



CITY OF READING  
BERKS COUNTY  
06-301

LIQUID FUELS TAX FUND  
EXAMINATION REPORT

FOR THE PERIOD  
JANUARY 1, 2009 TO DECEMBER 31, 2011

Released *June 2013*

**COMMONWEALTH OF PENNSYLVANIA**

**EUGENE A. DEPASQUALE - AUDITOR GENERAL**

**DEPARTMENT OF THE AUDITOR GENERAL**



CITY OF READING  
BERKS COUNTY  
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LIQUID FUELS TAX FUND  
EXAMINATION REPORT

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CITY OF READING  
BERKS COUNTY  
LIQUID FUELS TAX FUND  
BACKGROUND  
FOR THE PERIOD  
JANUARY 1, 2009 TO DECEMBER 31, 2011

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.



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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 Reading, Berks County, for the period January 1, 2009 to December 31, 2011. 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 Reading, Berks County's Forms MS-965 for the period January 1, 2009 to December 31, 2011 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)

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 Reading, Berks County, for the period January 1, 2009 to December 31, 2011, in conformity with the criteria set forth in Note 1.

In accordance with *Government Auditing Standards*, we are required to report findings of significant deficiencies in internal control, violations of provisions of contracts or grant agreements, and abuse that are material to the Forms MS-965 and any fraud and illegal acts that are more than inconsequential that come to our attention during our examination. We are also required to obtain the views of management on those matters. 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.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Reading, Berks County's ability to initiate, authorize, record, process, or report data reliably in accordance with the applicable criteria such that there is more than a remote likelihood that a misstatement of the City of Reading, Berks County's Forms MS-965 that is more than inconsequential will not be prevented or detected by the City of Reading, Berks County's internal control. We consider the deficiency described in the finding below to be a significant deficiency in internal control over reporting on the Forms MS-965:

- Failure To Properly Prepare Forms MS-965.

A material weakness is a significant deficiency or combination of significant deficiencies that results in more than a remote likelihood that a material misstatement of the Forms MS-965 will not be prevented or detected by the City of Reading, Berks County's internal control. Our consideration of the internal control over reporting on the Forms MS-965 would not necessarily disclose all matters in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We consider the significant deficiency described above to be a material weakness.

Independent Auditor's Report (Continued)

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:

- Purchases Over \$10,000.00 In Noncompliance With Advertising And Bidding Requirements.

We are concerned in light of the municipality's failure to correct a previously reported finding regarding the failure to properly prepare Forms MS-965. During our current examination the municipality failed to properly prepare Forms MS-965 and made purchases over \$10,000.00 in noncompliance with advertising and bidding requirements. 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 Reading, Berks County, and is not intended to be and should not be used by anyone other than these specified parties.



December 10, 2012

**EUGENE A. DEPASQUALE**  
Auditor General

CITY OF READING  
 BERKS COUNTY  
 LIQUID FUELS TAX FUND  
 2009 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	\$ 298,424.13	\$ -	\$ 298,424.13
Minor equipment purchases	-	-	-
Computer/Computer related training	-	-	-
Agility projects	-	-	-
Cleaning streets and gutters	-	-	-
Winter maintenance services	205,256.35	-	205,256.35
Traffic control devices	39,702.03	-	39,702.03
Street lighting	704,162.83	-	704,162.83
Storm sewers and drains	-	-	-
Repairs of tools and machinery	78,630.28	-	78,630.28
Maintenance and repair of roads and bridges	37,002.06	9,775.25	46,777.31
Highway construction and rebuilding projects	-	-	-
Miscellaneous (Note 6)	9,775.25	37,583.06	47,358.31
	<u>9,775.25</u>	<u>37,583.06</u>	<u>47,358.31</u>
Total (To Section 2, Line 5)	<u>\$ 1,372,952.93</u>	<u>\$ 47,358.31</u>	<u>\$ 1,420,311.24</u>

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



CITY OF READING  
 BERKS COUNTY  
 LIQUID FUELS TAX FUND  
 2009 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, 2009	\$ 812,693.66	\$ 879,401.42	\$ 1,692,095.08
Receipts:			
2. State allocation	1,350,226.44	-	1,350,226.44
2a. Turnback allocation	-	-	-
2b. Interest on investments (Note 3)	6,993.01	559.83	7,552.84
2c. Miscellaneous (Note 5)	8,448.00	47,358.31	55,806.31
3. Total receipts	<u>1,365,667.45</u>	<u>47,918.14</u>	<u>1,413,585.59</u>
4. Total funds available	<u>2,178,361.11</u>	<u>927,319.56</u>	<u>3,105,680.67</u>
5. Expenditures (Section 1)	<u>1,372,952.93</u>	<u>47,358.31</u>	<u>1,420,311.24</u>
6. Balance, December 31, 2009	<u><u>\$ 805,408.18</u></u>	<u><u>\$ 879,961.25</u></u>	<u><u>\$ 1,685,369.43</u></u>

