

# ATTESTATION ENGAGEMENT

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**City of Lebanon**  
Lebanon County, Pennsylvania  
38-301  
**Liquid Fuels Tax Fund**  
For the Period  
January 1, 2010 to December 31, 2012

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September 2014



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



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Department of the Auditor General  
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**EUGENE A. DePASQUALE**  
**AUDITOR GENERAL**

### Independent Auditor's Report

The Honorable Barry J. Schoch, P.E.  
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 Lebanon, Lebanon County, for the period January 1, 2010 to December 31, 2012. The municipality's management is responsible for the Forms MS-965. 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 includes examining, on a test basis, evidence supporting the City of Lebanon, Lebanon County's Forms MS-965 for the period January 1, 2010 to December 31, 2012 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 municipality'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 Finding No. 1, the adjustments included on the Forms MS-965 With Adjustments are made by the Department of the Auditor General.

## Independent Auditor's Report (Continued)

In our opinion, 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 Lebanon, Lebanon County, for the period January 1, 2010 to December 31, 2012, in conformity 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-965; 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-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 the internal control over reporting on the Forms MS-965 or on compliance and other matters; accordingly, we express no such opinions.

Our consideration of internal control 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 was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described below, we identified certain deficiencies in internal control that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

*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.

Our consideration of the internal control was for the limited purpose of expressing an opinion on whether the Form MS-965 are presented in accordance with the criteria described above and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify a certain deficiency in internal control, described in the finding listed below, that we consider to be a material weakness in internal control:

- Failure To Properly Prepare Forms MS-965 - Recurring.

Independent Auditor's Report (Continued)

As part of obtaining reasonable assurance about whether the Forms MS-965 are free from material misstatement, we performed tests of the City of Lebanon, Lebanon 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 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 Obtain Project Approval.

We are concerned in light of the municipality's failure to correct a previously reported finding regarding a failure to properly prepare Forms MS-965. During our current examination we noted that the municipality failed to properly prepare its Forms MS-965 and failed to obtain project approval. The municipality should strive to implement the recommendations and corrective actions noted in this report.

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

We appreciate the courtesy extended by the City of Lebanon, Lebanon 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 28, 2014

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CITY OF LEBANON  
LEBANON COUNTY  
LIQUID FUELS TAX FUND  
BACKGROUND  
FOR THE PERIOD  
JANUARY 1, 2010 TO DECEMBER 31, 2012

Background

The Liquid Fuels Tax Municipal Allocation Law, Title 72 P.S. § 2615.5, provides municipalities other than counties (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: (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.

*The Vehicle Code*, Title 75 P.S. § 9511, 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 Liquid Fuels Tax Fund money and annual maintenance payments that it receives into a special fund called 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 this 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. To qualify for its annual allocation, each municipality shall submit the following documents and information to the Department of Transportation:

1. Evidence that the treasurer is bonded in accordance with the law, or that its treasurer is a bank requiring no bond by January 31 of each year.
2. A report indicating the manner in which its liquid fuels tax allocation was expended in the previous year (Form MS-965) by January 31 of each year.
3. A report of elected and appointed officials by January 31 of each year.
4. A Survey of Financial Condition by March 15 of each year.

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.

CITY OF LEBANON  
LEBANON COUNTY  
LIQUID FUELS TAX FUND  
2010 FORM MS-965 – SECTION 1  
WITH ADJUSTMENTS

<u>Expenditure Summary</u>	<u>Reported</u>	<u>Adjustments (Finding No. 1)</u>	<u>Adjusted Amount</u>
Major equipment purchases	\$ -	\$ -	\$ -
Minor equipment purchases	121.13	(121.13)	-
Computer/Computer related training	-	-	-
Agility projects	-	-	-
Cleaning streets and gutters	77,865.38	-	77,865.38
Winter maintenance services	159,798.22	-	159,798.22
Traffic control devices	85,734.92	-	85,734.92
Street lighting	368,671.00	-	368,671.00
Storm sewers and drains	-	-	-
Repairs of tools and machinery	75.42	121.13	196.55
Maintenance and repair of roads and bridges	152,417.34	(43,910.05)	108,507.29
Highway construction and rebuilding projects	215,858.16	39,440.41	255,298.57
Miscellaneous	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>
Total (To Section 2, Line 5)	<u>\$ 1,060,541.57</u>	<u>\$ (4,469.64)</u>	<u>\$ 1,056,071.93</u>

Notes to Forms MS-965 With Adjustments are an integral part of this report.

