

ATTESTATION ENGAGEMENT

City of Philadelphia
Philadelphia County, Pennsylvania
67-301

Liquid Fuels Tax Fund
For the Period
January 1, 2019 to December 31, 2021

November 2023



Commonwealth of Pennsylvania
Department of the Auditor General

Timothy L. DeFoor • Auditor General



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TIMOTHY L. DEFOOR
AUDITOR GENERAL

Independent Auditor's Report

The Honorable Michael Carroll
Secretary
Department of Transportation
Harrisburg, PA 17120

We examined the accompanying Forms MS-965 With Adjustments for the Liquid Fuels Tax Fund of the City of Philadelphia, Philadelphia County, for the period January 1, 2019 to December 31, 2021. The city's management is responsible for presenting the Forms MS-965 in accordance with the criteria described in the Background section of this report and the Department of Transportation's *Publication 9*. Our responsibility is to express an opinion on the Forms MS-965 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 involves performing procedures to obtain reasonable assurance about whether the Forms MS-965 are presented in accordance with the criteria described above, in all material respects. An examination involves performing procedures to obtain evidence about the Forms MS-965. The nature, timing and extent of the procedures selected depend on our judgement, including an assessment of the risks of material misstatement of the Forms MS-965, whether due to fraud or error. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

We are required to be independent and to meet our other ethical responsibilities in accordance with ethical requirements relating to the engagement.

As described in the Auditor Description Of Select Transactions section of this report, the adjustments included on the Forms MS-965 With Adjustments are made by the Department of the Auditor General.

Independent Auditor's Report (Continued)

As discussed in the Findings And Recommendations section of this report:

- The city expended \$816,169.21, \$3,092,265.44, and \$774,737.51 during 2019, 2020, and 2021, respectively, from the Liquid Fuels Tax Fund for purchases made without advertising for bids (see Finding No. 1).
- The city expended \$1,273,331.54 for project No. 20-67301-002 but failed to file a Final Completion Report Form MS-999 with the Department of Transportation (see Finding No. 2).
- The city expended \$96,206.00 during 2019 from the Liquid Fuels Tax Fund for ornamental street light luminaires, which are nonpermissible expenditures (see Finding No. 3).

In our opinion, except for the bulleted matters discussed above, the Forms MS-965 With Adjustments present, in all material respects, the information required by the Pennsylvania Department of Transportation for the Liquid Fuels Tax Fund of the City of Philadelphia, Philadelphia County, for the period January 1, 2019 to December 31, 2021, in accordance with the criteria described in the Background section of this report and the Department of Transportation's *Publication 9*.

In accordance with *Government Auditing Standards*, we are required to report all deficiencies that are considered to be significant deficiencies or material weaknesses in internal control; fraud and noncompliance with provisions of laws or regulations that have a material effect on the Forms MS-965; any other instances that warrant the attention of those charged with governance; noncompliance with provisions of contracts or grant agreements; and abuse that has a material effect on the Forms MS-965. We are also required to obtain and report the views of responsible officials concerning the findings, conclusions, and recommendations, as well as any planned corrective actions. We performed our examination to express an opinion on whether the Forms MS-965 are presented in accordance with the criteria described above and not for the purpose of expressing an opinion on internal control over reporting on the Forms MS-965 or on compliance and other matters; accordingly, we express no such opinions.

A *deficiency in internal control* 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 and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Forms MS-965 will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Independent Auditor's Report (Continued)

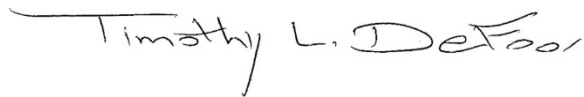
Our consideration of internal control over reporting on the Forms MS-965 was for the limited purpose of expressing an opinion on whether the Forms MS-965 are presented in accordance with the criteria described above and would not necessarily identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our engagement we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

As part of obtaining reasonable assurance about whether the Forms MS-965 are free from material misstatement, we performed tests of City of Philadelphia, Philadelphia County's compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of amounts on the Forms MS-965. However, providing an opinion on compliance with those provisions was not an objective of our engagement, and accordingly, we do not express such an opinion. The results of our tests disclosed the following instances of noncompliance that are required to be reported under *Government Auditing Standards*:

- Noncompliance With Advertising And Bidding Requirements.
- Failure To Submit Final Completion Report.
- Nonpermissible Expenditures.

The purpose of this report is to determine whether the city's Liquid Fuels Tax Fund money is spent in accordance with the laws and regulations identified in the Background section of this report and the Department of Transportation's *Publication 9*. This report is not suitable for any other purpose.

We appreciate the courtesy extended by the City of Philadelphia, Philadelphia County, to us during the course of our examination. If you have any questions, please feel free to contact the Bureau of County Audits at 717-787-1363.



