



CITY OF LEBANON
LEBANON COUNTY
38-301

LIQUID FUELS TAX FUND
EXAMINATION REPORT

FOR THE TWO YEARS ENDED
DECEMBER 31, 2007

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CITY OF LEBANON
LEBANON COUNTY
LIQUID FUELS TAX FUND
BACKGROUND
FOR THE TWO YEARS ENDED
DECEMBER 31, 2007

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.



Independent Auditor's Report

The Honorable Allen D. Biehler, P.E.
Secretary
Department of Transportation
Harrisburg, PA 17120

We examined the accompanying Forms MS-965 With Adjustments for the Liquid Fuels Tax Fund of the City of Lebanon, Lebanon County, for the two years ended December 31, 2007. The municipality's management is responsible for the Forms MS-965. Our responsibility is to express an opinion on the Forms MS-965 With Adjustments based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States. An examination includes examining, on a test basis, evidence supporting the City of Lebanon, Lebanon County's Forms MS-965 for the two years ended December 31, 2007 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 Lebanon, Lebanon County, for the two years ended December 31, 2007, 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 Lebanon, Lebanon 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 Lebanon, Lebanon County's Forms MS-965 that is more than inconsequential will not be prevented or detected by the City of Lebanon, Lebanon 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 Lebanon, Lebanon 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 other matters that, while not required to be included in this report by *Government Auditing Standards*, have been included in the findings below:

- Nonpermissible Expenditures.
- Investment Made Are Not Permissible Under *The Third Class City Code*.
- Late Receipt Of Allocation.

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

February 26, 2009

JACK WAGNER
Auditor General



CITY OF LEBANON
LEBANON COUNTY
LIQUID FUELS TAX FUND
2006 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	\$ -	\$ 80,000.00	\$ 80,000.00
Minor equipment purchases	-	-	-
Agility projects	-	-	-
Cleaning streets and gutters	12,565.74	-	12,565.74
Winter maintenance services	27,386.38	-	27,386.38
Traffic control devices	22,064.53	-	22,064.53
Street lighting	263,942.07	-	263,942.07
Storm sewers and drains	-	-	-
Repairs of tools and machinery	6,596.63	-	6,596.63
Maintenance and repair of roads and bridges	11,184.03	2,796.54	13,980.57
Highway construction and rebuilding projects	76,298.43	-	76,298.43
Miscellaneous (Note 6)	-	2,762.79	2,762.79
 Total (To Section 2, Line 5)	 <u>\$ 420,037.81</u>	 <u>\$ 85,559.33</u>	 <u>\$ 505,597.14</u>

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

CITY OF LEBANON
LEBANON COUNTY
LIQUID FUELS TAX FUND
2006 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, 2006	\$ 703,715.78	\$ -	\$ 703,715.78
Receipts:			
2. State allocation	459,084.99	-	459,084.99
2a. Turnback allocation	22,675.00	-	22,675.00
2b. Interest on investments (Note 3)	36,643.79	2,762.89	39,406.68
2c. Miscellaneous	-	-	-
3. Total receipts	<u>518,403.78</u>	<u>2,762.89</u>	<u>521,166.67</u>
4. Total funds available	<u>1,222,119.56</u>	<u>2,762.89</u>	<u>1,224,882.45</u>
5. Expenditures (Section 1)	<u>420,037.81</u>	<u>85,559.33</u>	<u>505,597.14</u>
6. Balance, December 31, 2006	<u><u>\$ 802,081.75</u></u>	<u><u>\$ (82,796.44)</u></u>	<u><u>\$ 719,285.31</u></u>

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

CITY OF LEBANON
LEBANON COUNTY
LIQUID FUELS TAX FUND
2006 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	\$ 87,653.96	\$ -	\$ 87,653.96
2. Add: Current year equipment allocation (20% of Lines 2 + 2a, Section 2)	96,351.99	-	96,351.99
3. PENNDOT approved adjustments	<u>-</u>	<u>-</u>	<u>-</u>
4. Total funds available for equipment acquisition	184,005.95	-	184,005.95
5. Less: Major equipment expenditures	<u>-</u>	<u>80,000.00</u>	<u>80,000.00</u>
6. Remainder	<u>184,005.95</u>	<u>(80,000.00)</u>	<u>104,005.95</u>
7. Equipment balance available for subsequent year (Lesser of Line 6 or Section 2 balance, but not less than zero)	<u>\$ 184,005.95</u>	<u>\$ (80,000.00)</u>	<u>\$ 104,005.95</u>