CITY OF LEBANON  
LEBANON COUNTY  
LIQUID FUELS TAX FUND  
2010 FORM MS-965 – SECTION 2  
WITH ADJUSTMENTS

<u>Fund Balance</u>	<u>Reported</u>	<u>Adjustments (Finding No. 1)</u>	<u>Adjusted Amount</u>
1. Balance, January 1, 2010	\$ 757,505.55	\$ (266,033.33)	\$ 491,472.22
Receipts:			
2. State allocation	486,532.10	-	486,532.10
2a. Turnback allocation	37,240.00	-	37,240.00
2b. Interest on investments (Note 3)	1,724.87	(294.86)	1,430.01
2c. Miscellaneous (Note 4)	31,048.27	266,033.33	297,081.60
3. Total receipts	<u>556,545.24</u>	<u>265,738.47</u>	<u>822,283.71</u>
4. Total funds available	<u>1,314,050.79</u>	<u>(294.86)</u>	<u>1,313,755.93</u>
5. Expenditures (Section 1)	<u>1,060,541.57</u>	<u>(4,469.64)</u>	<u>1,056,071.93</u>
6. Balance, December 31, 2010	<u>\$ 253,509.22</u>	<u>\$ 4,174.78</u>	<u>\$ 257,684.00</u>

Notes to Forms MS-965 With Adjustments are an integral part of this report.



CITY OF LEBANON  
LEBANON COUNTY  
LIQUID FUELS TAX FUND  
2010 FORM MS-965 – SECTION 3  
WITH ADJUSTMENTS

<u>Equipment Balance</u>	<u>Reported</u>	<u>Adjustments (Finding No. 1)</u>	<u>Adjusted Amount</u>
1. Prior year equipment balance	\$ 404,200.57	\$ (10,311.03)	\$ 393,889.54
2. Add: Current year equipment allocation (20% of Lines 2 + 2a, Section 2)	104,754.42	-	104,754.42
3. PENNDOT approved adjustments	-	-	-
4. Total funds available for equipment acquisition	508,954.99	(10,311.03)	498,643.96
5. Less: Major equipment expenditures	-	-	-
6. Remainder	<u>508,954.99</u>	<u>(10,311.03)</u>	<u>498,643.96</u>
7. Equipment balance available for subsequent year (Lesser of Line 6 or Section 2 balance, but not less than zero)	<u>\$ 253,509.22</u>	<u>\$ 4,174.78</u>	<u>\$ 257,684.00</u>

Notes to Forms MS-965 With Adjustments are an integral part of this report.

CITY OF LEBANON  
LEBANON COUNTY  
LIQUID FUELS TAX FUND  
2011 FORM MS-965 – SECTION 1  
WITH ADJUSTMENTS

<u>Expenditure Summary</u>	<u>Reported</u>	<u>Adjustments (Finding No. 1)</u>	<u>Adjusted Amount</u>
Major equipment purchases	\$ -	\$ -	\$ -
Minor equipment purchases	780.00	(780.00)	-
Computer/Computer related training	-	-	-
Agility projects	-	-	-
Cleaning streets and gutters	86,483.33	780.00	87,263.33
Winter maintenance services	108,474.82	-	108,474.82
Traffic control devices	63,076.05	-	63,076.05
Street lighting	436,298.19	-	436,298.19
Storm sewers and drains	-	-	-
Repairs of tools and machinery	196.44	1,265.96	1,462.40
Maintenance and repair of roads and bridges	123,337.86	(39,523.65)	83,814.21
Highway construction and rebuilding projects	338.60	39,523.65	39,862.25
Miscellaneous (Note 5)	-	39,500.00	39,500.00
	<u>-</u>	<u>39,500.00</u>	<u>39,500.00</u>
Total (To Section 2, Line 5)	<u>\$ 818,985.29</u>	<u>\$ 40,765.96</u>	<u>\$ 859,751.25</u>

Notes to Forms MS-965 With Adjustments are an integral part of this report.

