
COMMONWEALTH OF PENNSYLVANIA



**A SPECIAL INVESTIGATION OF STATE
GRANTS AWARDED TO
ARCHBALD BOROUGH, LACKAWANNA COUNTY**

JUNE 2008

JACK WAGNER, AUDITOR GENERAL
PENNSYLVANIA DEPARTMENT OF THE AUDITOR GENERAL

June 10, 2008

The Honorable Ed Fairbrother
Mayor
ARCHBALD BOROUGH
400 Church Street
Archbald, Pennsylvania 18403

Dear Mayor Fairbrother:

The Department of the Auditor General's ("Department") Office of Special Investigations ("OSI") has conducted an investigation regarding grants awarded to Archbald Borough ("Borough"), Lackawanna County, by the Commonwealth of Pennsylvania ("Commonwealth") during the period of April 2004 through April 2006.

Our investigation found:

- The Borough overstated grant expenditures by \$9,556 on official grant certification forms that the Borough submitted to both the Department of Conservation and Natural Resources ("DCNR") and the Department of Community and Economic Development ("DCED").
- The Borough failed to properly account for and remit to the Commonwealth interest earned on \$720,000 of grant funds advanced to the Borough by DCNR.
- The Borough used grant funds from DCNR for purposes unrelated to the grant.

We found no evidence to suggest fraud or misappropriation of Commonwealth funds. However, we did find evidence to suggest that the Borough did not have sufficient controls in place to carry out its contractual obligations with the Commonwealth.

We thank the Borough for its cooperation with this investigation and urge the Borough to implement the recommendations in this report. The Department will follow up at the appropriate time to determine whether our recommendations have been implemented. Copies of this report will be forwarded to DCNR, DCED, the Department of Transportation, the Department of Environmental Protection, the Pennsylvania Emergency Management Agency, and the Pennsylvania Game Commission for their review and whatever action they deem appropriate.

This report is a public document and its distribution is not limited. Additional copies can be obtained through the Department of the Auditor General's website, www.auditorgen.state.pa.us.

Sincerely,

JACK WAGNER
Auditor General

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EXECUTIVE SUMMARY

FINDINGS	RECOMMENDATIONS
<p><u>FINDING I:</u></p> <p>The Borough overstated grant expenditures by \$9,556 on official grant certification forms that the Borough submitted to both the Department of Conservation and Natural Resources (“DCNR”) and the Department of Community and Economic Development (“DCED”).</p>	<p>We recommend the following:</p> <ul style="list-style-type: none">• The Borough should either return \$9,556.07 to DCED, with interest, or amend the DCED Grant Closeout Report using appropriate invoices and expenditures;• The Borough should amend its Final Payment Application to DCNR using appropriate invoices and expenditures.• The Borough should either (1) open a separate bank account for each grant, or (2) establish an accounting system in which the funds from each grant, and any interest or other income or accumulations earned by said funds, is separately identifiable, and in which each expenditure is attributed to the particular grant to which it is related;• The Borough should implement sufficient internal controls to carry out its contractual obligations with the Commonwealth funding agencies; and• The Borough should implement a system of checks and balances prior to certifying project expenditures.
<p><u>FINDING II:</u></p> <p>The Borough failed to properly account for and remit to the Commonwealth interest earned on \$720,000 of grant funds advanced to the Borough by the Department of Conservation and Natural Resources.</p>	<p>We recommend the following:</p> <ul style="list-style-type: none">• The Borough should determine the amount of interest earned on the \$720,000 advanced under the grant agreements, and promptly remit the same to DCNR;• The Borough should comply with the requirement of the grant agreement

	<p>that advances of grant funds, and any interest or other income or accumulations earned on said advanced funds, shall be separately identifiable in the Borough's accounting system; and</p> <ul style="list-style-type: none"> • The Borough should implement such internal controls as will ensure that all contractual obligations to the Commonwealth are fulfilled.
<p><u>FINDING III:</u> The Borough used grant funds from the Department of Conservation and Natural Resources for purposes unrelated to the grant.</p>	<p>We recommend the following:</p> <ul style="list-style-type: none"> • The Borough should reimburse the DCNR grant account from its General Fund account an additional \$13,549.50, representing funds expended for purposes not related to the grant; • The Borough should account for and remit to the Commonwealth an amount equal to the loss of interest earnings on the entire \$44,710 expended for purposes unrelated to the grant from the dates it was expended to the dates it was or will be reimbursed; • The Borough should either (1) open a separate bank account for each grant, or (2) establish an accounting system in which the funds from each grant, and any interest or other income or accumulations earned by said funds, is separately identifiable, and in which each expenditure is attributed to the particular grant to which it is related; and • The Borough should implement such internal controls as will ensure that grant funds will only be expended for grant-related purposes and that all the Borough's contractual obligations to the Commonwealth are fulfilled.

