

ATTESTATION ENGAGEMENT

Borough of Palmyra
Lebanon County, Pennsylvania
38-406
Liquid Fuels Tax Fund
For the Period
January 1, 2012 to December 31, 2013

March 2015



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



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EUGENE A. DePASQUALE
AUDITOR GENERAL

Independent Auditor's Report

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

We examined the accompanying Forms MS-965 With Adjustments for the Liquid Fuels Tax Fund of the Borough of Palmyra, Lebanon County, for the period January 1, 2012 to December 31, 2013. 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 Borough of Palmyra, Lebanon County's Forms MS-965 for the period January 1, 2012 to December 31, 2013 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 Note 4, the adjustments included on the Forms MS-965 With Adjustments are made by the Department of the Auditor General.

Independent Auditor's Report (Continued)

As discussed in Finding No. 1, the borough expended \$315,740.37 for engineering fees and \$114,077.30 for paving in excess of one inch on Cherry Street from its Liquid Fuels Tax Fund without obtaining the approval of the Department of Transportation. Additionally, the township expended more than 10 percent of the total project costs on engineering fees. Because there was no project approval, we could not determine if the excess engineering fees were approved by the Department of Transportation. Furthermore, as discussed in Finding No. 2, the borough over expended a project by \$7,320.00.

In our opinion, except for the matters discussed in the preceding paragraph, 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 Borough of Palmyra, Lebanon County, for the period January 1, 2012 to December 31, 2013, 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 internal control over reporting on the Forms MS-965 or on compliance and other matters; accordingly, we express no such opinions.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Forms MS-965 will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

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 Borough of Palmyra, 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 the following instance of noncompliance that is required to be reported under *Government Auditing Standards*:

- Failure To Obtain Project Approval And Engineering Fees In Excess Of 10 Percent Limit Of Project Costs.

We also noted an other matter that, while not required to be included in this report by *Government Auditing Standards*, has been included in the finding below:

- Liquid Fuels Money Overexpended On Project.

This report is intended solely for the information and use of the Pennsylvania Department of Transportation and the management of the Borough of Palmyra, 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 Borough of Palmyra, 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

January 16, 2015

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BOROUGH OF PALMYRA
LEBANON COUNTY
LIQUID FUELS TAX FUND
BACKGROUND
FOR THE PERIOD
JANUARY 1, 2012 TO DECEMBER 31, 2013

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.

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

<u>Expenditure Summary</u>	<u>Reported</u>	<u>Adjustments (Note 4)</u>	<u>Adjusted Amount</u>
Major equipment purchases	\$ -	\$ -	\$ -
Minor equipment purchases	-	-	-
Computer/Computer related training	-	-	-
Agility projects	-	-	-
Cleaning streets and gutters	-	-	-
Winter maintenance services	-	-	-
Traffic control devices	-	-	-
Street lighting	-	-	-
Storm sewers and drains	-	-	-
Repairs of tools and machinery	-	-	-
Maintenance and repair of roads and bridges	169,988.77	(143,080.68)	26,908.09
Highway construction and rebuilding projects	-	143,080.68	143,080.68
Miscellaneous	-	-	-
	<hr/>	<hr/>	<hr/>
Total (To Section 2, Line 5)	<u>\$ 169,988.77</u>	<u>\$ -</u>	<u>\$ 169,988.77</u>

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

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

<u>Fund Balance</u>	<u>Reported</u>	<u>Adjustments (Note 4)</u>	<u>Adjusted Amount</u>
1. Balance, January 1, 2012	\$ 193,636.24	\$ 486.62	\$ 194,122.86
Receipts:			
2. State allocation	151,119.21	-	151,119.21
2a. Turnback allocation	-	-	-
2b. Interest on investments (Note 3)	647.11	-	647.11
2c. Miscellaneous (Note 5)	<u>9,710.82</u>	<u>-</u>	<u>9,710.82</u>
3. Total receipts	<u>161,477.14</u>	<u>-</u>	<u>161,477.14</u>
4. Total funds available	<u>355,113.38</u>	<u>486.62</u>	<u>355,600.00</u>
5. Expenditures (Section 1)	<u>169,988.77</u>	<u>-</u>	<u>169,988.77</u>
6. Balance, December 31, 2012	<u><u>\$ 185,124.61</u></u>	<u><u>\$ 486.62</u></u>	<u><u>\$ 185,611.23</u></u>