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

CITY OF READING  
 BERKS COUNTY  
 LIQUID FUELS TAX FUND  
 2009 FORM MS-965 – SECTION 3  
 WITH ADJUSTMENTS

<u>Equipment Balance</u>	<u>Reported</u>	<u>Adjustments</u>	<u>Adjusted Amount</u>
1. Prior year equipment balance	\$ 642,730.99	\$ -	\$ 642,730.99
2. Add: Current year equipment allocation (20% of Lines 2 + 2a, Section 2)	270,045.29	-	270,045.29
3. PENNDOT approved adjustments	-	-	-
4. Total funds available for equipment acquisition	912,776.28	-	912,776.28
5. Less: Major equipment expenditures	298,424.13	-	298,424.13
6. Remainder	<u>614,352.15</u>	<u>-</u>	<u>614,352.15</u>
7. Equipment balance available for subsequent year (Lesser of Line 6 or Section 2 balance, but not less than zero)	<u>\$ 614,352.15</u>	<u>\$ -</u>	<u>\$ 614,352.15</u>

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

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

<u>Expenditure Summary</u>	<u>Reported</u>	<u>Adjustments</u>	<u>Adjusted Amount</u>
Major equipment purchases	\$ -	\$ -	\$ -
Minor equipment purchases	-	-	-
Computer/Computer related training	-	-	-
Agility projects	-	-	-
Cleaning streets and gutters	-	-	-
Winter maintenance services	170,914.04	-	170,914.04
Traffic control devices	-	-	-
Street lighting	875,138.01	-	875,138.01
Storm sewers and drains	-	-	-
Repairs of tools and machinery	56,062.72	-	56,062.72
Maintenance and repair of roads and bridges	43,885.07	-	43,885.07
Highway construction and rebuilding projects	-	-	-
Miscellaneous	-	-	-
	<hr/>	<hr/>	<hr/>
Total (To Section 2, Line 5)	<u>\$ 1,145,999.84</u>	<u>\$ -</u>	<u>\$ 1,145,999.84</u>

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

CITY OF READING  
 BERKS COUNTY  
 LIQUID FUELS TAX FUND  
 2010 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, 2010	\$ 805,408.18	\$ 879,961.25	\$ 1,685,369.43
Receipts:			
2. State allocation	1,299,357.25	-	1,299,357.25
2a. Turnback allocation	-	-	-
2b. Interest on investments (Note 3)	6,488.66	(309.71)	6,178.95
2c. Miscellaneous	-	-	-
3. Total receipts	<u>1,305,845.91</u>	<u>(309.71)</u>	<u>1,305,536.20</u>
4. Total funds available	<u>2,111,254.09</u>	<u>879,651.54</u>	<u>2,990,905.63</u>
5. Expenditures (Section 1)	<u>1,145,999.84</u>	<u>-</u>	<u>1,145,999.84</u>
6. Balance, December 31, 2010	<u><u>\$ 965,254.25</u></u>	<u><u>\$ 879,651.54</u></u>	<u><u>\$ 1,844,905.79</u></u>

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

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

<u>Equipment Balance</u>	<u>Reported</u>	<u>Adjustments</u>	<u>Adjusted Amount</u>
1. Prior year equipment balance	\$ 614,352.15	\$ -	\$ 614,352.15
2. Add: Current year equipment allocation (20% of Lines 2 + 2a, Section 2)	259,871.45	-	259,871.45
3. PENNDOT approved adjustments	-	-	-
4. Total funds available for equipment acquisition	874,223.60	-	874,223.60
5. Less: Major equipment expenditures	-	-	-
6. Remainder	<u>874,223.60</u>	<u>-</u>	<u>874,223.60</u>
7. Equipment balance available for subsequent year (Lesser of Line 6 or Section 2 balance, but not less than zero)	<u>\$ 874,223.60</u>	<u>\$ -</u>	<u>\$ 874,223.60</u>