ADDITIONAL CONCERNS

During the course of this investigation, OSI found it very difficult to trace the deposits and expenditures for the six Commonwealth grants that we reviewed. Therefore, we repeat our recommendations that:

- The Borough should either (1) open a separate bank account for each grant, or (2) establish an accounting system in which the funds from each grant, and any interest or other income or accumulations earned by said funds, is separately identifiable, and in which each expenditure is attributed to the particular grant to which it is related.
- The Borough should implement such internal controls as will ensure that grant funds will only be expended for grant-related purposes and that all the Borough's contractual obligations to the Commonwealth are fulfilled.

BACKGROUND AND INTRODUCTION

The Borough of Archbald (“Borough”) is located in Lackawanna County, ten miles north of Scranton, in northeastern Pennsylvania. It is the seventh largest borough in Pennsylvania, with 11,400 acres covering 17.8 square miles.¹

The state Treasury Department received a complaint concerning possible misuse of grant funds paid through the Department of Community and Economic Development (“DCED”) to the Borough for public park renovations. On July 24, 2006, the Treasury Department requested the Department to perform an audit or investigation concentrating on the misuse of state funds. The investigation was conducted by the Department of the Auditor General’s (“Department”) Office of Special Investigations (“OSI”).

On December 6, 2006, OSI compiled a list of all of the grants received by the Borough during the period from April 2004, through April 2006. The Borough received 32 different grants totaling \$1,434,016 from a variety of state agencies, including, but not limited to, the Pennsylvania Gaming Commission, the Department of Conservation and Natural Resources (“DCNR”), the Department of Community and Economic Development (“DCED”), and the Department of Transportation (“PennDOT”). OSI selected six of the 32 grants to review. Table 1 summarizes these six grants, which totaled \$242,100.

Table 1
Grants to Archbald Borough Reviewed by OSI

STATE AGENCY	CONTRACT NUMBER	ISSUE AMOUNT	CHECK PAID DATE	PROJECT DESCRIPTION
*DCED	C000005136	\$ 50,000	08/09/04	Archbald Regional Park
DCED	C000006346	15,000	11/08/04	Green Hills Playground
PennDOT	048023	52,000	12/01/04	Shifting Shanty Property
*DCNR	BRC-PRD-9-11	15,000	07/18/05	Archbald Regional Park
*DCNR	BRC-OPD-11-122	100,000	09/13/05	Archbald Regional Park
DCED	C000016462	10,100	03/03/06	Sump Pumps-Fire Department
TOTAL		\$242,100		

* Grants found to have deficiencies.

OSI determined that in three of the six grants selected for review the Borough was deficient in fulfilling its contractual obligations. OSI did not find evidence of fraud or the deliberate and intentional misappropriation of Commonwealth funds. However, OSI did find that the Borough did not have an adequate accounting system and sufficient internal controls in place to carry out its contractual obligations with the Commonwealth.

¹ Borough of Archbald’s website, www.archbaldborough.org, “Home,” accessed November 9, 2007.

OSI's investigation consisted of the following:

- Compiling a list of grants received by the Borough from various state agencies during the period of April 2004 through April 2006;
- Reviewing the grant files received from the Borough;
- Reviewing the terms of the contract agreements;
- Reviewing bank records, such as checking account statements, deposit slips, and cancelled checks for various Borough accounts;
- Reviewing vendor invoices;
- Interviewing the Borough Manager;
- Interviewing the Chief of Planning, Outreach and Technical Support Division, DCNR;
- Interviewing the Recreation and Parks Supervisor; and
- Interviewing DCED's Chief Counsel.

The Borough hired its current Borough Manager in April, 2006. The previous Borough Manager had passed away in March 2006, and his administrative secretary passed away soon thereafter. Due to these circumstances and other recent changes at the Borough, requested records were difficult to obtain from the Borough for the period under review. According to the Borough Manager, the previous Borough Manager and his administrative secretary filed records away, and some of these records could not be found. As a result, the Borough had to acquire the missing records from various state agencies and from vendors in order to fulfill OSI's request for records. OSI finally obtained all necessary records to complete its fieldwork on November 15, 2007.

The Borough was provided with a draft copy of this report for its review and comment. The Borough's response is included at the end of this report, followed by the Department's comments regarding the Borough's response.

FINDINGS AND RECOMMENDATIONS

Finding I: **The Borough overstated grant expenditures by \$9,556 on official grant certification forms that the Borough submitted to both the Department of Conservation and Natural Resources (“DCNR”) and the Department of Community and Economic Development (“DCED”).**

The Borough received multiple grants from various Commonwealth agencies for the construction of the Archbald Regional Park (“park”). The park, which is located on 155 acres of reclaimed former strip mine land adjacent to the Archbald Pothole State Park, was designed to be a comprehensive recreational facility with soccer fields, football fields, baseball fields, tennis courts, basketball courts, hiking trails, picnic areas, parking lots, and entrance roads.²

This finding involves grants from DCNR and DCED for park construction projects. The Borough received \$650,000 from DCNR under contract BRC-PRD-7-12 and \$150,000 under contract BRC-PRD-9-11. DCNR later combined the contracts for a total project cost of \$800,000. DCNR issued six separate checks to the Borough between September 28, 2001 and July 8, 2005.

