

LEBANON COUNTY
38-000

LIQUID FUELS TAX FUND
EXAMINATION REPORT

FOR THE YEAR ENDED
DECEMBER 31, 2007

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

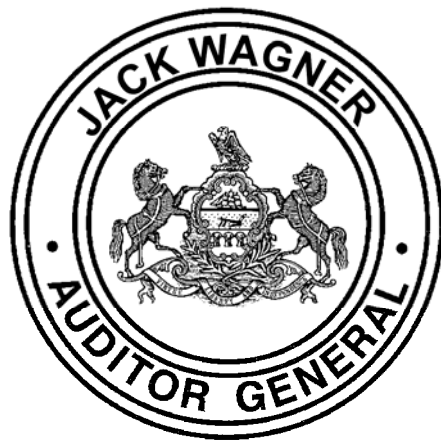
Background

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 Lebanon 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 Lebanon 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.

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 Lebanon County for the year ended December 31, 2007, 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 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 the Lebanon 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 the Lebanon County's Form MS-991 that is more than inconsequential will not be prevented or detected by the Lebanon 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 the Lebanon 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.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we did note an other matter that, while not required to be included in this report by *Government Auditing Standards*, has been included in the finding below:

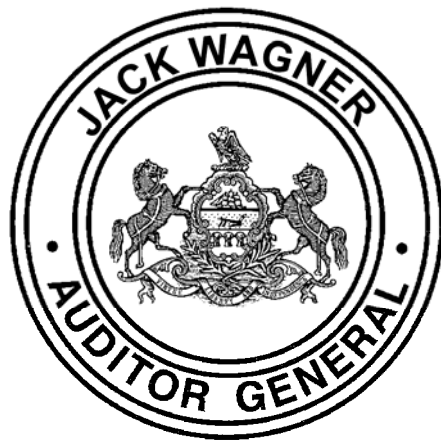
- Failure To Timely Submit Final Completion Report.

Independent Auditor's Report (Continued)

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

July 3, 2008

JACK WAGNER
Auditor General



LEBANON 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	\$ 446,510.83	\$ 6,731.00	\$ 453,241.83
<u>Receipts:</u>			
State allocations	277,189.57	-	277,189.57
Interest (Note 3)	13,827.53	-	13,827.53
Reimbursable agreements (Note 5)	-	126,782.32	126,782.32
Miscellaneous	<u>126,782.32</u>	<u>(126,782.32)</u>	<u>-</u>
Total receipts	<u>417,799.42</u>	<u>-</u>	<u>417,799.42</u>
Total funds available	<u>864,310.25</u>	<u>6,731.00</u>	<u>871,041.25</u>
<u>Expenditures:</u>			
Construction	-	-	-
Maintenance and repair	365,595.06	20,222.22	385,817.28
Administrative	-	-	-
Grants to political subdivisions	88,725.22	(13,491.22)	75,234.00
Miscellaneous	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>454,320.28</u>	<u>6,731.00</u>	<u>461,051.28</u>
Balance, December 31, 2007	409,989.97	-	409,989.97
Unpaid encumbrances (Note 1)	<u>300,963.66</u>	<u>(652.66)</u>	<u>300,311.00</u>
Unencumbered balance, December 31, 2007	<u>\$ 109,026.31</u>	<u>\$ 652.66</u>	<u>\$ 109,678.97</u>

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

LEBANON 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, \$300,311.00 was encumbered for grants to political subdivisions.

LEBANON 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.

LEBANON 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	<u>\$409,989.97</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 \$13,827.53 during 2007, thus providing additional funds for road maintenance and repairs.

4. Adjustments

An adjustment of \$6,731.00 was made to "Balance, January 1, 2007" because of prior report adjustments that were not carried forward in the fund balance.

Adjustments were made to "Reimbursable agreements" and "Miscellaneous" because receipts of \$126,782.32 were misclassified.

An adjustment of \$20,222.22 was made to "Maintenance and repair" because these expenditures were misclassified as grants to political subdivisions.

An adjustment of \$(13,491.22) was made to "Grants to political subdivisions" because expenditures for maintenance and repair of \$20,222.22 were misclassified and check Nos. 14750 and 147646 totaling \$6,731.00 were not reported.

An adjustment of \$(652.66) was made to "Unpaid encumbrances" because the balance for encumbrance No. M-04-38403-33CA was not reported.

5. Reimbursable Agreements

During our examination, we noted that the county entered into reimbursement agreements with the Department of Transportation for bridge maintenance. During our current examination period, the county received \$126,782.32 for bridge reimbursements as a result of these agreements. As of December 31, 2007, \$18,485.81 is due the Liquid Fuels Tax Fund.

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

Finding - Failure To Timely Submit Final Completion Report

Our examination disclosed that the county spent \$271,529.40 for project No. C-06-38000-47. Final payment was made on this project on July 5, 2007. A Final Completion Report Form MS-999 had not been filed with the Department of Transportation as of the date of this report.

The Department of Transportation's *Publication 9* contains the policies and procedures for the administration of the Liquid Fuels Tax Fund. *Publication 9*, Chapter One, Section 1.7, Figure 1, states that Final Completion Report Form MS-999 is to be submitted to the appropriate Department of Transportation Municipal Services District Office upon completion of a project.

Because the county failed to file a Final Completion Report, we were unable to determine if the project was completed to the satisfaction of the Department of Transportation. Additionally, we were unable to determine if the county expended the approved amount of Liquid Fuels Tax Fund money on the project.

Recommendations

We recommend that the county submit a completed Form MS-999 to the Department of Transportation for the project.

We further recommend that, in the future, the county comply with the Department of Transportation's *Publication 9* by submitting a Final Completion Report Form MS-999 for completed projects in a timely manner.

Management's Response

The county administrator stated:

PENNDOT was not notified upon completion of bridge maintenance work. PENNDOT will be contacted and arrangements made to view the completed work for the issuance of a completion report on Project C-06-38000-47.

Auditor's Conclusion

The county should ensure that it files a Final Completion Report Form MS-999 upon the completion of all road projects.

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

An exit conference was held July 3, 2008. Those participating were:

LEBANON COUNTY

Mr. Jamie A. Wolgemuth, County Administrator

DEPARTMENT OF THE AUDITOR GENERAL

Ms. Georgeanne M. Walacavage, Auditor

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

LEBANON 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

Lebanon County
400 South Eighth Street
Room 103, Municipal Building
Lebanon, PA 17042

The Honorable Larry E. Stohler	Chairman of the Board of Commissioners
Mr. Jamie A. Wolgemuth	County Administrator
The Honorable Sallie A. Neuin	Treasurer
The Honorable Robert M. Mettley	Controller

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.