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

CITY OF READING  
 BERKS COUNTY  
 LIQUID FUELS TAX FUND  
 2011 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	\$ 489,906.10	\$ (5,000.00)	\$ 484,906.10
Minor equipment purchases	-	-	-
Computer/Computer related training	-	-	-
Agility projects	-	-	-
Cleaning streets and gutters	-	-	-
Winter maintenance services	178,129.55	5,863.19	183,992.74
Traffic control devices	-	-	-
Street lighting	1,214,001.77	(73,652.33)	1,140,349.44
Storm sewers and drains	-	-	-
Repairs of tools and machinery	102,799.84	(6,170.77)	96,629.07
Maintenance and repair of roads and bridges	93,883.43	-	93,883.43
Highway construction and rebuilding projects	-	-	-
Miscellaneous (Note 6)	340.78	810,017.30	810,358.08
 Total (To Section 2, Line 5)	 <u>\$ 2,079,061.47</u>	 <u>\$ 731,057.39</u>	 <u>\$ 2,810,118.86</u>

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

CITY OF READING  
 BERKS COUNTY  
 LIQUID FUELS TAX FUND  
 2011 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, 2011	\$ 965,254.25	\$ 879,651.54	\$ 1,844,905.79
Receipts:			
2. State allocation	1,329,672.88	-	1,329,672.88
2a. Turnback allocation	-	-	-
2b. Interest on investments (Note 3)	821.53	-	821.53
2c. Miscellaneous (Note 5)	34,520.15	-	34,520.15
3. Total receipts	<u>1,365,014.56</u>	<u>-</u>	<u>1,365,014.56</u>
4. Total funds available	<u>2,330,268.81</u>	<u>879,651.54</u>	<u>3,209,920.35</u>
5. Expenditures (Section 1)	<u>2,079,061.47</u>	<u>731,057.39</u>	<u>2,810,118.86</u>
6. Balance, December 31, 2011	<u><u>\$ 251,207.34</u></u>	<u><u>\$ 148,594.15</u></u>	<u><u>\$ 399,801.49</u></u>

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

CITY OF READING  
 BERKS COUNTY  
 LIQUID FUELS TAX FUND  
 2011 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	\$ 874,223.60	\$ -	\$ 874,223.60
2. Add: Current year equipment allocation (20% of Lines 2 + 2a, Section 2)	265,934.58	-	265,934.58
3. PENNDOT approved adjustments	-	-	-
4. Total funds available for equipment acquisition	1,140,158.18	-	1,140,158.18
5. Less: Major equipment expenditures	489,906.10	(5,000.00)	484,906.10
6. Remainder	<u>650,252.08</u>	<u>5,000.00</u>	<u>655,252.08</u>
7. Equipment balance available for subsequent year (Lesser of Line 6 or Section 2 balance, but not less than zero)	<u>\$ 251,207.34</u>	<u>\$ 148,594.15</u>	<u>\$ 399,801.49</u>

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



CITY OF READING  
BERKS COUNTY  
LIQUID FUELS TAX FUND  
NOTES TO FORMS MS-965 WITH ADJUSTMENTS  
FOR THE PERIOD  
JANUARY 1, 2009 TO DECEMBER 31, 2011

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.
- Minor equipment purchases are purchases of road machinery and road equipment that cost \$4,000.00 or less.
- 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.

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.

CITY OF READING  
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LIQUID FUELS TAX FUND  
NOTES TO FORMS MS-965 WITH ADJUSTMENTS  
FOR THE PERIOD  
JANUARY 1, 2009 TO DECEMBER 31, 2011

1. Criteria (Continued)

Section 3 (Continued)

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 READING  
BERKS COUNTY  
LIQUID FUELS TAX FUND  
NOTES TO FORMS MS-965 WITH ADJUSTMENTS  
FOR THE PERIOD  
JANUARY 1, 2009 TO DECEMBER 31, 2011

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, 2011. 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 READING  
BERKS COUNTY  
LIQUID FUELS TAX FUND  
NOTES TO FORMS MS-965 WITH ADJUSTMENTS  
FOR THE PERIOD  
JANUARY 1, 2009 TO DECEMBER 31, 2011

2. Deposits (Continued)

Fund Balance

The fund balance as of December 31, 2011 consists of the following:

Cash	\$399,801.49
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3. Interest On Investments

Our examination disclosed that the municipality deposited idle liquid fuels tax money in an interest-bearing account which earned \$7,552.84 during 2009, \$6,178.95 during 2010, and \$821.53 during 2011, thus providing additional funds for road maintenance and repairs.