According to the terms of these grant contracts, the Borough was required to submit to DCNR a “Final Payment Application” (a form to obtain reimbursement from state funds) setting forth all project costs. On June 21, 2005, the Borough submitted a Final Payment application to DCNR setting forth a total project cost of \$848,784.02, thereby exceeding the grant amount by \$48,784.02. As a result, the Borough sought an alternative funding source to cover the excess expenditures.

On August 9, 2004, the Borough obtained a \$50,000 grant from DCED under contract C000005136 for the continued construction of park projects for the contract period July 1, 2003, to June 30, 2006. The Borough certified the \$48,784 of excess project costs from the DCNR grant as an expenditure under the \$50,000 DCED grant, and submitted supporting invoices to DCED. Upon review of these costs, OSI discovered that two invoices were submitted by the Borough to both the DCNR grant and the DCED grant. Upon further investigation, OSI found additional discrepancies with grant expenditures, which are discussed below.

² Appendices A and B of DCED Contract C000005136, dated June 23, 2004, Project Narrative.

DCNR Grant Contracts BRC-PRD-9-11 and BRC-PRD-7-12

On July 23, 2007, OSI reviewed the Borough's Final Payment Application for the DCNR grants. The construction contractor on the project, Pioneer Construction Company, Inc. ("Pioneer"), and the architect, CECO Associates, Inc. ("CECO"), were the primary vendors on this project. The following is a summary of discrepancies discovered with each vendor.

Pioneer Construction Company, Inc.

Attached to the Final Payment Application was a copy of "Section V-Tabulation of Development Cost" for Pioneer totaling \$780,987.95. Table 2 summarizes these costs.

Table 2
Section V-Tabulation of Development Costs for Pioneer Construction Company

INVOICE NUMBER	INVOICE DATE	INVOICE AMOUNT	BOROUGH CHECK	CHECK DATE	CHECK AMOUNT
1	09/15/03	\$ 41,707.80			
2	09/30/03	81,875.88	1002	11/13/03	\$123,583.68
3	10/31/03	55,513.11	1003	11/29/03	55,513.11
4	11/30/03	4,568.40	1006	01/29/04	4,568.40
5	04/30/04	22,661.89	1008	05/24/04	22,661.89
6	05/31/04	47,715.36	1010	06/23/04	47,715.36
7	06/30/04	71,130.75	1011	07/23/04	71,130.75
8	07/31/04	160,363.78	1012	08/27/04	160,363.78
9	10/31/04	292,440.98	1015	01/11/05	146,900.00
			*1001	01/11/05	49,000.00
			1017	06/22/05	96,540.98
9	10/31/04	** 3,010.00	N/A		
TOTALS		\$780,987.95			\$777,977.95

* Borough check #1001 issued from "Archbald Borough Pothole Park DCED" account, while the other checks were issued from "Archbald Borough Pothole Park" account.

** Balance owed, Borough check not issued.

As shown in Table 2, the Borough submitted invoices for \$780,987.95 in development costs on its Final Payment Application to DCNR, but it listed Borough checks issued in payment of those costs totaling only \$777,977.95, for a difference of \$3,010.

On August 31, 2007, OSI interviewed the Borough Manager regarding this discrepancy, and he provided the following information:

- DCNR accepted expenditures totaling \$780,987.95 to Pioneer that the Borough listed on its Final Payment Application to DCNR.

- On March 11, 2005, the previous Borough Manager received correspondence from the Chief of DCNR's Development Projects Section ("DCNR Chief") stating that the Borough had not paid the \$3,010 retainage.³
- He searched Borough files, but he could not locate any record of payment of the \$3,010 retainage.

On September 21, 2007, OSI interviewed DCNR's Recreation & Parks Supervisor ("DCNR Supervisor") concerning the DCNR grants, and he provided the following information:

- The Borough held back the \$3,010 retainage to ensure that all remaining issues have been resolved with Pioneer.
- CECO, the Borough's architect, issued to the Borough nine certificates for payment, totaling \$777,977.95, for Pioneer.
- CECO should have issued an additional certificate for payment that included the \$3,010 retainage.
- DCNR did not receive the additional certificate, but it gave the Borough credit for the \$3,010 retainage anyway.
- This was an error by DCNR, and it is currently an open issue with the Borough.

On October 16, 2007, the Borough Manager attempted to resolve the issue regarding the \$3,010 retainage with DCNR through written correspondence. He stated the following in his letter to DCNR:

- With respect to the Borough's Final Payment Application dated June 21, 2005, the item listed in the "Invoice Number" column as "Retainage" was listed in error.
- The \$3,010 is not owed to Pioneer.
- The \$3,010 is a value for work not completed.

