAX FUND
EXAMINATION REPORT

FOR THE YEAR ENDED
DECEMBER 31, 2005

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DELAWARE COUNTY
LIQUID FUELS TAX FUND
BACKGROUND
FOR THE YEAR ENDED
DECEMBER 31, 2005

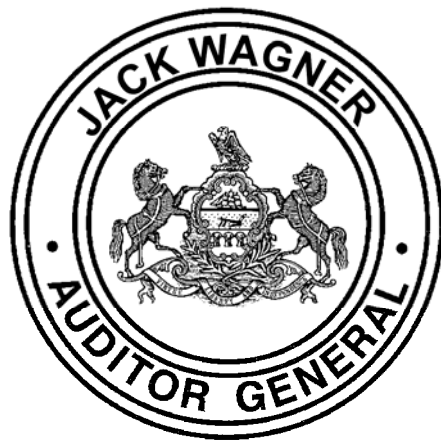
Background

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 Delaware County for the year ended December 31, 2005. 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 Delaware County's Form MS-991 for the year ended December 31, 2005 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 Comment No. 1, for the year ended December 31, 2003, the county's unencumbered balance was greater than the receipts for the previous 12 months. At the discretion of the Department of Transportation, this could result in the county having to disburse \$537,784.70 from its Liquid Fuels Tax Fund to the municipalities within the county. As of the date of this report, the Department of Transportation had not determined if \$537,784.70 should be disbursed.

Independent Auditor's Report (Continued)

In our opinion, except for the matter 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 Delaware County for the year ended December 31, 2005, 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 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*.

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

November 28, 2006

JACK WAGNER
Auditor General

DELAWARE COUNTY
LIQUID FUELS TAX FUND
2005 FORM MS-991
WITH ADJUSTMENTS

	<u>Reported</u>	<u>Adjustments (Note 4)</u>	<u>Adjusted Amount</u>
Balance, January 1, 2005	\$1,351,152.17	\$ 5.00	\$1,351,157.17
<u>Receipts:</u>			
State allocations	534,274.22	527,721.51	1,061,995.73
Interest (Note 3)	47,390.79	-	47,390.79
Reimbursable agreements	-	-	-
Miscellaneous (Note 5)	<u>1,173,537.98</u>	<u>(527,721.51)</u>	<u>645,816.47</u>
Total receipts	<u>1,755,202.99</u>	<u>-</u>	<u>1,755,202.99</u>
Total funds available	<u>3,106,355.16</u>	<u>5.00</u>	<u>3,106,360.16</u>
<u>Expenditures:</u>			
Construction	420.30	-	420.30
Maintenance and repair	367,892.98	2,055.00	369,947.98
Administrative	62,274.19	(62,274.19)	-
Grants to political subdivisions	764,542.00		764,542.00
Miscellaneous (Note 6)	<u>-</u>	<u>60,224.19</u>	<u>60,224.19</u>
Total expenditures	<u>1,195,129.47</u>	<u>5.00</u>	<u>1,195,134.47</u>
Balance, December 31, 2005	1,911,225.69	-	1,911,225.69
Unpaid encumbrances (Note 1)	<u>760,683.00</u>	<u>(384,044.00)</u>	<u>376,639.00</u>
Unencumbered balance, December 31, 2005	<u><u>\$1,150,542.69</u></u>	<u><u>\$ 384,044.00</u></u>	<u><u>\$1,534,586.69</u></u>

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

DELAWARE COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORM MS – 991 WITH ADJUSTMENTS
FOR THE YEAR ENDED
DECEMBER 31, 2005

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. As of December 31, 2005, \$376,639.00 was encumbered for grants to political subdivisions.

DELAWARE COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORM MS – 991 WITH ADJUSTMENTS
FOR THE YEAR ENDED
DECEMBER 31, 2005

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, 2005. 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.

DELAWARE COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORM MS – 991 WITH ADJUSTMENTS
FOR THE YEAR ENDED
DECEMBER 31, 2005

2. Deposits (Continued)

Fund Balance

The fund balance consists of the following:

Cash	<u>\$1,911,225.69</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 \$47,390.79 during 2005, thus providing additional funds for road maintenance and repairs.

4. Adjustments

An adjustment of \$5.00 was made to “Balance, January 1, 2005” because the beginning balance was understated.

Adjustments were made to “State allocations” and “Miscellaneous” because a receipt of \$527,721.51, which represented the 2005 December state allocation, was misclassified.

An adjustment of \$2,055.00 was made to “Maintenance and repair” because these expenditures were misclassified as administrative.

An adjustment of \$(62,274.19) was made to “Administrative” because expenditures of \$2,055.00 for maintenance and repair and \$60,219.19 for miscellaneous were misclassified.

An adjustment of \$60,224.19 was made to “Miscellaneous” because expenditures of \$60,219.19 were misclassified as administrative and expenditures of \$5.00 were not reported.