Timothy L. DeFoor
Auditor General
September 13, 2023

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CITY OF PHILADELPHIA
PHILADELPHIA COUNTY
LIQUID FUELS TAX FUND
BACKGROUND
FOR THE PERIOD
JANUARY 1, 2019 TO DECEMBER 31, 2021

Background

The Liquid Fuels Tax Municipal Allocation Law, Act 655 of 1956, as amended, see also 72 P.S. § 2615.5, et sec., provides municipalities other than counties (i.e., townships, boroughs, cities, towns, home rule, and optional plan governments) with an annual allocation of liquid fuels taxes from the state's Motor License Fund to be used for the maintenance and repair of streets, roads, and bridges for which the municipality is responsible. The allocation of these funds to municipalities is based upon: (1) 50 percent on the municipality's proportion of local road mileage to the total local road mileage in the state; and (2) 50 percent on the proportion of a municipality's population to the total population in the state.

Title 75 Pa.C.S. § 9511 of the Pennsylvania Vehicle Code provides municipalities with annual maintenance payments to be received from the Motor License Fund for functionally local highways that were transferred to a municipality from the Commonwealth of Pennsylvania.

Each municipality must deposit the allocation of Liquid Fuels Tax funds and annual maintenance payments that it receives into a special fund called either the Municipal Liquid Fuels Tax Fund or State Fund. A municipality may not deposit any other monies into this fund except when the municipality does not have enough money in the special fund to meet the payments called for by its current annual budget for road and bridge purposes. In such a case, the municipality may borrow money or transfer money from its General Fund to its Liquid Fuels Tax Fund.

The Department of Transportation has been given the regulatory authority for the administration of these funds. Department of Transportation's *Publication 9* includes the policies and procedures for the administration of Act 655, as amended, and the Liquid Fuels Tax Fund money. However, if there is a difference between *Publication 9* and any legislation, the legislation shall govern.

To qualify for the annual allocation of Liquid Fuels Tax funds, *Publication 9* indicates that each municipality shall:

1. Submit annual reports (MS-965, Actual Use Report, MS-965P, Project and Miscellaneous Receipts, and MS-965S, Record of Checks).
2. Make deposits and payments or expenditures in compliance with Act 655 of 1956, as amended. Failure to do so may result in not receiving allocations from PennDOT until all discrepancies are resolved. *Publication 9*, Section 2.6, includes information about investing Liquid Fuels Tax monies, using loan or bond proceeds, and types of receipts into the Liquid Fuels Tax Fund.

CITY OF PHILADELPHIA
 PHILADELPHIA COUNTY
 LIQUID FUELS TAX FUND
 BACKGROUND
 FOR THE PERIOD
 JANUARY 1, 2019 TO DECEMBER 31, 2021

Background (Continued)

3. Submit the Pennsylvania Department of Community and Economic Development’s (DCED) Report of Elected and Appointed Officials by January 31st and the Survey of Financial Condition By March 15th.
4. Ensure resolution of all Contractor Responsibility Program (CRP) holds and blocks imposed by the Department of Revenue and the Department of Labor and Industry.
5. Ensure resolution of all reimbursements required as a result of audits performed by the Department of the Auditor General or monitoring reviews performed by the Department of Transportation’s Financial Consultants.

Criteria

The criteria for the Form MS-965 With Adjustment are described below.

Section 1 of Form MS-965 With Adjustments provides a summary of Liquid Fuels Tax Fund expenditures by category. Categories requiring explanation include:

- Major equipment purchases are purchases of road machinery and road equipment with varying yearly costs in excess of the amounts indicated below:

2019	2020	2021	2022
\$11,100.00	\$11,300.00	\$11,500.00	\$11,800.00

- Minor equipment purchases are purchases of road machinery and road equipment with varying yearly costs that are less than or equal to the amounts indicated below:

2019	2020	2021	2022
\$11,100.00	\$11,300.00	\$11,500.00	\$11,800.00

- Agility projects are exchanges of services with the Department of Transportation.

CITY OF PHILADELPHIA
PHILADELPHIA COUNTY
LIQUID FUELS TAX FUND
BACKGROUND
FOR THE PERIOD
JANUARY 1, 2019 TO DECEMBER 31, 2021

Background (Continued)

Section 2 of Form MS-965 With Adjustments provides information on the fund balance. Categories requiring explanation include:

- The state allocation is available from the Department of Transportation in March of each year. The amount the municipality receives is based half on its population and half on its road mileage.
- Municipalities that transferred roads from the Commonwealth of Pennsylvania to the municipality through the Highway Transfer Program receive annual turnback allocations in March of each year from the Department of Transportation. Turnback allocations are based on the mileage of the roads transferred.
- Expenditures include the total transferred from Section 1.