CITY OF LEBANON  
LEBANON COUNTY  
LIQUID FUELS TAX FUND  
2011 FORM MS-965 – SECTION 2  
WITH ADJUSTMENTS

<u>Fund Balance</u>	<u>Reported</u>	<u>Adjustments (Finding No. 1)</u>	<u>Adjusted Amount</u>
1. Balance, January 1, 2011	\$ 257,752.76	\$ (68.76)	\$ 257,684.00
Receipts:			
2. State allocation	498,201.38	-	498,201.38
2a. Turnback allocation	37,240.00	-	37,240.00
2b. Interest on investments (Note 3)	791.40	(336.40)	455.00
2c. Miscellaneous (Note 4)	135,672.19	30,418.00	166,090.19
3. Total receipts	<u>671,904.97</u>	<u>30,081.60</u>	<u>701,986.57</u>
4. Total funds available	<u>929,657.73</u>	<u>30,012.84</u>	<u>959,670.57</u>
5. Expenditures (Section 1)	<u>818,985.29</u>	<u>40,765.96</u>	<u>859,751.25</u>
6. Balance, December 31, 2011	<u><u>\$ 110,672.44</u></u>	<u><u>\$ (10,753.12)</u></u>	<u><u>\$ 99,919.32</u></u>

Notes to Forms MS-965 With Adjustments are an integral part of this report.

CITY OF LEBANON  
LEBANON COUNTY  
LIQUID FUELS TAX FUND  
2011 FORM MS-965 – SECTION 3  
WITH ADJUSTMENTS

<u>Equipment Balance</u>	<u>Reported</u>	<u>Adjustments (Finding No. 1)</u>	<u>Adjusted Amount</u>
1. Prior year equipment balance	\$ 257,752.77	\$ (68.77)	\$ 257,684.00
2. Add: Current year equipment allocation (20% of Lines 2 + 2a, Section 2)	107,088.28	-	107,088.28
3. PENNDOT approved adjustments	<u>-</u>	<u>-</u>	<u>-</u>
4. Total funds available for equipment acquisition	364,841.05	(68.77)	364,772.28
5. Less: Major equipment expenditures	<u>-</u>	<u>-</u>	<u>-</u>
6. Remainder	<u>364,841.05</u>	<u>(68.77)</u>	<u>364,772.28</u>
7. Equipment balance available for subsequent year (Lesser of Line 6 or Section 2 balance, but not less than zero)	<u>\$ 110,672.44</u>	<u>\$ (10,753.12)</u>	<u>\$ 99,919.32</u>

Notes to Forms MS-965 With Adjustments are an integral part of this report.

CITY OF LEBANON  
LEBANON COUNTY  
LIQUID FUELS TAX FUND  
2012 FORM MS-965 – SECTION 1  
WITH ADJUSTMENTS

<u>Expenditure Summary</u>	<u>Reported</u>	<u>Adjustments (Finding No. 1)</u>	<u>Adjusted Amount</u>
Major equipment purchases	\$ -	\$ -	\$ -
Minor equipment purchases	-	-	-
Computer/Computer related training	-	-	-
Agility projects	-	-	-
Cleaning streets and gutters	4,857.34	-	4,857.34
Winter maintenance services	36,961.66	-	36,961.66
Traffic control devices	17,319.22	-	17,319.22
Street lighting	405,608.38	(397.35)	405,211.03
Storm sewers and drains	-	-	-
Repairs of tools and machinery	-	-	-
Maintenance and repair of roads and bridges	4,769.43	(1,139.50)	3,629.93
Highway construction and rebuilding projects	75,001.34	1,139.50	76,140.84
Miscellaneous (Note 5)	-	44,000.00	44,000.00
	<u>-</u>	<u>44,000.00</u>	<u>44,000.00</u>
Total (To Section 2, Line 5)	<u>\$ 544,517.37</u>	<u>\$ 43,602.65</u>	<u>\$ 588,120.02</u>

Notes to Forms MS-965 With Adjustments are an integral part of this report.