On November 8, 2007, OSI received correspondence from the DCNR Supervisor confirming the Borough Manager's statement concerning the \$3,010. However, as of the date of this report, OSI has not received a revised Final Payment Application from the Borough or from DCED.

OSI concludes from the above correspondence that the Borough erroneously listed the \$3,010 on its Final Payment Application to DCNR. As a result, the excess project costs of \$48,784.02 that was later submitted under the DCED grant was also overstated by \$3,010.

³ "Retainage" is defined as a fee to reserve the services of a contractor. In this case, the Borough held a percentage of the costs of development to ensure that all proposed services by the contractor were rendered. The Borough would refund the retainage once it determined that all services have been satisfied.

CECO Associates, Inc.

Attached to the Borough's Final Payment Application to DCNR was a copy of "Section VI-Tabulation of Professional Costs" for CECO totaling \$67,796.07. Table 3 summarizes these costs.

Table 3
Section VI-Tabulation of Professional Costs for CECO Associates, Inc.

INVOICE NUMBER	INVOICE DATE	INVOICE AMOUNT	BOROUGH CHECK	CHECK DATE	CHECK AMOUNT
6609	09/05/03	\$35,000.00	*1001	11/13/03	***\$42,953.93
6901	09/21/04	17,500.00	1013	09/29/04	17,500.00
6979	11/24/04	8,750.00	1014	11/30/04	8,750.00
		**6,546.07	1007	05/15/04	5,546.07
TOTALS		\$67,796.07			\$74,750.00

* Borough check #1001 amount differs from CECO invoice #6609 amount.

** Amount rejected by DCNR.

*** Full amount of check not accepted by DCNR.

As indicated in Table 3, the Borough submitted professional costs totaling \$67,796.07 on its Final Payment Application to DCNR. However, it listed Borough checks totaling \$74,750.00, thereby overstating expenditures by \$6,953.93.

On August 31, 2007, OSI interviewed the Borough Manager regarding this discrepancy, and he provided the following information:

- DCNR rejected invoice amount \$6,546.07 because the previous Borough Manager incorrectly certified that amount, which represents the unpaid balance from CECO invoice #6609.
- Borough check #1001, in the amount of \$42,953.93, included payments for three different CECO invoices. (See Table 4.)
- DCNR rejected portions of CECO invoices #6227 and #6353, totaling \$13,500.00, because the date of the invoices did not fall within the January 1, 2003, to June 30, 2005, contract period.
- DCNR accepted only \$29,453.93 from Borough check #1001.
- DCNR accepted a total of \$61,250.00 in professional costs for CECO.

Table 4 summarizes Borough check #1001.

Table 4
Archbald Borough Check #1001

CECO INVOICE	INVOICE DATE	INVOICE AMOUNT	AMOUNT PAID AGAINST CECO INVOICE
*6227	05/31/02	\$15,000.00	\$ 6,000.00
*6353	09/29/02	7,500.00	7,500.00
6609	09/05/03	35,000.00	29,453.93
TOTALS		\$57,500.00	\$42,953.93

* Invoices rejected by DCNR.

OSI concludes from the correspondence and records reviewed that, of the \$67,796.07 of CECO invoices the Borough submitted on its Final Payment Application to DCNR, \$6,546.07 was submitted in error. As a result, the excess project costs of \$48,784.02, that was later submitted as an expenditure under the DCED grant, was also overstated by \$6,546.07.

DCED Grant Contract C000005136

On February 15, 2007, the Borough submitted a “Grant Closeout Report”⁴ to DCED in connection with DCED Grant Contract C000005136. According to the terms of the grant contract, the Borough is required to submit this report to DCED when project activities have concluded and funds have been spent. The Borough certified two items in “Section II: Fiscal Information” totaling \$50,000. Table 5 summarizes these expenditures.

Table 5
DCED Grant Contract C000005136
Section II: Fiscal Information

ITEMS/ SERVICES	AMOUNT OF CASH RECEIVED FROM DCED FOR EACH ITEM	AMOUNT OF DCED FUNDS SPENT ON EACH ITEM
Pioneer Construction Company, Inc.	\$48,784.02	\$48,784.02
George Ely Associates, Inc.	1,215.98	1,215.98
TOTALS	\$50,000.00	\$50,000.00

The Borough is also required to submit copies of invoices with its Grant Closeout Report to DCED, and it submitted three invoices totaling \$129,063.68. Table 6 summarizes these invoices.

⁴ This report is required by DCED for grants under \$100,000 for the purpose of certifying the items or services in which DCED funds used to purchase according to the terms of the contract as listed in the appendices.