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

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

<u>Equipment Balance</u>	<u>Reported</u>	<u>Adjustments (Note 4)</u>	<u>Adjusted Amount</u>
1. Prior year equipment balance	\$ 193,636.24	\$ (5,388.01)	\$ 188,248.23
2. Add: Current year equipment allocation (20% of Lines 2 + 2a, Section 2)	30,223.84	-	30,223.84
3. PENNDOT approved adjustments	-	-	-
4. Total funds available for equipment acquisition	223,860.08	(5,388.01)	218,472.07
5. Less: Major equipment expenditures	-	-	-
6. Remainder	<u>223,860.08</u>	<u>(5,388.01)</u>	<u>218,472.07</u>
7. Equipment balance available for subsequent year (Lesser of Line 6 or Section 2 balance, but not less than zero)	<u>\$ 185,124.61</u>	<u>\$ 486.62</u>	<u>\$ 185,611.23</u>

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

BOROUGH OF PALMYRA
LEBANON COUNTY
LIQUID FUELS TAX FUND
2013 FORM MS-965 – SECTION 1
WITH ADJUSTMENTS

<u>Expenditure Summary</u>	<u>Reported</u>	<u>Adjustments (Note 4)</u>	<u>Adjusted Amount</u>
Major equipment purchases	\$ -	\$ -	\$ -
Minor equipment purchases	-	-	-
Computer/Computer related training	-	-	-
Agility projects	-	-	-
Cleaning streets and gutters	-	-	-
Winter maintenance services	-	-	-
Traffic control devices	-	-	-
Street lighting	-	-	-
Storm sewers and drains	-	-	-
Repairs of tools and machinery	-	-	-
Maintenance and repair of roads and bridges	25,323.43	61,195.51	86,518.94
Highway construction and rebuilding projects	23,271.47	286,736.99	310,008.46
Miscellaneous	347,932.50	(347,932.50)	-
	<u>347,932.50</u>	<u>(347,932.50)</u>	<u>-</u>
Total (To Section 2, Line 5)	<u>\$ 396,527.40</u>	<u>\$ -</u>	<u>\$ 396,527.40</u>

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

BOROUGH OF PALMYRA
LEBANON COUNTY
LIQUID FUELS TAX FUND
2013 FORM MS-965 – SECTION 2
WITH ADJUSTMENTS

<u>Fund Balance</u>	<u>Reported</u>	<u>Adjustments (Note 4)</u>	<u>Adjusted Amount</u>
1. Balance, January 1, 2013	\$ 185,124.61	\$ 486.62	\$ 185,611.23
Receipts:			
2. State allocation	148,670.41	-	148,670.41
2a. Turnback allocation	-	-	-
2b. Interest on investments (Note 3)	588.09	-	588.09
2c. Miscellaneous (Note 5)	114,563.92	(486.62)	114,077.30
3. Total receipts	<u>263,822.42</u>	<u>(486.62)</u>	<u>263,335.80</u>
4. Total funds available	<u>448,947.03</u>	<u>-</u>	<u>448,947.03</u>
5. Expenditures (Section 1)	<u>396,527.40</u>	<u>-</u>	<u>396,527.40</u>
6. Balance, December 31, 2013	<u>\$ 52,419.63</u>	<u>\$ -</u>	<u>\$ 52,419.63</u>

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

BOROUGH OF PALMYRA
LEBANON COUNTY
LIQUID FUELS TAX FUND
2013 FORM MS-965 – SECTION 3
WITH ADJUSTMENTS

<u>Equipment Balance</u>	<u>Reported</u>	<u>Adjustments (Note 4)</u>	<u>Adjusted Amount</u>
1. Prior year equipment balance	\$ 185,124.61	\$ 486.62	\$ 185,611.23
2. Add: Current year equipment allocation (20% of Lines 2 + 2a, Section 2)	29,734.08	-	29,734.08
3. PENNDOT approved adjustments	-	-	-
4. Total funds available for equipment acquisition	214,858.69	486.62	215,345.31
5. Less: Major equipment expenditures	-	-	-
6. Remainder	<u>214,858.69</u>	<u>486.62</u>	<u>215,345.31</u>
7. Equipment balance available for subsequent year (Lesser of Line 6 or Section 2 balance, but not less than zero)	<u>\$ 52,419.63</u>	<u>\$ -</u>	<u>\$ 52,419.63</u>

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

BOROUGH OF PALMYRA
LEBANON COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE PERIOD
JANUARY 1, 2012 TO DECEMBER 31, 2013

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 with varying yearly costs in excess of the amounts indicated below:

Prior To 2012	2012	2013	2014
\$4,000.00	\$10,000.00	\$10,200.00	\$10,300.00

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

Prior To 2012	2012	2013	2014
\$4,000.00	\$10,000.00	\$10,200.00	\$10,300.00

- 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.

BOROUGH OF PALMYRA
LEBANON COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE PERIOD
JANUARY 1, 2012 TO DECEMBER 31, 2013

1. Criteria (Continued)

Section 2 (Continued)

- Expenditures include the total transferred from Section 1.

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.

BOROUGH OF PALMYRA
LEBANON COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE PERIOD
JANUARY 1, 2012 TO DECEMBER 31, 2013

1. Criteria (Continued)

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.