CITY OF LEBANON  
LEBANON COUNTY  
LIQUID FUELS TAX FUND  
2012 FORM MS-965 – SECTION 2  
WITH ADJUSTMENTS

<u>Fund Balance</u>	<u>Reported</u>	<u>Adjustments (Finding No. 1)</u>	<u>Adjusted Amount</u>
1. Balance, January 1, 2012	\$ 110,672.44	\$ (10,753.12)	\$ 99,919.32
Receipts:			
2. State allocation	512,481.20	-	512,481.20
2a. Turnback allocation	37,240.00	-	37,240.00
2b. Interest on investments (Note 3)	637.65	(231.71)	405.94
2c. Miscellaneous (Note 4)	11,341.70	54,162.61	65,504.31
3. Total receipts	<u>561,700.55</u>	<u>53,930.90</u>	<u>615,631.45</u>
4. Total funds available	<u>672,372.99</u>	<u>43,177.78</u>	<u>715,550.77</u>
5. Expenditures (Section 1)	<u>544,517.37</u>	<u>43,602.65</u>	<u>588,120.02</u>
6. Balance, December 31, 2012	<u><u>\$ 127,855.62</u></u>	<u><u>\$ (424.87)</u></u>	<u><u>\$ 127,430.75</u></u>

Notes to Forms MS-965 With Adjustments are an integral part of this report.

CITY OF LEBANON  
LEBANON COUNTY  
LIQUID FUELS TAX FUND  
2012 FORM MS-965 – SECTION 3  
WITH ADJUSTMENTS

<u>Equipment Balance</u>	<u>Reported</u>	<u>Adjustments (Finding No. 1)</u>	<u>Adjusted Amount</u>
1. Prior year equipment balance	\$ 110,672.44	\$ (10,753.12)	\$ 99,919.32
2. Add: Current year equipment allocation (20% of Lines 2 + 2a, Section 2)	109,944.24	-	109,944.24
3. PENNDOT approved adjustments	-	-	-
4. Total funds available for equipment acquisition	220,616.68	(10,753.12)	209,863.56
5. Less: Major equipment expenditures	-	-	-
6. Remainder	<u>220,616.68</u>	<u>(10,753.12)</u>	<u>209,863.56</u>
7. Equipment balance available for subsequent year (Lesser of Line 6 or Section 2 balance, but not less than zero)	<u>\$ 127,855.62</u>	<u>\$ (424.87)</u>	<u>\$ 127,430.75</u>

Notes to Forms MS-965 With Adjustments are an integral part of this report.

CITY OF LEBANON  
LEBANON COUNTY  
LIQUID FUELS TAX FUND  
NOTES TO FORMS MS-965 WITH ADJUSTMENTS  
FOR THE PERIOD  
JANUARY 1, 2010 TO DECEMBER 31, 2012

1. Criteria

Section 1

This section 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 that cost in excess of \$4,000.00 prior to 2012 and in excess of \$10,000.00 during 2012 and subsequent years.
- Minor equipment purchases are purchases of road machinery and road equipment that cost \$4,000.00 or less prior to 2012 and \$10,000.00 or less during 2012 and subsequent years.
- Agility projects are exchanges of services with the Department of Transportation.

Section 2

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

- The state allocation is generally received from the Department of Transportation during the first week in April of each year. The amount the municipality receives is based half on its population and half on its road mileage.
- The turnback allocation is generally received from the Department of Transportation during the first week in April of each year. A municipality receives a yearly turnback allocation based on road mileage for all roads that were transferred to the municipality from the Commonwealth of Pennsylvania through the Highway Transfer Program.
- Expenditures include the total transferred from Section 1.