Table 6
Invoices submitted to DCED

VENDOR	INVOICE	INVOICE DATE	INVOICE AMOUNT	BOROUGH CHECK AMOUNT	CHECK DATE
Pioneer Construction Company, Inc.	Certificate 1	09/15/03	\$41,707.80	\$123,583.68	11/13/03
	Certificate 2	10/13/03	81,875.88		
George Ely Associates, Inc.	E-21704	08/18/05	5,480.00	5,480.00	09/16/05
TOTALS			\$129,063.68	\$129,063.68	

On February 22, 2007, the Director of DCED's Office of Audits and Compliance sent correspondence to the Borough advising that all relevant materials had been received for the referenced program contract and found acceptable, and DCED officially closed the contract.

On July 23, 2007, OSI reviewed all records in the grant file and initially found them to be acceptable. However, when OSI reviewed the invoices that the Borough submitted as expenditures for DCNR contracts BRC-PRD-9-11 and BRC-PRD-7-12, OSI found evidence that the Borough listed certain expenditures for Pioneer (Certificates #1 & #2) on both the DCED and DCNR grants.

On September 26, 2007, OSI interviewed DCED's Chief Counsel regarding the discrepancies noted above, and he provided the following information:

- He agreed with OSI's findings.
- The Borough has two ways to correct this issue with DCED. The Borough could either
 - (1) return the \$9,556.07 to the Commonwealth, or
 - (2) amend its Grant Closeout Report (as long as the expenditures fall within the contract period and are not used on other grants).

Conclusions and Recommendations:

Due to errors found by OSI in the Borough's Final Payment Application to DCNR, the Borough overstated project expenditures on the "Grant Closeout Report" it submitted to DCED in the total amount of \$9,556.07 (\$3,010 attributable to Pioneer plus \$6,546.07 attributable to CECO). Therefore, we recommend the following:

- The Borough should either return \$9,556.07 to DCED, with interest, or amend the DCED Grant Closeout Report using appropriate invoices and expenditures;
- The Borough should amend its Final Payment Application to DCNR using appropriate invoices and expenditures;

- The Borough should either (1) open a separate bank account for each grant⁵ or (2) establish an accounting system in which the funds from each grant, and any interest or other income or accumulations earned by said funds, is separately identifiable, and in which each expenditure is attributed to the particular grant to which it is related;
- The Borough should implement sufficient internal controls to carry out its contractual obligations with the Commonwealth funding agencies; and
- The Borough should implement a system of checks and balances prior to certifying project expenditures.

⁵ The terms of some grant contracts prohibit commingling grant funds with other funds, and require that a separate bank account be opened exclusively for the grant.

Finding II: The Borough failed to properly account for and remit to the Commonwealth interest earned on \$720,000 of grant funds advanced to the Borough by the Department of Conservation and Natural Resources.

On June 23, 2005, the DCNR Chief sent correspondence to the previous Borough Manager concerning DCNR grant contracts BRC-PRD-7-12 and BRC-PRD-9-11 that stated the following:

- DCNR grant contracts BRC-PRD-7-12 and BRC-PRD-9-11 in the amounts of \$650,000 and \$150,000, respectively, were combined for a total project cost of \$800,000.
- DCNR authorized a final payment of \$65,000 for grant contract BRC-PRD-7-12 and \$15,000 for grant contract BRC-PRD-9-11.
- These payments represent the balance of funds remaining in both contracts, because \$720,000 was previously paid to the Borough.
- DCNR asked the Borough to issue a check payable to the Commonwealth of Pennsylvania for the interest earned on the \$720,000 advanced to the Borough.

With regard to this issue, DCNR Grant Agreement BRC-PRD-7-12 specifically states:

If [DCNR] issues an advance payment of grant funds, the Grantee shall deposit the funds in a bank or other financial institution insured by the FDIC of FSLIC. These funds and any interest or other income or accumulations earned shall be separately identifiable in the Grantee's accounting as funds received under this Grant Agreement.

Income earned and expended shall be recorded and reported as part of the closeout documentation required under Article XII (Closeout of the Grant Agreement). Any unused interest or other income remaining at the completion of project activities, or at the end date of this Grant Agreement, whichever comes first, or at such time after the end date of this Grant Agreement as determined by [DCNR], shall be returned to [DCNR].⁶

On September 21, 2007, OSI interviewed the DCNR Supervisor concerning the DCNR grants, and he provided the following information:

- On June 23, 2005, the DCNR Chief sent correspondence to the former Borough Manager requesting payment of interest earned on the \$720,000 grant.
- He reviewed the project file and could not find evidence of payment to the Commonwealth from the Borough.

⁶ DCNR Contract Agreement BRC-PRD-7-12, dated August 19, 2003, Article V, Fiscal and Other Duties of Grantee, Section (a).

On November 7, 2007, the DCNR Supervisor sent correspondence to the Borough requesting payment of the interest earned on the \$720,000 grant. By letter dated November 8, 2007, to OSI, the DCNR Supervisor stated the following:

- On November 7, 2007, he faxed the Borough a copy of DCNR's June 23, 2005, request that the interest earned on the \$720,000 grant be returned to the Commonwealth.
- As of November 8, 2007, he was still awaiting an interest check from the Borough.
- He will advise OSI when the check is received.