4. Adjustments

2009 - Section 1

An adjustment of \$9,775.25 was made to “Maintenance and repair of roads and bridges” because these expenditures were misclassified as miscellaneous.

An adjustment of \$37,583.06 was made to “Miscellaneous” because expenditures of \$9,775.25 for maintenance and repair of roads and bridges were misclassified and a transfer in error of \$47,358.31 was not reported.

2009 - Section 2

An adjustment of \$879,401.42 was made to “Balance, January 1, 2009” because of prior report adjustments that were not carried forward in the fund balance.

An adjustment of \$559.83 was made to “Interest on investments” because interest earnings were understated.

An adjustment of \$47,358.31 was made to “Miscellaneous” because a reimbursement for a transfer in error was not reported.

CITY OF READING  
BERKS COUNTY  
LIQUID FUELS TAX FUND  
NOTES TO FORMS MS-965 WITH ADJUSTMENTS  
FOR THE PERIOD  
JANUARY 1, 2009 TO DECEMBER 31, 2011

4. Adjustments (Continued)

2010 - Section 2

An adjustment of \$879,961.25 was made to “Balance, January 1, 2010” to reflect the adjustment made to the fund balance in 2009 - Section 2.

An adjustment of \$(309.71) was made to “Interest on investments” because interest earnings were overstated.

2011 - Section 1

An adjustment of \$(5,000.00) was made to “Major equipment purchases” because these expenditures were overstated.

An adjustment of \$5,863.19 was made to “Winter maintenance services” because these expenditures were not reported.

An adjustment of \$(73,652.33) was made to “Street lighting” because these expenditures were overstated.

An adjustment of \$(6,170.77) was made to “Repairs of tools and machinery” because these expenditures were overstated.

An adjustment of \$810,017.30 was made to “Miscellaneous” because these expenditures were understated.

2011 - Section 2

An adjustment of \$879,651.54 was made to “Balance, January 1, 2011” to reflect the adjustment made to the fund balance in 2010 - Section 2.

2011 - Section 3

An adjustment of \$(5,000.00) was made to “Major equipment expenditures” to reflect the adjustment made to major equipment purchases in 2011 - Section 1.

CITY OF READING  
 BERKS COUNTY  
 LIQUID FUELS TAX FUND  
 NOTES TO FORMS MS-965 WITH ADJUSTMENTS  
 FOR THE PERIOD  
 JANUARY 1, 2009 TO DECEMBER 31, 2011

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>2009</u>	<u>2011</u>
General Fund	Reimbursement (Comment No. 1)	\$ 8,448.00	\$ -
General Disbursement Fund	Reimbursement for transfer in error (Note 7)	47,358.31	-
General Fund	Reimbursement (Comment No. 2)	-	\$34,520.15
Total		<u>\$55,806.31</u>	<u>\$34,520.15</u>

6. Miscellaneous Expenditures

The following miscellaneous expenditures were paid from the Liquid Fuels Tax Fund during the examination period:

<u>Payee</u>	<u>Description</u>	<u>2009</u>	<u>2011</u>
General Disbursement Fund	Transfer in error (Note 7)	\$47,358.31	\$ -
Wells Fargo Bank	Bank service charges	-	340.78
General Fund	Repayment of temporary loans (Note 8)	-	620,017.30
City EMS Fund	Repayment of temporary loans (Note 8)	-	190,000.00
Total		<u>\$47,358.31</u>	<u>\$810,358.08</u>

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NOTES TO FORMS MS-965 WITH ADJUSTMENTS  
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7. Transfer In Error

On December 11, 2009, the municipality transferred \$47,358.31 from its Liquid Fuels Tax Fund to its General Disbursement Fund in error. On December 22, 2009, the municipality transferred this amount from its General Disbursement Fund to its Liquid Fuels Tax Fund to correct the transfer in error.

8. Temporary Loans

During the examination period ending December 31, 2005, the municipality loaned \$190,000.00 from the City EMS Fund to the Liquid Fuels Tax Fund. On February 8, 2011, the municipality transferred \$190,000.00 from its Liquid Fuels Tax Fund to its City EMS Fund to repay the temporary loan.

Also during the examination period ending December 31, 2005, the municipality loaned \$423,000.00 from the General Fund to the Liquid Fuels Tax Fund. During the examination period ending December 31, 2005, the city transferred \$2,982.70 from its Liquid Fuels Tax Fund to its General Fund to repay a portion of the loan. On February 8, 2011, the municipality transferred \$420,017.30 from its Liquid Fuels Tax Fund to its General Fund to repay the temporary loan.

