

ATTESTATION ENGAGEMENT

Potter County
Pennsylvania
52-000
Liquid Fuels Tax Fund
For the Period
January 1, 2017 to December 31, 2018

August 2019



Commonwealth of Pennsylvania
Department of the Auditor General
Eugene A. DePasquale • Auditor General



Commonwealth of Pennsylvania
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EUGENE A. DePASQUALE
AUDITOR GENERAL

Independent Auditor's Report

The Honorable Leslie Richards
Secretary
Department of Transportation
Harrisburg, PA 17120

We examined the accompanying Forms MS-991 With Adjustments for the Liquid Fuels Tax Fund With Adjustments of Potter County for the period January 1, 2017 to December 31, 2018. The county's management is responsible for presenting the Forms MS-991 in accordance with the criteria set forth in Note 1. Our responsibility is to express an opinion on the Forms 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. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether the Forms MS-991 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-991. 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-991 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 mandated by Section 403 of *The Fiscal Code*, 72 P.S. § 403, to audit each county's Liquid Fuels funds 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*.

Independent Auditor's Report (Continued)

In our opinion, the Forms MS-991 With Adjustments present, in all material respects, the information required by the Pennsylvania Department of Transportation for the Liquid Fuels Tax Fund Potter County for the period January 1, 2017 to December 31, 2018, in accordance with the criteria set forth in Note 1.

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-991 and 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-991. 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-991 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-991 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-991 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.

Our consideration of internal control over reporting on the Forms MS-991 was for the limited purpose of expressing an opinion on whether the Forms MS-991 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-991 are free from material misstatement, we performed tests of Potter 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-991. 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Independent Auditor's Report (Continued)

The purpose of this report is to determine whether the county'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 Potter County to us during the course of our examination. If you have any questions, please feel free to contact Michael B. Kashishian, CPA, CGAP, CFE, Director, Bureau of County Audits, at 717-787-1363.



Eugene A. DePasquale
Auditor General

August 6, 2019

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POTTER COUNTY
LIQUID FUELS TAX FUND
BACKGROUND
FOR THE PERIOD
JANUARY 1, 2017 TO DECEMBER 31, 2018

Background

The Vehicle Code makes provisions and provides funding for County Liquid Fuels, Act 44, and Act 89 Programs. The Pennsylvania Department of Transportation has regulatory administration and oversight of the funds supporting these county programs. Counties are required to comply with those provisions and to report annually.

The Vehicle Code imposes a state tax on liquid fuels and fuels used or sold and delivered by distributors within the Commonwealth (75 Pa. C.S. § 9004(a)). One-half cent of the tax collected on each gallon of liquid fuels is deposited in the Commonwealth's Liquid Fuels Tax Fund. *The Vehicle Code* further provides for the disposition and use of this tax, including the allocations to counties in June and December of each year to fund construction, reconstruction, maintenance and repair of county roads, streets and bridges. The allocation to the respective counties is made in the ratio that the average amount returned to each county during the three preceding years bears to the average amount returned to all counties during the three preceding years (75 Pa C.S. § 9010).

POTTER COUNTY
LIQUID FUELS TAX FUND
2017 FORM MS-991 WITH ADJUSTMENTS

	<u>Reported</u>	<u>Adjustments</u>	<u>Adjusted Amount</u>
Balance, January 1, 2017	\$ 49,677.88	\$ -	\$ 49,677.88
<u>Receipts:</u>			
State allocations	76,520.31	-	76,520.31
Interest (Note 3)	197.94	-	197.94
Reimbursable agreements	-	-	-
Miscellaneous	-	-	-
Total receipts	<u>76,718.25</u>	<u>-</u>	<u>76,718.25</u>
Total funds available	<u>126,396.13</u>	<u>-</u>	<u>126,396.13</u>
<u>Expenditures:</u>			
Construction	-	-	-
Maintenance and repair	-	-	-
Administrative	5,042.75	-	5,042.75
Grants to political subdivisions	55,343.45	-	55,343.45
Miscellaneous	-	-	-
Total expenditures	<u>60,386.20</u>	<u>-</u>	<u>60,386.20</u>
Balance, December 31, 2017	66,009.93	-	66,009.93
Unpaid encumbrances	<u>41,592.93</u>	<u>-</u>	<u>41,592.93</u>
Unencumbered balance, December 31, 2017	<u><u>\$ 24,417.00</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 24,417.00</u></u>

Notes To Forms MS-991 With Adjustments are an integral part of this report.