CITY OF LEBANON  
LEBANON COUNTY  
LIQUID FUELS TAX FUND  
NOTES TO FORMS MS-965 WITH ADJUSTMENTS  
FOR THE PERIOD  
JANUARY 1, 2010 TO DECEMBER 31, 2012

1. Criteria (Continued)

Section 3

This section 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.

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 Forms MS-965 have 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 Forms 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 are 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.

CITY OF LEBANON  
LEBANON COUNTY  
LIQUID FUELS TAX FUND  
NOTES TO FORMS MS-965 WITH ADJUSTMENTS  
FOR THE PERIOD  
JANUARY 1, 2010 TO DECEMBER 31, 2012

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 Third Class City Code*, Title 53 P.S § 36804.1, authorizes the city 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'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, 2012. 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 municipality's name.

CITY OF LEBANON  
LEBANON COUNTY  
LIQUID FUELS TAX FUND  
NOTES TO FORMS MS-965 WITH ADJUSTMENTS  
FOR THE PERIOD  
JANUARY 1, 2010 TO DECEMBER 31, 2012

2. Deposits (Continued)

Fund Balance

The fund balance as of December 31, 2012 consists of the following:

Cash	\$127,430.75
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3. Interest On Investments

Our examination disclosed that the municipality deposited idle liquid fuels tax money in interest-bearing accounts which earned \$1,430.01 during 2010, \$455.00 during 2011, and \$405.94 during 2012, thus providing additional funds for road maintenance and repairs.

4. Miscellaneous Receipts

The following miscellaneous receipts were deposited into the Liquid Fuels Tax Fund during the examination period:

Source	Description	2010	2011	2012
Commonwealth of Pennsylvania	Reimbursement agreements	\$266,033.33	\$ -	\$ -
North Cornwall Township	Reimbursement for road work	29,120.20	-	10,277.26
Commonwealth of Pennsylvania	Winter maintenance agreement	1,928.07	1,009.12	1,044.44
General Fund	Reimbursement (Comment)	-	125,565.29	-
Vendor	Refund for overpayment	-	15.78	-
General Fund	Temporary loans (Note 5)	-	39,500.00	44,000.00
Payroll Fund	Refund for overpayment	-	-	10,162.61
Vendor	Bid documents	-	-	20.00
	Totals	\$297,081.60	\$166,090.19	\$65,504.31

CITY OF LEBANON  
LEBANON COUNTY  
LIQUID FUELS TAX FUND  
NOTES TO FORMS MS-965 WITH ADJUSTMENTS  
FOR THE PERIOD  
JANUARY 1, 2010 TO DECEMBER 31, 2012

5. Temporary Loans

The municipality loaned \$39,500.00 during 2011 and \$44,000.00 during 2012 from its General Fund to its Liquid Fuels Tax Fund. These loans were as follows:

<u>Date Loaned</u>	<u>Amount</u>	<u>Date Paid</u>
03/11/2011	\$15,500.00	11/29/2011
03/21/2011	15,000.00	11/29/2011
04/06/2011	9,000.00	11/29/2011
02/25/2012	4,000.00	04/12/2012
03/06/2012	5,000.00	04/12/2012
06/15/2012	<u>35,000.00</u>	04/12/2012
Total	<u><u>\$83,500.00</u></u>	

CITY OF LEBANON  
LEBANON COUNTY  
LIQUID FUELS TAX FUND  
FINDINGS AND RECOMMENDATIONS  
FOR THE PERIOD  
JANUARY 1, 2010 TO DECEMBER 31, 2012

**Finding No. 1 - Failure To Properly Prepare Forms MS-965 - Recurring**

We cited the city for failure to properly prepare its Forms MS-965 in our prior report for the period January 1, 2008 to December 31, 2009. Our current examination disclosed that there were numerous errors made in the preparation of the city's 2010, 2011, and 2012 Forms MS-965. These adjustments are as follows:

2010 - Section 1

- Adjustments were made to "Minor equipment purchases" and "Repairs of tools and machinery" because expenditures of \$121.13 were misclassified.
- An adjustment of \$(43,910.05) was made to "Maintenance and repair of roads and bridges" because expenditures of \$39,440.41 for highway construction and rebuilding projects were misclassified and expenditures of \$4,469.64 were overstated.
- An adjustment of \$39,440.41 was made to "Highway construction and rebuilding projects" because these expenditures were misclassified as maintenance and repair of roads and bridges.