Section 3 of Form MS-965 With Adjustments determines if the municipality expended Liquid Fuels Tax Fund money in excess of the permissible amount for equipment and the balance that the municipality may carry forward for the purchase of equipment to the subsequent year.

Department of Transportation *Publication 9* requires that the amount expended for equipment purchases in a given year not exceed the sum of the equipment balance carried forward from the previous year and 20 percent of the current year's Liquid Fuels Tax Fund allocation and, if applicable, 20 percent of the turnback allocation plus other Department of Transportation approved adjustments.

If the municipality spent in excess of the amount listed on Line 4, the excess must be reimbursed to the Liquid Fuels Tax Fund.

The equipment balance to be carried forward for the subsequent year is the lesser of the amount on Line 6 or the ending fund balance on Line 6 of Section 2, but not less than zero.

CITY OF PHILADELPHIA
PHILADELPHIA COUNTY
LIQUID FUELS TAX FUND
BACKGROUND
FOR THE PERIOD
JANUARY 1, 2019 TO DECEMBER 31, 2021

Background (Continued)

Basis of Presentation

The financial activities of the municipality 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 Form MS-965 has been prepared in accordance with reporting requirements prescribed by the Pennsylvania Department of Transportation as a result of the Fuels Tax Act 655, dated 1956 and as amended, which does not constitute a complete presentation of the entity's assets, liabilities, expenses, and fund balance. Accordingly, the presentation of Form MS-965 With Adjustments is restricted to the Liquid Fuels Tax Fund, which represents a segment of the entity.

Basis Of Accounting

The accompanying Forms MS-965 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 expenditures are recorded when paid.

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.

CITY OF PHILADELPHIA
 PHILADELPHIA COUNTY
 LIQUID FUELS TAX FUND
 2019 FORM MS-965 – SECTION 1
 WITH ADJUSTMENTS

<u>Expenditure Summary</u>	<u>Reported</u>	<u>Adjustments</u>	<u>Adjusted Amount</u>
Minor equipment purchases	\$ -	\$ -	\$ -
Computer/Computer related training	-	-	-
Major equipment purchases	-	11,061,583.72	11,061,583.72
Agility projects	-	-	-
Cleaning streets and gutters	4,658,943.48	(4,630,218.51)	28,724.97
Winter maintenance services	1,922,256.19	(42,417.55)	1,879,838.64
Traffic control devices	14,040,529.47	(11,765,978.39)	2,274,551.08
Street lighting	-	11,579,015.64	11,579,015.64
Storm sewers and drains	-	-	-
Repairs of tools and machinery	-	-	-
Maintenance and repair of roads and bridges	16,822,823.99	(6,244,402.46)	10,578,421.53
Highway construction and rebuilding projects	-	-	-
Miscellaneous	-	4,748,319.90	4,748,319.90
 Total (To Section 2, Line 5)	 <u>\$ 37,444,553.13</u>	 <u>\$ 4,705,902.35</u>	 <u>\$ 42,150,455.48</u>

CITY OF PHILADELPHIA
 PHILADELPHIA COUNTY
 LIQUID FUELS TAX FUND
 2019 FORM MS-965 – SECTION 2
 WITH ADJUSTMENTS

<u>Fund Balance</u>	<u>Reported</u>	<u>Adjustments</u>	<u>Adjusted Amount</u>
1. Balance, January 1, 2019	\$ 38,286,313.18	\$ -	\$ 38,286,313.18
Receipts:			
2. State allocation	37,568,644.96	-	37,568,644.96
2a. Turnback allocation	90,880.00	-	90,880.00
2b. Interest on investments	616,709.09	969.07	617,678.16
2c. Miscellaneous	-	4,747,350.83	4,747,350.83
3. Total receipts	<u>38,276,234.05</u>	<u>4,748,319.90</u>	<u>43,024,553.95</u>
4. Total funds available	<u>76,562,547.23</u>	<u>4,748,319.90</u>	<u>81,310,867.13</u>
5. Expenditures (Section 1)	<u>37,444,553.13</u>	<u>4,705,902.35</u>	<u>42,150,455.48</u>
6. Balance, December 31, 2019	<u>\$ 39,117,994.10</u>	<u>\$ 42,417.55</u>	<u>\$ 39,160,411.65</u>

CITY OF PHILADELPHIA
 PHILADELPHIA COUNTY
 LIQUID FUELS TAX FUND
 2019 FORM MS-965 – SECTION 3
 WITH ADJUSTMENTS

<u>Equipment Balance</u>	<u>Reported</u>	<u>Adjustments</u>	<u>Adjusted Amount</u>
1. Prior year equipment balance	\$ 38,364,468.58	\$ (14,259,677.92)	\$ 24,104,790.66
2. Add: Current year equipment allocation (20% of Lines 2 + 2a, Section 2)	7,531,904.99	-	7,531,904.99
3. PENNDOT approved adjustments	-	-	-
4. Total funds available for equipment acquisition	45,896,373.57	(14,259,677.92)	31,636,695.65
5. Less: Major equipment expenditures	-	11,061,583.72	11,061,583.72
6. Remainder	<u>45,896,373.57</u>	<u>(25,321,261.64)</u>	<u>20,575,111.93</u>
7. Equipment balance available for subsequent year (Lesser of Line 6 or Section 2 balance, but not less than zero)	<u>\$ 39,117,994.10</u>	<u>\$ (18,542,882.17)</u>	<u>\$ 20,575,111.93</u>

