



JEFFERSON COUNTY
33-000

LIQUID FUELS TAX FUND
EXAMINATION REPORT

FOR THE YEAR ENDED
DECEMBER 31, 2007

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JEFFERSON 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 Jefferson 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 Jefferson 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 the Finding and Recommendations section of this report, the county's unencumbered balance was greater than the receipts for the previous twelve months. This condition could result in the county having to disburse \$293,507.88 to its political subdivisions.

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 Jefferson 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 is 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 Jefferson 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 Jefferson County's Form MS-991 that is more than inconsequential will not be prevented or detected by Jefferson County's internal control.

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 Jefferson County's internal control.

Our consideration of internal control over reporting on the Form MS-991 was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any significant deficiencies or material weaknesses, as defined above, in internal control over reporting on the Form MS-991.

Independent Auditor's Report (Continued)

The results of our tests disclosed the following instance of noncompliance that is required to be reported under *Government Auditing Standards*:

- Unencumbered Balance Was Greater Than The Receipts For The Previous Twelve Months.

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

February 5, 2009

JACK WAGNER
Auditor General



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

	<u>Reported</u>	<u>Adjustments (Note 4)</u>	<u>Adjusted Amount</u>
Balance, January 1, 2007	\$ 476,868.65	\$ 55,270.99	\$ 532,139.64
<u>Receipts:</u>			
State allocations	179,673.61	-	179,673.61
Interest (Note 3)	23,609.25	-	23,609.25
Reimbursable agreements (Note 5)	185,097.36	27,781.18	212,878.54
Miscellaneous	-	-	-
Total receipts	<u>388,380.22</u>	<u>27,781.18</u>	<u>416,161.40</u>
Total funds available	<u>865,248.87</u>	<u>83,052.17</u>	<u>948,301.04</u>
<u>Expenditures:</u>			
Construction	234,162.07	(21,190.64)	212,971.43
Maintenance and repair	25,740.53	21,440.64	47,181.17
Administrative	-	-	-
Grants to political subdivisions	185,209.86	(250.00)	184,959.86
Miscellaneous	-	-	-
Total expenditures	<u>445,112.46</u>	<u>-</u>	<u>445,112.46</u>
Balance, December 31, 2007	420,136.41	83,052.17	503,188.58
Unpaid encumbrances (Note 1)	<u>-</u>	<u>1,600.00</u>	<u>1,600.00</u>
Unencumbered balance, December 31, 2007	<u>\$ 420,136.41</u>	<u>\$ 81,452.17</u>	<u>\$ 501,588.58</u>

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

JEFFERSON 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 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, 2007, \$1,600.00 was encumbered for grants to political subdivisions.

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

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, 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.

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

2. Deposits (Continued)

Fund Balance

The fund balance consists of the following:

Cash	\$503,188.58
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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 \$23,609.25 during 2007, thus providing additional funds for road maintenance and repairs.

4. Adjustments

An adjustment of \$55,270.99 was made to "Balance, January 1, 2007" because of prior report adjustments that were not carried forward in the fund balance.

An adjustment of \$27,781.18 was made to "Reimbursable agreements" because bridge construction reimbursements were understated.

Adjustments were made to "Construction," "Maintenance and repair," and "Grants to political subdivisions" because expenditures of \$21,190.64 were misclassified.

An adjustment of \$1,600.00 was made to "Unpaid encumbrances" because the balance for encumbrance No. 05-33209-01CA was not reported.

5. Reimbursable Agreements

During our examination, we noted that the county entered into reimbursement agreements with the Department of Transportation for the reconstruction and inspections of county bridges. During our current examination period, the county received \$212,878.54 as a result of these agreements. As of December 31, 2007, \$60,217.55 is due the Liquid Fuels Tax Fund.

JEFFERSON COUNTY
LIQUID FUELS TAX FUND
FINDING AND RECOMMENDATIONS
FOR THE YEAR ENDED
DECEMBER 31, 2007

Finding - Unencumbered Balance Was Greater Than The Receipts For The Previous Twelve Months

All counties receive allocations of Liquid Fuels Tax Fund money in June and December of each year. Liquid Fuels Tax Fund money is primarily used for the construction, reconstruction, and maintenance and repair of roads and bridges. Counties may also choose to grant Liquid Fuels Tax Fund money to the political subdivisions within the county. Additionally, if the unencumbered fund balance as of December 31 was greater than the receipts for the previous twelve months, the county must disburse a portion of its Liquid Fuels Tax Fund money to the political subdivisions within the county. This condition is referred to as a forced distribution.

Our examination disclosed that the county's unencumbered balance as of December 31, 2007 was \$501,588.58, which was greater than the total receipts of \$416,161.40 for the preceding twelve months.

The Liquid Fuels and Fuels Tax Act, 75 Pa. C.S.A. § 9010(c) states, in part:

When the unencumbered balance in the County Liquid Fuels Tax Fund is greater than the receipts for the twelve months immediately preceding the date of either of the reports [Form MS-991 and attachments], the county commissioners shall notify the political subdivisions to make application within 90 days for participation in the redistribution of the unencumbered balance. Redistribution shall be effected within 120 days of the date of either of the reports.

In addition, the Department of Transportation's *Publication 9*, Chapter One, Section 1.9.1, states, in part:

...This forced distribution applies only to that portion of the unencumbered balance in excess of fifty percent (50%) of the receipts for the previous twelve months....

The following calculation is how to apply the above formula as it pertains to Jefferson County:

Unencumbered balance	\$501,588.58
Less 50% of prior 12 months' receipts	208,080.70
Amount to be distributed	\$293,507.88

JEFFERSON COUNTY
LIQUID FUELS TAX FUND
FINDING AND RECOMMENDATIONS
FOR THE YEAR ENDED
DECEMBER 31, 2007

Finding - Unencumbered Balance Was Greater Than The Receipts For The Previous Twelve Months (Continued)

The failure to comply with the Liquid Fuels and Fuels Tax Act and the Department of Transportation's *Publication 9* could result in the county having to distribute \$293,507.88 to the political subdivisions within the county.

Recommendations

We recommend that the Commissioners of Jefferson County distribute \$293,507.88 to the political subdivisions within the county upon official notification of the Department of Transportation.

We further recommend that the county comply with the Liquid Fuels and Fuels Tax Act and the Department of Transportation's *Publication 9* as noted above.

Management's Response

The county officials stated:

We do not disagree. We relied heavily on outside help, but due to changes in administration, when the person who prepared the majority of the annual reports left, the next person preparing did not have a full understanding on how to prepare and interpret the annual reports. Steps will be taken to avoid a forced distribution in the future.

Auditor's Conclusion

The county should ensure that all employees involved in the administration of the Liquid Fuels Tax Fund are properly trained. During our next examination we will determine if the county complied with our recommendations.

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

An exit conference was held February 5, 2009. Those participating were:

JEFFERSON COUNTY

The Honorable Paul Corbin, Chairman of the Board of Commissioners
The Honorable James P. McIntyre, Commissioner
The Honorable Jeffrey R. Pisarcik, Commissioner
Ms. Karen L. Lupone, Chief Clerk

DEPARTMENT OF THE AUDITOR GENERAL

Mr. Christopher Heglen, Auditor

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



JEFFERSON 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

Jefferson County
Jefferson Place
155 Main Street
Brookville, PA 15825-1295

The Honorable Paul Corbin

Chairman of the Board of Commissioners

The Honorable James VanSteenberg

Treasurer

Ms. Karen L. Lupone

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.