2010 - Section 2

- An adjustment of \$(266,033.33) was made to "Balance, January 1, 2010" because an incorrect fund balance was reported.
- An adjustment of \$(294.86) was made to "Interest on investments" because interest earnings were overstated.
- An adjustment of \$266,033.33 was made to "Miscellaneous" because these receipts were understated.

2010 - Section 3

- An adjustment of \$(10,311.03) was made to "Prior year equipment balance" because prior report adjustments were not carried forward in the equipment balance.

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**Finding No. 1 - Failure To Properly Prepare Forms MS-965 – Recurring (Continued)**

2011 - Section 1

- Adjustments were made to “Minor equipment purchases” and “Cleaning streets and gutters” because expenditures of \$780.00 were misclassified.
- An adjustment of \$1,265.96 was made to “Repairs of tools and machinery” because these expenditures were understated.
- Adjustments were made to “Maintenance and repair of roads and bridges” and “Highway construction and rebuilding projects” because expenditures of \$39,523.65 were misclassified.
- An adjustment of \$39,500.00 was made to “Miscellaneous” because a reimbursement for temporary loans from the General Fund was not reported (see Note 5).

2011 - Section 2

- An adjustment of \$(68.76) was made to “Balance, January 1, 2011” because an incorrect fund balance was reported.
- An adjustment of \$(336.40) was made to “Interest on investments” because interest earnings were overstated.
- An adjustment of \$30,418.00 was made to “Miscellaneous” because these receipts were understated.

2011 - Section 3

- An adjustment of \$(68.77) was made to “Prior year equipment balance” because an incorrect equipment balance was carried forward.

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**Finding No. 1 - Failure To Properly Prepare Forms MS-965 - Recurring (Continued)**

2012 - Section 1

- An adjustment of \$(397.35) was made to “Street lighting” because these expenditures were overstated.
- Adjustments were made to “Maintenance and repair of roads and bridges” and “Highway construction and rebuilding projects” because expenditures of \$1,139.50 were misclassified.
- An adjustment of \$44,000.00 was made to “Miscellaneous” because a reimbursement for temporary loans from the General Fund was not reported (Note 5).

2012 - Section 2

- An adjustment of \$(10,753.12) was made to “Balance, January 1, 2012” to reflect the adjustment made to the fund balance in 2011 - Section 2.
- An adjustment of \$(231.71) was made to “Interest on investments” because interest earnings were overstated.
- An adjustment of \$54,162.61 was made to “Miscellaneous” because these receipts were understated.

2012 - Section 3

- An adjustment of \$(10,753.12) was made to “Prior year equipment balance” to reflect the adjustment made to the equipment balance in 2011 - Section 3.

Good internal controls ensure that the city complete its Forms MS-965 accurately and completely. The failure to properly complete Forms MS-965 increases the risk that errors or misappropriations may occur and remain undetected.

This condition occurred because the city failed to comply with our prior examination recommendation to ensure that its Forms MS-965 are complete and accurate.

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**Finding No. 1 - Failure To Properly Prepare Forms MS-965 - Recurring (Continued)**

Recommendation

We again recommend that the city ensure that its Forms MS-965 are complete and accurate.

Management's Response

The accountant stated:

The majority of the adjustments to the MS-965 were due to my error including the Bridge project – construction expenditures on this report. In addition, there was some confusion as to the prior year's preparation of the report and the validity of the opening balances on the report. We now have everything entered correctly and the balances are correct.