DELAWARE COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORM MS – 991 WITH ADJUSTMENTS
FOR THE YEAR ENDED
DECEMBER 31, 2005

4. Adjustments (Continued)

An adjustment of \$(384,044.00) was made to “Unpaid encumbrances” because the county incorrectly reported these encumbrances. Liquid Fuels money is not considered encumbered for county aid projects unless a Form MS-339 is filed for each project by the municipality receiving the aid. Although the county approved the county aid grants for the project below totaling \$389,242.00, the municipalities that are to receive the county aid did not file a Form MS-339, therefore this money is not officially encumbered. The total adjustments to the encumbrances are as follows:

Encumbrance No.	Actual Amount	Reported Amount	Adjustment
01232011CA	\$ -	\$ 2,700.00	\$ (2,700.00)
02232011CA	-	2,700.00	(2,700.00)
03232011CA	-	2,700.00	(2,700.00)
04232011CA	-	2,700.00	(2,700.00)
03234031CA	-	743.00	(743.00)
04234031CA	-	743.00	(743.00)
05234031CA	-	743.00	(743.00)
05232031CA	-	5,063.00	(5,063.00)
05232031CA	-	27,319.00	(27,319.00)
99234041CA	-	7,493.00	(7,493.00)
05234061CA	-	2,882.00	(2,882.00)
02234101CA	-	8,100.00	(8,100.00)
04234101CA	-	8,100.00	(8,100.00)
05234101CA	-	8,100.00	(8,100.00)
05231121CA	-	34,628.00	(34,628.00)
01234151CA	-	608.00	(608.00)
02234151CA	-	608.00	(608.00)
03234151CA	-	608.00	(608.00)
04234151CA	-	608.00	(608.00)
05234151CA	-	608.00	(608.00)
02234161CA	-	3,375.00	(3,375.00)
04234161CA	-	3,375.00	(3,375.00)
05234161CA	-	3,375.00	(3,375.00)
05234181CA	-	2,430.00	(2,430.00)
05234211CA	-	1,553.00	(1,553.00)
05231081CA	-	34,898.00	(34,898.00)
03231101CA	-	12,960.00	(12,960.00)
04231111CA	-	89,168.00	(89,168.00)
05231111CA	-	89,168.00	(89,168.00)
99232101CA	-	14,243.00	(14,243.00)
05232101CA	-	14,243.00	(14,243.00)
012322091CA	5,198.00	-	5,198.00
05232011CA	-	2,700.00	(2,700.00)
Totals	\$5,198.00	\$389,242.00	\$(384,044.00)

DELAWARE COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORM MS – 991 WITH ADJUSTMENTS
FOR THE YEAR ENDED
DECEMBER 31, 2005

5. 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>
Commonwealth of Pennsylvania	2004 State allocation (see Note 7)	\$526,334.09
General Fund	Reimbursement (Comment No. 2)	59,258.19
General Fund	Deposits in error (see Note 6)	60,224.19
Total		<u>\$645,816.47</u>

6. Deposits In Error

During our examination, we noted that the county erroneously deposited \$966.00 on June 10, 2005 and \$59,258.19 on July 19, 2005 into the Liquid Fuels Tax Fund. The county corrected these errors by transferring \$60,224.19 to the General Fund on July 15, 2005.

7. 2004 State Allocation

During our prior audit, the county's December liquid fuels allocation check, which was distributed on December 23, 2004, for \$526,334.09, was lost in the mail and not received by the county. A replacement check was received by the county and deposited into the Liquid Fuels Tax Fund on March 17, 2005.

DELAWARE COUNTY
LIQUID FUELS TAX FUND
COMMENTS
FOR THE YEAR ENDED
DECEMBER 31, 2005

Comment No. 1 - Summary Of 2003 Audit Recommendation

During our audit for the year ended December 31, 2003, we recommended that the Department of Transportation review our finding to determine if the county should disburse \$537,784.70 to the political subdivisions within the county because the unencumbered balance was greater than the receipts for the previous 12 months.

During our current examination, we noted the Department of Transportation has not determined if the \$537,784.70 should be disbursed.

Comment No. 2 - Summary Of 2004 Audit Recommendation

In 2004, the county expended \$59,258.19 from its Liquid Fuels Tax Fund for electric service for the County prison, which is a nonpermissible expenditure. We noted that the county reimbursed that amount to its Liquid Fuels Tax Fund on July 12, 2005. We recommended that the county comply with the Liquid Fuels and Fuels Tax Act and the Department of Transportation's Regulations regarding permissible expenditures.

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

DELAWARE COUNTY
LIQUID FUELS TAX FUND
SUMMARY OF EXIT CONFERENCE
FOR THE YEAR ENDED
DECEMBER 31, 2005

An exit conference was held November 28, 2006. Those participating were:

DELAWARE COUNTY

Cynthia S. Leitzell, CPA, Controller

DEPARTMENT OF THE AUDITOR GENERAL

Mr. Robert Rosenfeldt, Auditor

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

DELAWARE COUNTY
LIQUID FUELS TAX FUND
REPORT DISTRIBUTION
FOR THE YEAR ENDED
DECEMBER 31, 2005

This report was initially distributed to:

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

Delaware County
Delaware County Government Center Building
201 West Front Street
Media, PA 19603

The Honorable Andrew Reilly

Chairman of County Council

Cynthia S. Leitzell, CPA

Controller

The Honorable John Dowd

Treasurer

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.