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 Borough Code, Title 53 P.S § 46316, authorizes the borough 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.

There were no deposits exposed to custodial credit risk as of December 31, 2013. 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.

BOROUGH OF PALMYRA
LEBANON COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE PERIOD
JANUARY 1, 2012 TO DECEMBER 31, 2013

2. Deposits (Continued)

Fund Balance

The fund balance as of December 31, 2013 consists of the following:

Cash	<u>\$52,419.63</u>
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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 \$647.11 during 2012, and \$588.09 during 2013, thus providing additional funds for road maintenance and repairs.

4. Adjustments

2012 - Section 1

Adjustments were made to “Maintenance and repair of roads and bridges” and “Highway construction and rebuilding projects” because expenditures of \$143,080.68 were misclassified.

2012 - Section 2

An adjustment of \$486.62 was made to “Balance, January 1, 2012” because of a prior report adjustment that was not carried forward in the fund balance.

2012 - Section 3

An adjustment of \$(5,388.01) was made to “Prior year equipment balance” because an incorrect equipment balance was carried forward.

2013 - Section 1

Adjustments were made to “Maintenance and repair of roads and bridges,” “Highway construction and rebuilding projects,” and “Miscellaneous” because expenditures of \$347,932.50 were misclassified.

BOROUGH OF PALMYRA
LEBANON COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE PERIOD
JANUARY 1, 2012 TO DECEMBER 31, 2013

4. Adjustments (Continued)

2013 - Section 2

An adjustment of \$486.62 was made to “Balance, January 1, 2013” to reflect the adjustment made to the fund balance in 2012 - Section 2.

An adjustment of \$(486.62) was made to “Miscellaneous” because these receipts were overstated.

2013 - Section 3

An adjustment of \$486.62 was made to “Prior year equipment balance” to reflect the adjustments made to the equipment balance in 2012 - Section 3.

5. Miscellaneous Receipts

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

<u>Source</u>	<u>Description</u>	<u>2012</u>	<u>2013</u>
North Londonderry Township	Share of Project No. 10-38406-06	\$9,710.82	\$ -
Commonwealth of Pennsylvania	Grant for paving of Cherry Street (Finding No. 1)	-	<u>114,077.30</u>
Total		<u>\$9,710.82</u>	<u>\$114,077.30</u>

BOROUGH OF PALMYRA
LEBANON COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2012 TO DECEMBER 31, 2013

Finding No. 1 - Failure To Obtain Project Approval And Engineering Fees In Excess Of 10 Percent Of Project Costs

Our examination disclosed that the municipality expended \$315,740.37 for engineering fees and \$114,077.30 for paving in excess of one inch on Cherry Street from its Liquid Fuels Tax Fund without obtaining the approval of the Department of Transportation. Before paving of one inch thickness or greater is done, the municipality must obtain the approval of the Department of Transportation. However, the municipality did not file an application with the Department of Transportation for the project and also failed to submit specifications for approval. Additionally, engineering fees must be limited to no more than 10 percent of the total project unless the fees are approved by the Department of Transportation. Because there was no project approval, we could not determine if the fees were approved.

Department of Transportation *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.”

Additionally, *Publication 9*, Chapter Two, Section 2.8, states, in part:

The following criteria is used to determine when a project is required for work on local roads utilizing Liquid Fuels Tax Funds, when construction, reconstruction and/or resurfacing work exceeds one inch or more in depth as well as other activities.

Bituminous Surface: One inch thickness or greater

Furthermore, the Department of Transportation’s *Publication 9*, Chapter Two, Section 2.7.1, States:

Examples of acceptable expenditures for Municipal Liquid Fuels Tax Funds are:

17. Payment of engineering fees (fees in excess of 10% of the total project cost must be documented and justified to the satisfaction of PENNDOT).

On October 22, 2013 the borough deposited a grant of \$114,077.30 that was received from the Commonwealth of Pennsylvania into its Liquid Fuels Tax Fund for the reimbursement of the paving portion of the project.

BOROUGH OF PALMYRA
LEBANON COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2012 TO DECEMBER 31, 2013

Finding No. 1 - Failure To Obtain Project Approval And Engineering Fees In Excess Of 10 Percent Of Project Costs (Continued)

The failure to comply with the Department of Transportation's *Publication 9* could result in the municipality having to reimburse \$315,740.37 to its Liquid Fuels Tax Fund.

Recommendations

We recommend that the municipality reimburse \$315,740.37 to its Liquid Fuels Tax Fund upon official notification by the Department of Transportation.

We further recommend that, for future projects, the municipality:

- Apply for and obtain prior approval for the project before expending money on the project.
- Obtain approval of the completed work upon completion.
- Limit engineering fees to 10 percent of the total project costs unless the costs are approved by the Department of Transportation.