As of the date of this report, it is our understanding that no check from the Borough has been received by DCNR.

OSI determined the Borough received four checks from DCNR totaling \$720,000 prior to receiving final payment, at the times and in the amounts as are summarized in Table 7:

Table 7
Funds Advanced to the Borough by DCNR under
Grant Contracts BRC-PRD-7-12 and BRC-PRD-9-11

CHECK NUMBER	CHECK DATE	WARRANT NUMBER	AMOUNT	DEPOSIT DATE
04055715	09/28/2001	361645	\$ 62,500	UNKNOWN*
05158061	10/30/2003	763411	187,500	11/05/03
05158062	10/30/2003	763411	135,000	11/05/03
00034936	06/22/2004	917493	335,000	07/02/04
TOTAL			\$720,000	

*Due to the recent changes with the municipal officials, the checking account statements for the period prior to January 7, 2003, could not be located.

OSI was not able to determine the amount of interest earned by the Borough on the \$720,000 advanced by DCNR, because the Borough failed to separately account for interest earned on these funds as is required by the grant agreement.

Conclusions and Recommendations:

The Borough received advances from DCNR totaling \$720,000 prior to receiving its final payments of \$65,000 on grant contract BRC-PRD-7-12 and \$15,000 on grant contract BRC-PRD-9-11. By letter dated June 23, 2005, DCNR authorized the final payments to the Borough, but also requested the return of any interest earned on the \$720,000 previously advanced to the Borough. OSI found no evidence that the Borough complied with this request.

Therefore, we recommend the following:

- The Borough should determine the amount of interest earned on the \$720,000 advanced under the grant agreements, and promptly remit the same to DCNR;⁷
- The Borough should comply with the requirement of the grant agreement that advances of grant funds, and any interest or other income or accumulations earned on said advanced funds, shall be separately identifiable in the Borough's accounting system; and
- The Borough should implement such internal controls as will ensure that all contractual obligations to the Commonwealth are fulfilled.

⁷ The Borough could calculate the interest earned on these advances from information contained in the bank statements for the various Borough accounts. However, we note that the Borough was not able to produce, in response to OSI's request, any bank statements for periods prior to January 7, 2003.

Finding III: The Borough used grant funds from the Department of Conservation and Natural Resources for purposes unrelated to the grant.

DCNR Grant Contract BRC-OPD-11-122

DCNR awarded a \$100,000 grant to the Borough and issued a Commonwealth check on September 2, 2005, for the contract period January 1, 2005, to June 30, 2007. On September 12, 2005, the Borough deposited the Commonwealth check into the Borough checking account. The purpose of the grant was to provide continued funding for rehabilitation and development of the Archbald Regional Park.

The Grant Contract specifically states:

Use of grant funds: The Grantee shall use the grant funds in the amount stated in Appendix A, or as much of these monies as necessary, to carry out project activities.⁸

On August 31, 2007, OSI interviewed the Borough Manager concerning grant expenditures issued from the Borough's checking account. He provided OSI with correspondence showing a breakdown of expenditures that were either related or not related to the grant. These expenditures are summarized in Table 8.

Table 8
Expenditures from Grant Account BRC-OPD-11-122

CHECK NUMBER	CHECK DATE	PAYEE	GRANT- RELATED	NOT GRANT-RELATED
1018	09/14/05	Archbald Borough		\$ 6,450.00
1019	09/16/05	George Ely Associates		5,480.00
1020	10/15/05	Collegiate Pacific	\$ 111.55	
1021	10/22/05	Newman Traffic Signs	432.50	
1022	10/22/05	Reeves Rent-A-John, Inc.		1,000.00
1023	11/04/05	Cougar Landscaping, Inc.		6,450.00
1024	11/17/05	Rave Landscaping, Inc.		3,100.00
1026	11/26/05	CECO Associates, Inc.	12,000.00	
1025	11/18/05	Schichtel's Nursery, Inc.		8,680.50
1027	07/10/06	Cougar Landscaping, Inc.		6,674.75
1028	10/30/06	CECO Associates, Inc.	22,500.00	
1029	11/01/06	Cougar Landscaping, Inc.		200.00
1030	11/30/06	Cougar Landscaping, Inc.		6,674.75
TOTALS			\$35,044.05	\$44,710.00

⁸ DCNR Grant Agreement BRC-OPD-11-122, dated July 12, 2005, Article V(c), Page 4.

During the interview, OSI questioned the Borough Manager regarding these expenditures, and he provided the following information:

- The Borough issued nine checks from this account totaling \$44,710 for purposes that were unrelated to this grant.
- The Borough used these funds for the maintenance of the park.
- On July 24, 2006, the Borough reimbursed \$31,160.50 to this grant account from the Borough's General Fund account.
- The Borough anticipates reimbursing this account an additional \$13,549.50 from the General Fund account.
- To date, the Borough has expended a total of \$35,044.05 from this grant account for purposes related to the grant.
- The Borough requested additional funding under this grant.
- The Borough recently received an extension of time for this grant period with a new ending date of December 31, 2008.