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

CITY OF LEBANON
LEBANON COUNTY
LIQUID FUELS TAX FUND
2007 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	\$ 41,958.50	\$ (8,608.00)	\$ 33,350.50
Minor equipment purchases	809.84	3,125.00	3,934.84
Agility projects	-	-	-
Cleaning streets and gutters	16,087.47	-	16,087.47
Winter maintenance services	35,896.51	-	35,896.51
Traffic control devices	14,108.34	-	14,108.34
Street lighting	308,459.08	(3,177.82)	305,281.26
Storm sewers and drains	-	-	-
Repairs of tools and machinery	7,166.58	-	7,166.58
Maintenance and repair of roads and bridges	44,470.02	(1,013.14)	43,456.88
Highway construction and rebuilding projects	38,706.45	-	38,706.45
Miscellaneous (Note 6)	-	138,157.89	138,157.89
 Total (To Section 2, Line 5)	 <u>\$ 507,662.79</u>	 <u>\$ 128,483.93</u>	 <u>\$ 636,146.72</u>

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

CITY OF LEBANON
LEBANON COUNTY
LIQUID FUELS TAX FUND
2007 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, 2007	\$ 802,081.75	\$ (82,796.44)	\$ 719,285.31
Receipts:			
2. State allocation	475,861.54	-	475,861.54
2a. Turnback allocation	36,280.00	-	36,280.00
2b. Interest on investments (Note 3)	20,089.65	11,864.85	31,954.50
2c. Miscellaneous (Note 5)	-	131,544.61	131,544.61
3. Total receipts	<u>532,231.19</u>	<u>143,409.46</u>	<u>675,640.65</u>
4. Total funds available	<u>1,334,312.94</u>	<u>60,613.02</u>	<u>1,394,925.96</u>
5. Expenditures (Section 1)	<u>507,662.79</u>	<u>128,483.93</u>	<u>636,146.72</u>
6. Balance, December 31, 2007	<u><u>\$ 826,650.15</u></u>	<u><u>\$ (67,870.91)</u></u>	<u><u>\$ 758,779.24</u></u>

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

CITY OF LEBANON
LEBANON COUNTY
LIQUID FUELS TAX FUND
2007 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	\$ 184,005.95	\$ (80,000.00)	\$ 104,005.95
2. Add: Current year equipment allocation (20% of Lines 2 + 2a, Section 2)	102,428.30	-	102,428.30
3. PENNDOT approved adjustments	-	-	-
4. Total funds available for equipment acquisition	286,434.25	(80,000.00)	206,434.25
5. Less: Major equipment expenditures	41,958.50	(8,608.00)	33,350.50
6. Remainder	<u>244,475.75</u>	<u>(71,392.00)</u>	<u>173,083.75</u>
7. Equipment balance available for subsequent year (Lesser of Line 6 or Section 2 balance, but not less than zero)	<u>\$ 244,475.75</u>	<u>\$ (71,392.00)</u>	<u>\$ 173,083.75</u>

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

CITY OF LEBANON
LEBANON COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE TWO YEARS ENDED
DECEMBER 31, 2007

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 LEBANON
LEBANON COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE TWO YEARS ENDED
DECEMBER 31, 2007

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 LEBANON
LEBANON COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE TWO YEARS ENDED
DECEMBER 31, 2007

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 And Investments

The Third Class City Code, Title 53 P.S. § 36804.1, authorizes the city to deposit and invest its funds in the following:

- United States Treasury Bills.
- Short-term obligations of the United States government or its agencies or instrumentalities.
- 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.
- Obligations of the United States of America or any of its agencies or instrumentalities backed by the full faith and credit of the United States of America, the Commonwealth of Pennsylvania, or any of its agencies or instrumentalities backed by the full faith and credit of the Commonwealth of Pennsylvania, or any political subdivision of the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the political subdivision.
- Shares of an investment company registered under the Investment Company Act of 1940, whose shares are registered under the Securities Act of 1933, provided that the only investments of that company are in authorized investments for third class city funds.

CITY OF LEBANON
LEBANON COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE TWO YEARS ENDED
DECEMBER 31, 2007

2. Deposits And Investments (Continued)

- Certificates of deposit purchased from institutions that are 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

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, 2007. 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 city's name.

Investments

The City is authorized to invest the city's Liquid Fuels Tax Fund in legal investments permitted by *The Third Class City Code* (see above). Liquid Fuels Tax Fund monies were deposited in the city's concentration account for investment purposes. Because the Liquid Fuels Tax Fund monies were deposited in the city's concentration account, a portion of all deposits and investments maintained by the county including those mentioned in the Finding contained Liquid Fuels Tax Fund monies. Because the Liquid Fuels Tax Fund is such a small component of the overall concentration account balance, the total balance of the each deposit and investment is not listed in this report.