During the examination period ending December 31, 2006, the municipality loaned an additional \$200,000.00 from the General Fund to its Liquid Fuels Tax Fund. On February 8, 2011, the municipality transferred \$200,000.00 from its Liquid Fuels Tax Fund to its General Fund to repay the temporary loan.

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

Our examination disclosed that there were numerous errors made in the preparation of the municipality's 2009, 2010, and 2011 Forms MS-965. These adjustments, which are disclosed in Note 4, are as follows:

2009 - Section 1

- An adjustment of \$9,775.25 was made to "Maintenance and repair of roads and bridges" because these expenditures were misclassified as miscellaneous.
- An adjustment of \$37,583.06 was made to "Miscellaneous" because expenditures of \$9,775.25 for maintenance and repair of roads and bridges were misclassified and a transfer in error of \$47,358.31 was not reported.

2009 - Section 2

- An adjustment of \$879,401.42 was made to "Balance, January 1, 2009" because of prior report adjustments that were not carried forward in the fund balance.
- An adjustment of \$559.83 was made to "Interest on investments" because interest earnings were understated.
- An adjustment of \$47,358.31 was made to "Miscellaneous" because a reimbursement for a transfer in error was not reported.

2010 - Section 2

- An adjustment of \$879,961.25 was made to "Balance, January 1, 2010" to reflect the adjustment made to the fund balance in 2009 - Section 2.
- An adjustment of \$(309.71) was made to "Interest on investments" because interest earnings were overstated.



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

2011 - Section 1

- An adjustment of \$(5,000.00) was made to “Major equipment purchases” because these expenditures were overstated.
- An adjustment of \$5,863.19 was made to “Winter maintenance services” because these expenditures were not reported.
- An adjustment of \$(73,652.33) was made to “Street lighting” because these expenditures were overstated.
- An adjustment of \$(6,170.77) was made to “Repairs of tools and machinery” because these expenditures were overstated.
- An adjustment of \$810,017.30 was made to “Miscellaneous” because these expenditures were understated.

2011 - Section 2

- An adjustment of \$879,651.54 was made to “Balance, January 1, 2011” to reflect the adjustment made to the fund balance in 2010 - Section 2.

2011 - Section 3

- An adjustment of \$(5,000.00) was made to “Major equipment expenditures” to reflect the adjustment made to major equipment purchases in 2011 - Section 1.

Good internal controls ensure that the municipality 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.

A similar finding was also written in our prior report.

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

Recommendation

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

Management's Response

The municipal officials stated:

In 2009, 2010, and 2011 the city had a different management employee preparing the MS-965 report. In 2012, management personnel within the Administrative Services Department will be assigned the responsibility of preparing the MS-965 report. Additionally a "draft" version of the report will be prepared and reviewed before submission to the Commonwealth.

Auditor's Conclusion

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

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Finding No. 2 - Purchases Over \$10,000.00 In Noncompliance With Advertising And Bidding Requirements

Our examination disclosed that the city expended \$23,370.30 during 2009 from the Liquid Fuels Tax Fund for the purchases of 9.5mm and 25mm superpave without advertising for bids. These expenditures were as follows:

<u>Invoice Number</u>	<u>Invoice Date</u>	<u>Check Number</u>	<u>Check Date</u>	<u>Amount</u>
2442	03/31/09	236143	06/11/09	\$ 315.00
2542	04/28/09	236568	07/06/09	1,001.99
2570	04/30/09	236568	07/06/09	1,322.39
2580	04/30/09	236568	07/06/09	470.93
2606	04/30/09	236568	07/06/09	2,981.96
2673	04/30/09	236417	06/30/09	683.03
2686	04/30/09	263417	06/30/09	481.43
2736	05/26/09	236417	06/09/30	1,524.51
2793	05/27/09	236417	06/30/09	1,417.21
2775	05/27/09	236417	06/30/09	575.83
2815	05/29/09	236417	06/30/09	2,050.95
2863	05/31/09	237215	07/24/09	919.93
2902	06/16/09	237215	07/24/09	696.04
2956	06/22/09	237215	07/24/09	1,080.33
3065	06/30/09	238106	08/28/09	2,825.96
3136	07/21/09	238106	08/28/09	2,914.72
3249	07/31/09	238106	08/28/09	2,108.09
Total				<u>\$23,370.30</u>