Conclusions and Recommendations:

OSI determined that the Borough used \$44,710 of the \$100,000 DCNR grant for purposes unrelated to the grant. However, on July 24, 2006, the Borough reimbursed \$31,160.50 to the grant account from the Borough's General Fund, leaving a balance due of \$13,549.50.⁹

We therefore recommend the following:

- The Borough should reimburse the DCNR grant account from its General Fund account an additional \$13,549.50, representing funds expended for purposes not related to the grant;
- The Borough should account for and remit to the Commonwealth an amount equal to the loss of interest earnings on the entire \$44,710 expended for purposes unrelated to the grant from the dates it was expended to the dates it was or will be reimbursed;
- The Borough should either (1) open a separate bank account for each grant,¹⁰ or (2) establish an accounting system in which the funds from each grant, and any interest or other income or accumulations earned by said funds, is separately identifiable, and in which each expenditure is attributed to the particular grant to which it is related; and
- The Borough should implement such internal controls as will ensure that grant funds will only be expended for grant-related purposes and that all the Borough's contractual obligations to the Commonwealth are fulfilled.

⁹ The contract for this grant was expected to close on June 30, 2007. However, because certain grant funds were unused, the Borough asked DCNR for an extension of time on June 1, 2007. On June 26, 2007, DCNR granted the Borough's request, and the closing date for this contract was extended to December 31, 2008.

¹⁰ The terms of some grant contracts prohibit commingling grant funds with other funds, and require that a separate bank account be opened exclusively for the grant.

ADDITIONAL CONCERNS

The Borough received 32 different grants between April, 2004, and April, 2006, from a variety of state agencies,¹¹ totaling \$1,434,015. It is obvious that the Borough was not prepared to properly account for the funds received under these grants.

During the course of this investigation, OSI found it very difficult to trace the deposits and expenditures for the six Commonwealth grants that we reviewed. For example:

- For each of the three grants discussed in this report, the Borough issued checks from multiple Borough accounts for the same grant.
- The Borough certified the same expenditures to two separate grants.
- The Borough listed two expenditures that did not fall within the contract period.
- Interest earned on grant funds advanced could not readily be determined, because the Borough commingled the funds derived from two or more separate grants.

Therefore, we repeat our recommendations that:

- The Borough should either (1) open a separate bank account for each grant,¹² or (2) establish an accounting system in which the funds from each grant, and any interest or other income or accumulations earned by said funds, is separately identifiable, and in which each expenditure is attributed to the particular grant to which it is related.
- The Borough should implement such internal controls as will ensure that grant funds will only be expended for grant-related purposes and that all the Borough's contractual obligations to the Commonwealth are fulfilled.

We recognize that there were recent changes in administration due to the deaths of the previous Borough Manager and administrative secretary. However, the Borough has shown a pattern of mishandling Commonwealth funds. Accordingly, OSI recommends that the recommendations set forth in this report be implemented as soon as possible, and certainly prior to receiving any additional grants from the Commonwealth.

Copies of this report are being provided to all Commonwealth agencies identified as having awarded grants to the Borough.

¹¹ In addition to DCNR and DCED, the Borough received grants from the Pennsylvania Department of Transportation, the Pennsylvania Department of Environmental Protection, the Pennsylvania Emergency Management Agency, and the Pennsylvania Game Commission.

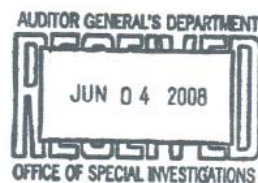
¹² The terms of some grant contracts prohibit commingling grant funds with other funds, and require that a separate bank account be opened exclusively for the grant.

BOROUGH'S RESPONSE TO DRAFT REPORT



Law Offices of
JAMES J. O'CONNOR, ESQUIRE
307 Skyline Drive
Archbald, Pennsylvania 18403
Phone: (570) 876-5832

June 2, 2008



VIA FAX (717) 705-0887 AND REGULAR MAIL

Mr. Jeffery H. Gribb
Director
Commonwealth of Pennsylvania
Department of the Auditor General
Office of Special Investigations
327 Finance Building
Harrisburg, Pennsylvania 17120-0018

RE: Special Investigation of the Borough of Archbald
Lackawanna County
Our file #: 10942

Dear Mr. Gribb:

Pursuant to your May 19, 2008 correspondence, please allow this correspondence to serve as the Borough of Archbald's response to the Department of the Auditor General's special investigation of state grants awarded to the Borough of Archbald. Initially, the Borough does not contest the findings of the Department of the Auditor General's investigation and intends to implement all of the Department's recommendations as fully, and as soon, as practicable.