There were no investments exposed to custodial credit risk as of December 31, 2007.

Fund Balance

The fund balance as of December 31, 2007 consists of the following:

Cash and Investments	<u>\$758,779.24</u>
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CITY OF LEBANON
LEBANON COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE TWO YEARS ENDED
DECEMBER 31, 2007

3. Interest On Investments

Our examination disclosed that the municipality deposited idle liquid fuels tax money in interest-bearing accounts which earned \$39,406.68 during 2006, and \$31,954.50 during 2007, thus providing additional funds for road maintenance and repairs.

4. Adjustments

2006 - Section 1

An adjustment of \$80,000.00 was made to “Major equipment purchases” because a general obligation note payment was not reported.

An adjustment of \$2,796.54 was made to “Maintenance and repair of roads and bridges” because these expenditures were understated.

An adjustment of \$2,762.79 was made to “Miscellaneous” expenditures because bank service charges were not reported.

2006 - Section 2

An adjustment of \$2,762.89 was made to “Interest on investments” because interest earned was understated.

2006 - Section 3

An adjustment of \$80,000.00 was made to “Major equipment expenditures” to reflect the adjustment made to major equipment purchases in 2006 – Section 1.

2007 - Section 1

An adjustment of \$(8,608.00) was made to “Major equipment purchases” because miscellaneous expenditures were misclassified.

An adjustment of \$3,125.00 was made to “Minor equipment purchases” because these expenditures were misclassified as street lighting.

CITY OF LEBANON
LEBANON COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE TWO YEARS ENDED
DECEMBER 31, 2007

4. Adjustments (Continued)

2007 - Section 1 (Continued)

An adjustment of \$(3,177.82) was made to "Street lighting" because these expenditures were understated by \$24,009.00, minor equipment purchases of \$3,125.00 were misclassified, and miscellaneous expenditures of \$24,061.82 were misclassified.

An adjustment of \$(1,013.14) was made to "Maintenance and repair of roads and bridges" because miscellaneous expenditures were misclassified.

An adjustment of \$138,157.89 was made to "Miscellaneous" because the transfer of a Special Turnback Grant of \$98,771.00 to the Turnback account was not reported; bank service charges of \$5,703.93 were not reported; expenditures of \$8,608.00 were misclassified as major equipment purchases; expenditures of \$1,013.14 were misclassified as maintenance and repair of roads and bridges; and expenditures of \$24,061.82 were misclassified as street lighting.

2007 - Section 2

An adjustment of \$(82,796.44) was made to "Balance, January 1, 2007" to reflect the adjustments made in 2006 - Section 1 and 2006 - Section 2.

An adjustment of \$11,864.85 was made to "Interest on investments" because interest earnings were understated.

An adjustment of \$131,544.61 was made to "Miscellaneous" because the following items were not reported: a Special Turnback Grant of \$98,771.00; a reimbursement for street lighting of \$103.79; a reimbursement for a lease payment on a GMC Envoy, which was not used for road work, of \$8,608.00; and a reimbursement for a transfer in error of \$24,061.82.

2007 - Section 3

An adjustment of \$(80,000.00) was made to "Prior year equipment balance" to reflect the adjustment made in 2006 - Section 3.

An adjustment of \$(8,608.00) was made to "Major equipment expenditures" to reflect the adjustment made to major equipment purchases in 2007 - Section 1.

CITY OF LEBANON
LEBANON COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
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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>2007</u>
Commonwealth of Pennsylvania	Special Turnback Grant (Note 7)	\$ 98,771.00
General Fund	Reimbursement for street lighting	103.79
General Fund	Reimbursement (Finding No. 2)	8,608.00
General Fund	Reimbursement (Note 9)	<u>24,061.82</u>
Totals		<u>\$131,544.61</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>2006</u>	<u>2007</u>
Financial institution	Bank service charges	\$2,762.79	\$ 5,703.93
Commonwealth of Pennsylvania	Transfer to Turnback account (Note 7)	-	98,771.00
General Fund	Transfer in error (Note 9)	-	24,061.82
General Fund	Nonpermissible expenditure (Finding No. 2)	-	8,608.00
Vendor	Nonpermissible expenditure (Finding No. 2)	<u>-</u>	<u>1,013.14</u>
Totals		<u>\$2,762.79</u>	<u>\$138,157.89</u>

CITY OF LEBANON
LEBANON COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE TWO YEARS ENDED
DECEMBER 31, 2007

7. Special Turnback Allocation

On January 3, 2007, the city deposited \$98,771.00 into the Liquid Fuels Tax Fund from the Pennsylvania Department of Transportation for Special Turnback agreement No. 08819-A. These funds should have been deposited into a separate Turnback account. On the same day the city transferred these funds to a separate Turnback account.