CITY OF PHILADELPHIA
 PHILADELPHIA COUNTY
 LIQUID FUELS TAX FUND
 2020 FORM MS-965 – SECTION 1
 WITH ADJUSTMENTS

<u>Expenditure Summary</u>	<u>Reported</u>	<u>Adjustments</u>	<u>Adjusted Amount</u>
Minor equipment purchases	\$ 7,950.00	\$ -	\$ 7,950.00
Computer/Computer related training	-	-	-
Major equipment purchases	6,383,525.48	-	6,383,525.48
Agility projects	-	-	-
Cleaning streets and gutters	-	-	-
Winter maintenance services	428,310.92	-	428,310.92
Traffic control devices	5,534,869.39	187,614.86	5,722,484.25
Street lighting	12,623,352.42	(187,614.86)	12,435,737.56
Storm sewers and drains	-	-	-
Repairs of tools and machinery	7,068.71	-	7,068.71
Maintenance and repair of roads and bridges	8,143,233.87	-	8,143,233.87
Highway construction and rebuilding projects	597,397.52	-	597,397.52
Miscellaneous	-	500,000.00	500,000.00
 Total (To Section 2, Line 5)	 <u>\$ 33,725,708.31</u>	 <u>\$ 500,000.00</u>	 <u>\$ 34,225,708.31</u>

CITY OF PHILADELPHIA
 PHILADELPHIA COUNTY
 LIQUID FUELS TAX FUND
 2020 FORM MS-965 – SECTION 2
 WITH ADJUSTMENTS

<u>Fund Balance</u>	<u>Reported</u>	<u>Adjustments</u>	<u>Adjusted Amount</u>
1. Balance, January 1, 2020	\$ 39,117,994.10	\$ 42,417.55	\$ 39,160,411.65
Receipts:			
2. State allocation	36,531,419.67	-	36,531,419.67
2a. Turnback allocation	90,880.00	-	90,880.00
2b. Interest on investments	198,718.88	(42,417.55)	156,301.33
2c. Miscellaneous	-	500,000.00	500,000.00
3. Total receipts	<u>36,821,018.55</u>	<u>457,582.45</u>	<u>37,278,601.00</u>
4. Total funds available	<u>75,939,012.65</u>	<u>500,000.00</u>	<u>76,439,012.65</u>
5. Expenditures (Section 1)	<u>33,725,708.31</u>	<u>500,000.00</u>	<u>34,225,708.31</u>
6. Balance, December 31, 2020	<u><u>\$ 42,213,304.34</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 42,213,304.34</u></u>

CITY OF PHILADELPHIA
 PHILADELPHIA COUNTY
 LIQUID FUELS TAX FUND
 2020 FORM MS-965 – SECTION 3
 WITH ADJUSTMENTS

<u>Equipment Balance</u>	<u>Reported</u>	<u>Adjustments</u>	<u>Adjusted Amount</u>
1. Prior year equipment balance	\$ 31,636,695.65	\$ (11,061,583.72)	\$ 20,575,111.93
2. Add: Current year equipment allocation (20% of Lines 2 + 2a, Section 2)	7,324,459.93	-	7,324,459.93
3. PENNDOT approved adjustments	-	-	-
4. Total funds available for equipment acquisition	38,961,155.58	(11,061,583.72)	27,899,571.86
5. Less: Major equipment expenditures	6,383,525.48	-	6,383,525.48
6. Remainder	<u>32,577,630.10</u>	<u>(11,061,583.72)</u>	<u>21,516,046.38</u>
7. Equipment balance available for subsequent year (Lesser of Line 6 or Section 2 balance, but not less than zero)	<u>\$ 32,577,630.10</u>	<u>\$ (11,061,583.72)</u>	<u>\$ 21,516,046.38</u>