Additionally, as I will discuss in greater detail below, the Borough has already taken steps and is in the process of taking additional steps to ensure that the deficiencies identified in your office's investigation never again occur in the Borough of Archbald.

In 2006, the Borough of Archbald retained the Scranton accounting firm of Eckersley & Ostrowski to perform an audit review to assist the Borough in improving the Borough's internal control process. One of the recommendations of Eckersley & Ostrowski as a result of this audit review, which recommendation has been implemented by the Borough, is that the Borough Manager code all receipts and expenses so that each item is properly classified. The Borough has also recently retained the Kingston accounting firm of Snyder & Clemente to perform a full audit, which I understand will occur later this month and which will further assist the Borough in improving and maintaining its internal control process.

Mr. Jeffery H. Gribb
June 2, 2008
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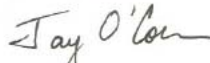
In addition to the Borough's action in retaining accounting firms to perform audit reviews and an audit, the Borough has also researched various computer software programs to ensure a more organized and accountable record keeping system. In fact, the Borough has recently contracted with Freedom Systems, located in the Valley Forge Corporate Center, 2550 Eisenhower Avenue, Norristown, Pennsylvania for the purchase of a computer software accounting system. The software system being purchased by the Borough from Freedom Systems includes the features of the IMMSPLUS system and has, inter alia, project management accounting capabilities which will further ensure that every grant will be appropriately treated as a separate project.

Last, and certainly not least, the Borough has new personnel in place to implement the Department's recommendations and the Borough's new internal control measures discussed above. More specifically, in 2006 the Borough elected a new Controller who possesses extensive professional accounting experience. Also in 2006, the Borough hired a new Borough Manager who has more than thirty (30) years of municipal experience which includes, and is certainly not limited to, experience in the grant writing and grant handling processes.

The Borough thanks the Department for its efforts in connection with this investigation. The Borough also appreciates the Department's recognition that its investigation revealed no evidence of fraud or misappropriation of Commonwealth funds. Nevertheless, the Borough acknowledges that substantial improvements need to be made, and are in the process of being made, to the Borough's internal control process. In that regard, based upon the measures already taken by the Borough, coupled with the measures identified to be taken in the future, I am confident these issues will be rectified to everyone's satisfaction and will not occur again in the Borough.

On behalf of the Borough of Archbald, I thank you for your consideration. Should you have any questions, or wish to discuss this matter further, please do not hesitate to contact me directly.

Very truly yours,



JAMES J. O'CONNOR
SOLICITOR, BOROUGH OF ARCHBALD

cc: Archbald Borough Council

THE DEPARTMENT'S COMMENTS ON BOROUGH'S RESPONSE TO DRAFT REPORT

We commend the Borough for its commitment to implement all of the recommendations set forth in this report as fully and as soon as possible. We further commend the Borough for the steps it has already taken toward this goal.

The Department of the Auditor General will follow up at the appropriate time to confirm that all of our recommendations have been fully implemented.

DISTRIBUTION LIST

This report was distributed initially to the Mayor of Archbald Borough, as well as to the following:

The Honorable Edward G. Rendell
Governor
Commonwealth of Pennsylvania

The Honorable Michael J. Masch
Secretary of the Budget

The Honorable Robin L. Wiessmann
State Treasurer

The Honorable Kathleen A. McGinty
Secretary
Pennsylvania Department of Environmental Protection

The Honorable Dennis Yablonsky
Secretary
Pennsylvania Department of Community and Economic Development

The Honorable Michael DiBerardinis
Secretary
Pennsylvania Department of Conservation and Natural Resources

The Honorable Allen D. Biehler, P.E.
Secretary
Pennsylvania Department of Transportation

The Honorable Gibson E. Armstrong
Chair
Senate Appropriations Committee

The Honorable Gerald LaValle
Acting Democratic Chair
Senate Appropriations Committee

The Honorable Dwight Evans
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House Appropriations Committee

The Honorable Mario J. Civera, Jr.
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Peter J. Smith
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The Honorable Roxane S. Palone
President
Pennsylvania Board of Game Commissioners
Pennsylvania Game Commission

The Honorable Robert French
Director
Pennsylvania Emergency Management Agency

Anna Maria Anderson
Chief Accounting Officer
Office of the Budget

The Honorable John Altier
President, Archbald Borough Council

The Honorable Brian Burke
Vice President, Archbald Borough Council

The Honorable Shirley Barrett
Member, Archbald Borough Council

The Honorable Samuel Bio
Member, Archbald Borough Council

The Honorable Randy Grandinetti
Member, Archbald Borough Council

The Honorable Jeff Munley
Member, Archbald Borough Council

The Honorable Joseph Simon
Member, Archbald Borough Council

This report is a matter of public record. Copies of this report are available on the Department of the Auditor General's website, www.auditorgen.pa.us, and from the Department's Office of Communications, 318 Finance Building, Harrisburg, Pennsylvania 17120.