Auditor's Conclusion

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



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**Finding No. 2 - Failure To Obtain Project Approval**

Our examination disclosed that during 2011 the city expended \$11,554.30 for demolition to prepare for construction of the 9<sup>th</sup> and 10<sup>th</sup> Street bridges without obtaining the approval of the Department of Transportation. Before demolition is done, the city must obtain the approval of the Department of Transportation. However, the city did not file an application with the Department of Transportation for the demolition phase of the project and the city also failed to submit specifications for approval.

The Department of Transportation's *Publication 9* contains the policies and procedures for the administration of the Liquid Fuels Tax Fund. *Publication 9*, Chapter Two, Section 2.7.2, states that nonpermissible expenditures include "Construction and reconstruction projects without prior PENNDOT approval."

The failure to comply with the Department of Transportation's *Publication 9* could result in the city having to reimburse \$11,554.30 to its Liquid Fuels Tax Fund.

**Recommendations**

We recommend that the city reimburse \$11,554.30 to its Liquid Fuels Tax Fund upon official notification by the Department of Transportation.

We further recommend that before the city expends money on a project, it applies for and obtains prior approval for the entire project, and when the project is completed it obtains approval of the completed work.

**Management's Response**

The accountant stated:

The City had believed, in 2011, that these costs were covered under the project agreement. When the project was created, however, these costs were excluded and therefore became not allowable as Liquid Fuels expenditures.

**Auditor's Conclusion**

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

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COMMENT  
FOR THE PERIOD  
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Comment - Summary Of Prior Examination Recommendations

In our prior report we recommended that the Department of Transportation review our examination finding to determine if the city should reimburse \$125,565.29 to its Liquid Fuels Tax Fund. This amount consists of \$104,344.83 for a failure to maintain documentation supporting payroll expenditures, \$21,000.00 for over expending Liquid Fuels Tax Fund money on project No. C-08-38301-14CA, and \$220.46 for nonpermissible expenditures.

During our current examination we reviewed a letter dated February 14, 2011 from the Department of Transportation informing the city to reimburse \$125,565.29 to its Liquid Fuels Tax Fund. We noted that the city reimbursed this amount to its Liquid Fuels Tax Fund on April 13, 2011.

In our prior report we also recommended:

- That the city ensure good internal control over payroll by maintaining daily time sheets that identify the nature of work performed and the location of work assignments.
- That the city establishes and implements internal controls to ensure that duplicate transfers are not made and go undetected for long periods of time.
- That the city expends only the approved amount of Liquid Fuels Tax Fund money on road construction projects.
- That the city complies with the Liquid Fuels Tax Municipal Allocation Law and the Department of Transportation's Regulations regarding permissible expenditures.
- That when liquid fuels fund are combined with other funds for investment purposes, the calculation of interest earned must be documented.

During our current examination we noted that the city complied with our recommendations.

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SUMMARY OF EXIT CONFERENCE  
FOR THE PERIOD  
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An exit conference was held March 28, 2014. Those participating were:

CITY OF LEBANON

Ms. Helen Westphal, Accountant

DEPARTMENT OF THE AUDITOR GENERAL

Ms. Tammy Fleisher, Auditor

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

CITY OF LEBANON  
LEBANON COUNTY  
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REPORT DISTRIBUTION  
FOR THE PERIOD  
JANUARY 1, 2010 TO DECEMBER 31, 2012

This report was initially distributed to:

The Honorable Barry J. Schoch, P.E.  
Secretary  
Department of Transportation

City of Lebanon  
Lebanon County  
400 South Eighth Street  
Lebanon, PA 17042

The Honorable Sherry L. Capello

Mayor

Ms. Helen Westphal

Accountant

This report is a matter of public record and is available online at [www.auditorgen.state.pa.us](http://www.auditorgen.state.pa.us). Media questions about the report can be directed to the Pennsylvania Department of the Auditor General, Office of Communications, 231 Finance Building, Harrisburg, PA 17120; via email to: [news@auditorgen.state.pa.us](mailto:news@auditorgen.state.pa.us).