CITY OF PHILADELPHIA
 PHILADELPHIA COUNTY
 LIQUID FUELS TAX FUND
 2021 FORM MS-965 – SECTION 1
 WITH ADJUSTMENTS

<u>Expenditure Summary</u>	<u>Reported</u>	<u>Adjustments</u>	<u>Adjusted Amount</u>
Minor equipment purchases	\$ -	\$ -	\$ -
Computer/Computer related training	-	-	-
Major equipment purchases	3,196,515.05	-	3,196,515.05
Agility projects	-	-	-
Cleaning streets and gutters	-	-	-
Winter maintenance services	2,366,271.82	-	2,366,271.82
Traffic control devices	1,268,868.21	(189,521.92)	1,079,346.29
Street lighting	12,230,661.96	189,521.92	12,420,183.88
Storm sewers and drains	-	-	-
Repairs of tools and machinery	13,363.97	-	13,363.97
Maintenance and repair of roads and bridges	13,940,241.15	1,835.63	13,942,076.78
Highway construction and rebuilding projects	675,934.02	-	675,934.02
Miscellaneous	1,835.63	1,243,148.70	1,244,984.33
	<u>\$ 33,693,691.81</u>	<u>\$ 1,244,984.33</u>	<u>\$ 34,938,676.14</u>
Total (To Section 2, Line 5)	<u>\$ 33,693,691.81</u>	<u>\$ 1,244,984.33</u>	<u>\$ 34,938,676.14</u>

CITY OF PHILADELPHIA
 PHILADELPHIA COUNTY
 LIQUID FUELS TAX FUND
 2021 FORM MS-965 – SECTION 2
 WITH ADJUSTMENTS

<u>Fund Balance</u>	<u>Reported</u>	<u>Adjustments</u>	<u>Adjusted Amount</u>
1. Balance, January 1, 2021	\$ 42,213,304.34	\$ -	\$ 42,213,304.34
Receipts:			
2. State allocation	33,941,617.03	-	33,941,617.03
2a. Turnback allocation	90,880.00	-	90,880.00
2b. Interest on investments	60,456.48	-	60,456.48
2c. Miscellaneous	-	1,244,984.33	1,244,984.33
3. Total receipts	<u>34,092,953.51</u>	<u>1,244,984.33</u>	<u>35,337,937.84</u>
4. Total funds available	<u>76,306,257.85</u>	<u>1,244,984.33</u>	<u>77,551,242.18</u>
5. Expenditures (Section 1)	<u>33,693,691.81</u>	<u>1,244,984.33</u>	<u>34,938,676.14</u>
6. Balance, December 31, 2021	<u><u>\$ 42,612,566.04</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 42,612,566.04</u></u>

CITY OF PHILADELPHIA
 PHILADELPHIA COUNTY
 LIQUID FUELS TAX FUND
 2021 FORM MS-965 – SECTION 3
 WITH ADJUSTMENTS

<u>Equipment Balance</u>	<u>Reported</u>	<u>Adjustments</u>	<u>Adjusted Amount</u>
1. Prior year equipment balance	\$ 32,577,630.10	\$ (11,061,583.72)	\$ 21,516,046.38
2. Add: Current year equipment allocation (20% of Lines 2 + 2a, Section 2)	6,806,499.41	-	6,806,499.41
3. PENNDOT approved adjustments	-	-	-
4. Total funds available for equipment acquisition	39,384,129.51	(11,061,583.72)	28,322,545.79
5. Less: Major equipment expenditures	3,196,515.05	-	3,196,515.05
6. Remainder	<u>36,187,614.46</u>	<u>(11,061,583.72)</u>	<u>25,126,030.74</u>
7. Equipment balance available for subsequent year (Lesser of Line 6 or Section 2 balance, but not less than zero)	<u>\$ 36,187,614.46</u>	<u>\$ (11,061,583.72)</u>	<u>\$ 25,126,030.74</u>

CITY OF PHILADELPHIA
PHILADELPHIA COUNTY
LIQUID FUELS TAX FUND
AUDITOR DESCRIPTION OF SELECT TRANSACTIONS
FOR THE PERIOD
JANUARY 1, 2019 TO DECEMBER 31, 2021

The following information relates to certain types of transactions for which the Pennsylvania Department of Transportation requested that we provide additional detail:

Adjustments

2019 - Section 1

An adjustment of \$11,061,583.72 was made to “Major equipment purchases” because expenditures of \$4,630,218.51 were misclassified as cleaning streets and gutters, expenditures of \$186,962.75 were misclassified as traffic control devices, and expenditures of \$6,244,402.46 were misclassified as maintenance and repair of roads and bridges.

An adjustment of \$11,765,978.39 was made to “Traffic control devices” because major equipment expenditures of \$186,962.75 and street lighting expenditures of \$11,579,015.64 were misclassified.

An adjustment of \$4,748,319.90 was made to “Miscellaneous” because expenditures of \$42,417.55 were misclassified as winter maintenance services and expenditures of \$4,705,902.35 were not reported.

2019 - Section 2

An adjustment of \$969.07 was made to “Interest on investments” because interest earnings were understated.

An adjustment of \$4,747,350.83 was made to “Miscellaneous” because these receipts were not reported.