POTTER COUNTY
LIQUID FUELS TAX FUND
2018 FORM MS-991 WITH ADJUSTMENTS

	<u>Reported</u>	<u>Adjustments</u>	<u>Adjusted Amount</u>
Balance, January 1, 2018	\$ 66,009.93	\$ -	\$ 66,009.93
<u>Receipts:</u>			
State allocations	69,428.32	-	69,428.32
Interest (Note 3)	1,237.57	-	1,237.57
Reimbursable agreements	-	-	-
Miscellaneous	-	-	-
Total receipts	<u>70,665.89</u>	<u>-</u>	<u>70,665.89</u>
Total funds available	<u>136,675.82</u>	<u>-</u>	<u>136,675.82</u>
<u>Expenditures:</u>			
Construction	-	-	-
Maintenance and repair	-	-	-
Administrative	5,443.70	-	5,443.70
Grants to political subdivisions	64,508.52	-	64,508.52
Miscellaneous	-	-	-
Total expenditures	<u>69,952.22</u>	<u>-</u>	<u>69,952.22</u>
Balance, December 31, 2018	66,723.60	-	66,723.60
Unpaid encumbrances (Note 4)	<u>46,891.84</u>	<u>-</u>	<u>46,891.84</u>
Unencumbered balance, December 31, 2018	<u><u>\$ 19,831.76</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 19,831.76</u></u>

Notes To Forms MS-991 With Adjustments are an integral part of this report.

POTTER COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-991 WITH ADJUSTMENTS
FOR THE PERIOD
JANUARY 1, 2017 TO DECEMBER 31, 2018

1. Criteria

A. *The Vehicle Code* prescribes criteria for liquid fuels program funds (75 Pa C.S. § 9010). The Pennsylvania Department of Transportation's *Publication 9* provides more specific policies and procedures to counties for the administration and reporting of the liquid fuels program funds. In the event of any discrepancies between the two, the legislation governs.

(1) Funds received by the counties must be deposited in a special fund designated as the County Liquid Fuels Tax Fund and no other money may be deposited and commingled. Money should be invested to earn interest until expended.

- For purposes of payments under (2), below, the county may borrow and place in the special fund money not in excess of the liquid fuels tax funds to be received during the current calendar year.

(2) Payments from the special fund may be used for:

- Construction, reconstruction, maintenance and repair of roads, highways, bridges and curb ramps from a road or highway to provide for access by individuals with disabilities consistent with Federal and State law;
- Property damages and compensation of viewers for services in eminent domain proceedings involving roads, highways, and bridges;
- Construction, reconstruction, operation and maintenance of publicly owned ferryboat operations;
- Interest and principal payments on road, bridge, or publicly owned ferryboat operation bonds or sinking fund charges;
- Acquisition, maintenance, repair and operation of traffic signs and signals;
- Erection and maintenance of stop and go signal lights, blinkers and other like traffic control devices;
- Indirect costs, including benefit costs, overhead and other administrative charges for those county employees directly engaged in eligible projects, not to exceed 10 percent of the yearly allocation to the county; and
- Individual vehicle liability insurance for equipment purchased under the fund, not to exceed 10 percent of the yearly allocation to the county.

POTTER COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-991 WITH ADJUSTMENTS
FOR THE PERIOD
JANUARY 1, 2017 TO DECEMBER 31, 2018

1. Criteria (Continued)

- (3) Counties may not make expenditures from the special fund for new construction on roads, bridges, curb ramps, or publicly owned ferryboat operations without the approval of the plans for construction by the Pennsylvania Department of Transportation. And, counties may not allocate money from the special fund to political subdivisions within the county until the application and the contracts or plans for the proposed expenditures have been made on a form prescribed by the Pennsylvania Department of Transportation.
- (4) Counties may encumber current funds for future road and bridge construction, reconstruction, and maintenance projects including viable municipal projects. Counties must redistribute any unencumbered balance in the special fund to political subdivisions if the unencumbered balance is more than the county's receipts during the preceding twelve month period.
- (5) Counties must submit a report to the Pennsylvania Department of Transportation by January 31 for the period ending December 31 on prescribed Form MS-991, The Report of County Liquid Fuels Tax Fund, showing the receipts and expenditures of the money received by the county from the Commonwealth. Upon failure to file the report or instances of any non-compliant payments, allocations, or expenditures, the Pennsylvania Department of Transportation may withhold further funding until the delinquent report is filed, the money is allocated, or the expenditures for the prior 12 months are approved.