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Finding No. 2 - Purchases Over \$10,000.00 In Noncompliance With Advertising And Bidding Requirements (Continued)

The above expenditures were not made in compliance with the advertising, bidding, and contract requirements of *The Home Rule Charter of the City of Reading*, Section 915(a), which states in part:

Whenever the estimated cost of any construction, erection, installation, completion, alteration, repair of, or addition to, any project subject to the control of the City shall exceed Ten Thousand Dollars (\$10,000.00), it shall be the duty of the City to have such work performed pursuant to a contract awarded to the lowest responsible bidder (subject to subsection (2)(d)), after advertising for bids. Every such contract shall contain a provision obligating the contractor to the prompt payment of all material furnished, labor supplied or performed, rental for equipment employed, and services rendered by public utilities in or in connection with the prosecution of the work, whether or not the said material, labor, equipment or service enter into and become component parts of the work or improvement contemplated. Such provision shall be deemed to be included for the benefit of every person, copartnership, association or corporation who, as subcontractor or otherwise, has furnished material, supplied or performed labor, rented equipment or services in or in connection with the prosecution of the work as aforesaid, and the inclusion thereof in any contract shall preclude the filing by any such person, copartnership, association or corporation of any mechanics' lien claim for such material, labor or rental of equipment.

The failure to follow *The Home Rule Charter of the City of Reading* could result in the city having to reimburse \$23,370.30 to its Liquid Fuels Tax Fund.

A similar finding was also written in our prior report. However, the city advertised for bids for all material purchases over \$10,000.00 during 2010 and 2011.

Recommendations

We recommend that the city reimburse \$23,370.30 to its Liquid Fuels Tax Fund upon official notification by the Department of Transportation.

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

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Finding No. 2 - Purchases Over \$10,000.00 In Noncompliance With Advertising And Bidding Requirements (Continued)

Management's Response

The city officials stated:

The City of Reading accepts full responsibility for the non-compliance with the bidding/advertising requirements in 2009. The city is/has been compliant with those bidding/advertising procedures in 2010 and 2011 and expects that will be the case into the future.

CITY OF READING  
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COMMENTS  
FOR THE PERIOD  
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Comment No. 1 - Summary Of 2006 Examination Recommendation

In our 2006 report we recommended that the Department of Transportation review our examination finding to determine if the municipality should reimburse \$8,448.00 to its Liquid Fuels Tax Fund for the purchase of crack seal without maintaining documentation for price quotations.

During our 2007-2008 examination we reviewed a letter dated July 10, 2009, from the Department of Transportation informing the municipality to reimburse \$8,448.00 to its Liquid Fuels Tax Fund. We noted that the municipality reimbursed this amount to its Liquid Fuels Tax Fund on October 1, 2009.

Comment No. 2 - Summary Of 2007-2008 Examination Recommendations

In our 2007-2008 report we recommended that the Department of Transportation review our examination finding to determine if the municipality should reimburse \$34,520.15 to its Liquid Fuels Tax Fund. This amount consists of \$26,520.15 for purchases over \$10,000.00 without advertising for bids and \$8,000.00 for failure to obtain project approval for the resurfacing of more than one inch on Thorn Street.

During our current examination we reviewed a letter dated January 5, 2011, from the Department of Transportation informing the municipality to reimburse \$34,520.15 to its Liquid Fuels Tax Fund. We noted that the municipality reimbursed this amount to its Liquid Fuels Tax Fund on April 28, 2011.

In our 2007-2008 report we also recommended:

- That before the municipality spends money on a project, it applies for and obtains prior approval of the project, and when the project is completed, it obtains approval of the completed work.
- That the municipality file all required documents and information timely to receive its allocation during the first week in April.

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

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SUMMARY OF EXIT CONFERENCE  
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An exit conference was held December 10, 2012. Those participating were:

CITY OF READING

Mr. David M. Cituk, City Auditor

Mr. Christian Zale, Controller

DEPARTMENT OF THE AUDITOR GENERAL

Ms. Tammy Fleisher, Auditor

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

CITY OF READING  
BERKS COUNTY  
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REPORT DISTRIBUTION  
FOR THE PERIOD  
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This report was initially distributed to:

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

City of Reading  
Berks County  
815 Washington Street  
Reading, PA 19601

The Honorable Vaughn D. Spencer	Mayor
The Honorable Francis Acosta	President of Council
Mr. David M. Cituk	City Auditor

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).