2019 - Section 3

An adjustment of \$(14,259,677.92) was made to “Prior year equipment balance” because of prior report adjustments that were not carried forward in the equipment balance.

An adjustment of \$11,061,583.72 was made to “Major equipment expenditures” to reflect the adjustment made to major equipment purchases in 2019 - Section 1.

CITY OF PHILADELPHIA
PHILADELPHIA COUNTY
LIQUID FUELS TAX FUND
AUDITOR DESCRIPTION OF SELECT TRANSACTIONS
FOR THE PERIOD
JANUARY 1, 2019 TO DECEMBER 31, 2021

Adjustments (Continued)

2020 - Section 1

Adjustments were made to “Traffic control devices” and “Street lighting” because expenditures of \$187,614.86 were misclassified.

An adjustment of \$500,000.00 was made to “Miscellaneous” because these expenditures were not reported.

2020 - Section 2

An adjustment of \$42,417.55 was made to “Balance, January 1, 2020” to reflect the adjustment made to the fund balance in 2019 - Section 2.

An adjustment of \$(42,417.55) was made to “Interest on investments” because interest earnings were overstated.

An adjustment of \$500,000.00 was made to “Miscellaneous” because these receipts were not reported.

2020 - Section 3

An adjustment of \$(11,061,583.72) was made to “Prior year equipment balance” because an incorrect equipment balance was carried forward.

2021 - Section 1

Adjustments were made to “Traffic control devices” and “Street lighting” because expenditures of \$189,521.92 were misclassified.

An adjustment of \$1,243,148.70 was made to “Miscellaneous” because these expenditures were understated by \$1,244,984.33 and maintenance and repair of roads and bridges expenditures of \$1,835.63 were misclassified.

CITY OF PHILADELPHIA
 PHILADELPHIA COUNTY
 LIQUID FUELS TAX FUND
 AUDITOR DESCRIPTION OF SELECT TRANSACTIONS
 FOR THE PERIOD
 JANUARY 1, 2019 TO DECEMBER 31, 2021

Adjustments (Continued)

2021 - Section 2

An adjustment of \$1,244,984.33 was made to “Miscellaneous” because these receipts were not reported.

2021 - Section 3

An adjustment of \$(11,061,583.72) was made to “Prior year equipment balance” to reflect the adjustment made to the equipment balance in 2020 - Section 3.

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>2019</u>	<u>2020</u>	<u>2021</u>
General Fund	Transfer in error	\$4,703,933.28	\$ -	\$ -
General Fund	Correction of transfer in error	43,417.55	500,000.00	1,244,984.33
Totals		<u>\$4,747,350.83</u>	<u>\$500,000.00</u>	<u>\$1,244,984.33</u>

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>2019</u>	<u>2020</u>	<u>2021</u>
General Fund	Correction of transfer in error	\$4,703,933.28	\$ -	\$ -
General Fund	Transfer in error	43,417.55	500,000.00	1,244,984.33
Financial institution	Bank service charges	969.07	-	-
Totals		<u>\$4,748,319.90</u>	<u>\$500,000.00</u>	<u>\$1,244,984.33</u>

CITY OF PHILADELPHIA
PHILADELPHIA COUNTY
LIQUID FUELS TAX FUND
AUDITOR DESCRIPTION OF SELECT TRANSACTIONS
FOR THE PERIOD
JANUARY 1, 2019 TO DECEMBER 31, 2021

Transfers In Error

On January 23, 2019, the city transferred \$16,400.00 from its Liquid Fuels Tax Fund to its General Fund in error. On April 11, 2019 and May 20, 2019, the city transferred \$1,000.00 and \$15,400.00, respectively, from its General Fund to its Liquid Fuels Tax Fund to correct the transfer in error.

On March 27, 2019, the city transferred \$4,703,933.28 from its General Fund to its Liquid Fuels Tax Fund in error. On May 20, 2019, the city transferred this amount from its Liquid Fuels Tax Fund to its General Fund to correct the transfer in error.

On May 20, 2019, the city transferred \$27,017.55 from its Liquid Fuels Tax Fund to its General Fund in error. On May 20, 2019, the city transferred \$27,017.55 from its General Fund to its Liquid Fuels Tax Fund to correct the transfer in error.

On August 25, 2020, the city transferred \$500,000.00 from its Liquid Fuels Tax Fund to its General Fund in error. On September 30, 2020, the city transferred \$500,000.00 from its General Fund to its Liquid Fuels Tax Fund to correct the transfer in error.

On January 28, 2021, the city transferred \$814,914.28 from its Liquid Fuels Tax Fund to its General Fund in error. On February 23, 2021 and May 12, 2021, the city transferred \$810,717.28 and \$4,197.00, respectively, from its General Fund to its Liquid Fuels Tax Fund to correct the transfer in error.