Basis Of Presentation

In accordance with reporting requirements prescribed by the Pennsylvania Department of Transportation, the Report of County Liquid Fuels Tax Fund With Adjustments do not constitute complete financial presentations of the county's assets, liabilities, expenses, and fund balance but include the receipts, expenditures, and fund balances of the County Liquid Fuels Tax Fund.

The Pennsylvania Department of Transportation prescribes that the county report the following on the Form MS-991, *Report of County Liquid Fuels Tax Fund*:

- A. The balance in the County Liquid Fuels Tax Fund at the beginning of the report calendar year.
- B. Receipts which must be itemized and include the County's Liquid Fuels Tax Fund allocations, interest, reimbursable agreements, and miscellaneous items such as loans, sale of salvageable material, and damage claims to road or bridge property.

Refer to the related Notes: Note 3, Interest Earnings

POTTER COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-991 WITH ADJUSTMENTS
FOR THE PERIOD
JANUARY 1, 2017 TO DECEMBER 31, 2018

1. Criteria (Continued)

- C. Accounts receivable (to be realized within 60 days of the year end).
- D. Total Liquid Fuels Tax funds available for expenditure and encumbrances.
- E. Expenditures for county-owned roads, highways, and bridges.
- F. Accounts payable (accrued wages, accrued payroll taxes, and accounts payable vendors to be realized within 60 days of the year end).
- G. The balance in the fund at the close of the report calendar year.
- H. Encumbered and unencumbered balances on hand at the close of the report calendar year.

Refer to the related Note: Note 4, Encumbrances.

- A. The balance in the fund at the close of the report calendar year.

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 purchased from institutions insured by the FDIC or other like insurance to the extent that such accounts are so insured. 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 or savings bank's assets minus liabilities.

Deposits consist of receipts and deposits in financial institutions. Pennsylvania statutes require all deposits to be insured and, for any amount above the insured maximum, to be secured with approved collateral as defined.

POTTER COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-991 WITH ADJUSTMENTS
FOR THE PERIOD
JANUARY 1, 2017 TO DECEMBER 31, 2018

2. Deposits (Continued)

There were no deposits exposed to custodial credit risk as of December 31, 2018. Custodial credit risk, as defined by GASB No. 40, includes deposits that are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the county's name.

Fund Balance

The fund balance for the Liquid Fuels Tax Fund as of December 31, 2018, consists of the following:

Cash	<u>\$66,723.60</u>
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3. Interest Earnings

Our examination disclosed that the county deposited idle liquid fuels tax money in interest-bearing accounts which earned \$197.94 during 2017 and \$1,237.57 during 2018, thus providing additional funds for road maintenance and repairs.

4. Encumbrances

As of December 31, 2018, \$46,891.84 was encumbered for grants to political subdivisions.

POTTER COUNTY
LIQUID FUELS TAX FUND
SUMMARY OF EXIT CONFERENCE
FOR THE PERIOD
JANUARY 1, 2017 TO DECEMBER 31, 2018

An exit conference was held April 30, 2019. Those participating were:

POTTER COUNTY

Mrs. Kathleen H. Majot, Chief Clerk

DEPARTMENT OF THE AUDITOR GENERAL

Mr. Christopher Heglen, Audit Supervisor

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

POTTER COUNTY
LIQUID FUELS TAX FUNDS
REPORT DISTRIBUTION
FOR THE PERIOD
JANUARY 1, 2017 TO DECEMBER 31, 2018

This report was initially distributed to:

The Honorable Leslie Richards
Secretary
Department of Transportation

Potter County
One North Main Street
Suite 207
Coudersport, PA 16915

The Honorable Douglas C. Morley
Chairman of the Board of Commissioners

The Honorable Krista Miller
Treasurer

Mrs. Kathleen H. Majot
Chief Clerk

This report is a matter of public record and is available online at www.PaAuditor.gov. Media questions about the report can be directed to the Pennsylvania Department of the Auditor General, Office of Communications, 229 Finance Building, Harrisburg, PA 17120; via email to: news@PaAuditor.gov.