Management's Response

The borough manager stated:

This relates to a project to reconstruct Cherry Street from Lingle Avenue to Duke Street utilizing federal grant funds through PENNDOT and the Lebanon County MPO. PENNDOT bid the project through the ECMS system online. A reimbursement agreement was developed between the borough and PENNDOT. The Borough was responsible for the design and inspection of the physical work with all the documentation in place PENNDOT was unaware any further approval from anyone at PENNDOT was necessary. This finding does not seem to be valid and the borough request PENNDOT assist in its removal from the audit.

BOROUGH OF PALMYRA
LEBANON COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2012 TO DECEMBER 31, 2013

Finding No. 1 - Failure To Obtain Project Approval And Engineering Fees In Excess Of 10 Percent Of Project Costs (Continued)

Auditor's Conclusion

Only the Department of Transportation's Bureau of Municipal Services can approve Liquid Fuels Tax Fund money to be used for a road project. No other bureau or office within the Department of Transportation can make that approval. Had the township contacted the Bureau of Municipal Services, they would have been instructed to file Project Approval Form MS-329. Additionally, upon completion of the work, the township would have been instructed to file Final Completion Report Form MS-999. Engineering fees in excess of 10 percent should also have been documented and approved by the Department of Transportation on these forms. During our next examination we will determine if the municipality complied with our recommendations.

BOROUGH OF PALMYRA
LEBANON COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2012 TO DECEMBER 31, 2013

Finding No. 2 - Liquid Fuels Money Overexpended On Project

Our examination disclosed that the municipality expended \$23,271.47 of Liquid Fuels Tax Fund money on construction project No. 13-38406-001. However, the amount approved to be expended from the Liquid Fuels Tax Fund for this project was \$15,951.47. The difference of \$7,320.00 should have been paid directly from the General Fund.

The Department of Transportation's Regulations do not permit a municipality to expend Liquid Fuels Tax Fund money in excess of the amount approved on Municipal Services Completion Report Form MS-999.

The failure to comply with the Department of Transportation's Regulations could result in the municipality having to reimburse \$7,320.00 to its Liquid Fuels Tax Fund.

Recommendations

We recommend that the municipality reimburse \$7,320.00 to its Liquid Fuels Tax Fund upon official notification by the Department of Transportation.

We further recommend that, in the future, the municipality expend only the approved amount of Liquid Fuels Tax Fund money on road construction projects.

Management's Response

The municipal officials offered no formal response at this time.

Auditor's Conclusion

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

BOROUGH OF PALMYRA
LEBANON COUNTY
LIQUID FUELS TAX FUND
SUMMARY OF PRIOR EXAMINATION RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2012 TO DECEMBER 31, 2013

Summary Of Prior Examination Recommendations

In our prior report we recommended that the Department of Transportation review our examination finding to determine if the municipality should reimburse \$311,825.70 to its Liquid Fuels Tax Fund. This amount consists of \$310,609.78 for failing to comply with advertising and bidding requirements and \$1,215.92 for the purchase of ID-2 Binder, which is a nonpermissible expenditure.

During our current examination, we reviewed a letter from the Department of Transportation that was dated April 9, 2014 that informed the municipality that the reimbursement of \$311,825.70 would not be required.

In our prior report we also recommended:

- That the municipality comply with the Department of Transportation's *Publication 9* and the Liquid Fuels Tax Municipal Allocation Law and the Department of Transportation's Regulations regarding permissible expenditures.
- That the municipality comply with the Department of Transportation's *Publication 9* by requesting guidance as to whether projects over \$25,000.00 are subject to the Pennsylvania Prevailing Wage Act.

During our current examination we noted that the municipality complied with our recommendation.

BOROUGH OF PALMYRA
LEBANON COUNTY
LIQUID FUELS TAX FUND
SUMMARY OF EXIT CONFERENCE
FOR THE PERIOD
JANUARY 1, 2012 TO DECEMBER 31, 2013

An exit conference was held August 22, 2014. Those participating were:

BOROUGH OF PALMYRA

Mr. Roger E. Powl, Borough Manager

DEPARTMENT OF THE AUDITOR GENERAL

Mr. Ryan W. Shrauder, Auditor

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

BOROUGH OF PALMYRA
LEBANON COUNTY
LIQUID FUELS TAX FUND
REPORT DISTRIBUTION
FOR THE PERIOD
JANUARY 1, 2012 TO DECEMBER 31, 2013

This report was initially distributed to:

The Honorable Leslie Richards
Acting Secretary
Department of Transportation

Borough of Palmyra
Lebanon County
325 South Railroad Street
Palmyra, PA 17078

The Honorable Jane Quairolì

President of Council

Mr. Roger E. Powl

Borough Manager

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, 231 Finance Building, Harrisburg, PA 17120; via email to: news@auditorgen.state.pa.us.