On April 29, 2021, the city transferred \$430,070.05 from its Liquid Fuels Tax Fund to its General Fund in error. On May 28, 2021, the city transferred \$430,070.05 from its General Fund to its Liquid Fuels Tax Fund correct the transfer in error.

CITY OF PHILADELPHIA
 PHILADELPHIA COUNTY
 LIQUID FUELS TAX FUND
 FINDINGS AND RECOMMENDATIONS
 FOR THE PERIOD
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Finding No. 1 - Noncompliance With Advertising And Bidding Requirements

Our examination disclosed that the city expended \$816,169.21, \$3,092,265.44, and \$774,737.51 during 2019, 2020, and 2021, respectively, from the Liquid Fuels Tax Fund for purchases made without advertising for bids. These expenditures were as follows:

<u>Description</u>	<u>Check Number</u>	<u>Check Date</u>	<u>Amount</u>	<u>Totals</u>
2019 Ford F-550	2106327101	12/11/19	\$114,446.00	
Traffic Signal Control Products	Various	Various	172,168.73	
Two Street Sweepers	Various	Various	<u>529,554.48</u>	
2019 Total				\$ 816,169.21
Freightliner Truck and Chassis	2011175501	03/25/20	223,958.00	
2020 Eagle Beaver Trailer	2102119601	08/26/20	79,400.00	
Traffic Signal Control Products	Various	Various	284,004.06	
Eight Street Sweepers	Various	Various	2,015,398.38	
Green Light Go Project	2108651901	09/30/20	<u>489,505.00*</u>	
2020 Total				3,092,265.44
Ford F-550	2106327101	1/3/21	114,446.00	
Traffic Signal Control Products	Various	Various	183,382.53	
Green Light Go Project	Various	Various	<u>476,908.98*</u>	
2021 Total				<u>774,737.51</u>
Three Year Total				<u>\$4,683,172.16</u>

*Amounts are also included in Finding No. 2.

CITY OF PHILADELPHIA
PHILADELPHIA COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
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Finding No. 1 - Noncompliance With Advertising And Bidding Requirements (Continued)

The Home Rule Charter of the City of Philadelphia § 8-200, states:

(1) Except in the purchase of unique articles or articles which for any other reason cannot be obtained in the open market, competitive bids shall be secured before any purchase, by contract or otherwise, is made or before any contract is awarded for construction, alterations, repairs or maintenance or for rendering any services to the City other than professional services and, except as provided in subsection (5) below, the purchase shall be made from or the contract shall be awarded to the lowest responsible bidder and in conformity with any procedure established by the Procurement Department by regulation...¹

(2) Except as authorized by Section 8-200(2.1) and 8-200(4), if any purchase or contract required to be awarded to the lowest responsible bidder involves an expenditure of more than seventy-five thousand dollars (\$75,000), which amount shall be adjusted every fiscal year as rounded to the nearest one thousand dollars (\$1,000) to reflect the percentage change in the most recently published Consumer Price Index for All Urban Consumers (CPI-U) All Items Index, Philadelphia, Pennsylvania, United States Department of Labor, Bureau of Labor Statistics, the following procedure shall be applicable...

We were unable to determine the cause of this condition.

The failure to follow *The Home Rule Charter of the City of Philadelphia* could result in the city having to reimburse \$4,683,172.16 to its Liquid Fuels Tax Fund.

Recommendations

We recommend that the city reimburse \$4,683,172.16 to its Liquid Fuels Tax Fund upon official notification by the Department of Transportation.

We further recommend that the city comply with *Home Rule Charter of the City of Philadelphia* as noted in this finding.

¹ Subsection 5 allows awarding a contract to the responsible bidder whose proposal provides the City with the best value and does not provide an exception for obtaining bids.

CITY OF PHILADELPHIA
PHILADELPHIA COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
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Finding No. 1 - Noncompliance With Advertising And Bidding Requirements (Continued)

Management's Response

The Deputy Commissioner for Administration and Fiscal Officer stated:

This information is being promulgated by the City's Procurement Department and they have provided an expected date of completion for the requested documents of July 17, 2023. Accordingly, this preliminary finding will be adequately addressed with the information you need to ensure advertising and bidding requirements were followed properly.

Auditor's Conclusion

We were not provided with advertising and bidding documentation for the items purchased as described in this finding. During our next examination, we will determine if the city complied with our recommendations.

CITY OF PHILADELPHIA
PHILADELPHIA COUNTY
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FINDINGS AND RECOMMENDATIONS
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Finding No. 2 - Failure To Submit Final Completion Report

Our examination disclosed that the city expended \$1,273,331.54 for project No. 20-67301-002. Final payment was made on this project on August 11, 2021, but a Final Completion Report Form MS-999 was not filed with the Department of Transportation as of the date of this report.

The Department of Transportation's *Publication 9* outlines the policies and procedures for the administration of the Liquid Fuels Tax Fund. *Publication 9*, Chapter Two, Section 2.8, states, in relevant part:

9. Upon completion of the project, local officials shall complete Form MS-999, Project Completion Report, and submit this form to the Municipal Services Representatives...The MS-999 must reflect actual quantities used and the total cost of the project. It shall also indicate the distribution of costs to the approved funding sources for the project.

We were unable to determine the cause of this condition.

Because the city 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 city expended the approved amount of Liquid Fuels Tax Fund money on the project.

Expenditures of \$966,413.98 included in this finding are also included in Finding No. 1.

Recommendations

If reimbursement is not required for Finding No. 1, we recommend that the city reimburse \$1,273,331.54 to its Liquid Fuels Tax Fund upon official notification by the Department of Transportation. If reimbursement is required for Finding No. 1, we recommend that the city reimburse \$306,917.56 to its Liquid Fuels Tax Fund upon official notification by the Department of Transportation.

Additionally, we recommend that the city submit a completed Form MS-999 to the Department of Transportation for the project.

We further recommend that the city 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.

CITY OF PHILADELPHIA
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FINDINGS AND RECOMMENDATIONS
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Finding No. 2 - Failure To Submit Final Completion Report (Continued)

Management's Response

The Deputy Commissioner for Administration and Fiscal Officer stated:

Streets is confident the work performed for the project reviewed complied with the relevant requirements of the Municipal Fuels Tax Fund. It appears there was a project submission, and we are actively promulgating a final completion report that will verify final completion of the project in accord with Municipal Fuels Tax Fund expenditure requirements. Similar to the above findings, this should verify compliance.

Auditor's Conclusion

We were not provided with a Final Completion Report. During our next examination, we will determine if the city complied with our recommendations.

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PHILADELPHIA COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
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Finding No. 3 - Nonpermissible Expenditures

Our examination disclosed that the city expended \$96,206.00 during 2019 from the Liquid Fuels Tax Fund for ornamental street light luminaires, which are nonpermissible expenditures.

The Liquid Fuels Tax Municipal Allocation Law, 72 P.S. § 2615.4, provides, in part, that monies herein allocated may be used only for construction, reconstruction, maintenance, and repairs of such public roads or streets, including bridges, culverts and drainage structures, for which they are legally responsible. Also permitted are expenditures involving acquisition, maintenance, repairs and operation of street signs, traffic signs, traffic signal control systems, road equipment, and snow fences.

The Department of Transportation has been statutorily authorized to promulgate regulations concerning the administration of Liquid Fuels Tax Fund money and has determined that certain items, including ornamental street light luminaires, are outside the scope of permissible expenditures.

We were unable to determine the cause of this condition.

The failure to follow the Liquid Fuels Tax Municipal Allocation Law and the Department of Transportation's Regulations as noted above could result in the city having to reimburse \$96,206.00 to its Liquid Fuels Tax Fund.

Recommendations

We recommend that the city reimburse \$96,206.00 to its Liquid Fuels Tax Fund upon official notification by the Department of Transportation.

We further recommend that, in the future, the city comply with the Liquid Fuels Tax Municipal Allocation Law and the Department of Transportation's Regulations regarding permissible expenditures.

Management's Response

The Deputy Commissioner for Administration and Fiscal Officer stated:

Streets recognizes that there were non-permissible expenditures for ornamental lighting. We are taking steps to control and prevent any similar incident from occurring going forward.

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Finding No. 3 - Nonpermissible Expenditures (Continued)

Auditor's Conclusion

During our next examination, we will determine if the city complied with our recommendations.

CITY OF PHILADELPHIA
PHILADELPHIA COUNTY
LIQUID FUELS TAX FUND
SUMMARY OF ONSITE CLOSEOUT MEETING
FOR THE PERIOD
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An onsite closeout meeting was held July 11, 2023. Those participating were:

CITY OF PHILADELPHIA

Ms. Dana Jordan, Fiscal Officer

The Honorable Christopher Newman, Deputy Commissioner of Administration

DEPARTMENT OF THE AUDITOR GENERAL

Mr. Corey Tomasetti, Auditor

Mr. Matthew Hotchkiss, Audit Supervisor

CITY OF PHILADELPHIA
PHILADELPHIA COUNTY
LIQUID FUELS TAX FUND
REPORT DISTRIBUTION
FOR THE PERIOD
JANUARY 1, 2019 TO DECEMBER 31, 2021

This report was initially distributed to:

The Honorable Michael Carroll
Secretary
Department of Transportation

City of Philadelphia
Philadelphia County
1401 John F. Kennedy Blvd.
Philadelphia, PA 19102

The Honorable Darrell L. Clarke
President of Council

The Honorable Christopher Newman
Deputy Commissioner of Administration

Ms. Dana Jordan
Fiscal Officer

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