8. General Obligation Note

On October 19, 2000, the city entered into a general obligation note with Jonestown Bank and Trust Company for \$449,797.40 to purchase vehicles and equipment. The terms of the note were for six years at an interest rate of 5.40 percent. Principal and interest payments of \$80,000.00 are due annually. Prior years' principal and interest payments from the Liquid Fuels Tax Fund were \$341,621.50 and \$58,378.50, respectively.

During 2001, we noted that the city purchased the following equipment:

<u>Date Purchased</u>	<u>Vehicle/Equipment</u>	<u>Amount Paid</u>
03/02/01	Two Elgin Pelican street sweepers	\$147,828.00
03/02/01	Ford utility van	35,358.40
03/15/01	Sterling dump truck	78,990.00
06/19/01	Chevrolet pickup truck	20,070.00
06/19/01	Ford dump truck	51,427.00
09/17/01	Sterling dump truck	81,292.00
12/10/01	Ford utility truck	<u>34,832.00</u>
	Total	<u>\$449,797.40</u>

During the current examination period the municipality paid principal of \$108,175.90 and interest of \$5,174.60 from the Liquid Fuels Tax Fund. These amounts are reflected in major equipment purchases on the 2006 and 2007 Forms MS-965 – Section 1. The general obligation note was paid-in-full on June 29, 2007.

CITY OF LEBANON
LEBANON COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE TWO YEARS ENDED
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9. Transfer In Error

On November 30, 2007, the city transferred \$24,061.82 from the Liquid Fuels Tax Fund to the General Fund in error. On December 31, 2007 the city corrected the transfer in error by transferring \$24,061.82 from the General Fund to the Liquid Fuels Tax Fund.



CITY OF LEBANON
LEBANON COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE TWO YEARS ENDED
DECEMBER 31, 2007

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 2006 and 2007 Forms MS-965. These adjustments, which are disclosed in Note 4, are as follows:

2006 - Section 1

- An adjustment of \$80,000.00 was made to "Major equipment purchases" because a general obligation note payment was not reported.
- An adjustment of \$2,796.54 was made to "Maintenance and repair of roads and bridges" because these expenditures were understated.
- An adjustment of \$2,762.79 was made to "Miscellaneous" expenditures because bank service charges were not reported.

2006 - Section 2

- An adjustment of \$2,762.89 was made to "Interest on investments" because interest earned was understated.

2006 - Section 3

- An adjustment of \$80,000.00 was made to "Major equipment expenditures" to reflect the adjustment made to major equipment purchases in 2006 – Section 1.

2007 - Section 1

- An adjustment of \$(8,608.00) was made to "Major equipment purchases" because miscellaneous expenditures were misclassified.
- An adjustment of \$3,125.00 was made to "Minor equipment purchases" because these expenditures were misclassified as street lighting.
- An adjustment of \$(3,177.82) was made to "Street lighting" because these expenditures were understated by \$24,009.00, minor equipment purchases of \$3,125.00 were misclassified, and miscellaneous expenditures of \$24,061.82 were misclassified.

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

2007 - Section 1 (Continued)

- An adjustment of \$(1,013.14) was made to “Maintenance and repair of roads and bridges” because miscellaneous expenditures were misclassified.
- An adjustment of \$138,157.89 was made to “Miscellaneous” because the transfer of a Special Turnback Grant of \$98,771.00 to the Turnback account was not reported; bank service charges of \$5,703.93 were not reported; expenditures of \$8,608.00 were misclassified as major equipment purchases; and expenditures of \$1,013.14 were misclassified as maintenance and repair of roads and bridges; and expenditures of \$24,061.82 were misclassified as street lighting.

2007 - Section 2

- An adjustment of \$(82,796.44) was made to “Balance, January 1, 2007” to reflect the adjustments made in 2006 - Section 1 and 2006 - Section 2.
- An adjustment of \$11,864.85 was made to “Interest on investments” because interest earnings were understated.
- An adjustment of \$131,544.61 was made to “Miscellaneous” because the following items were not reported: a Special Turnback Grant of \$98,771.00; a reimbursement for street lighting of \$103.79; a reimbursement for a lease payment on a GMC Envoy, which was not used for road work, of \$8,608.00; and a reimbursement for a transfer in error of \$24,061.82.

2007 - Section 3

- An adjustment of \$(80,000.00) was made to “Prior year equipment balance” to reflect the adjustment made in 2006 - Section 3.
- An adjustment of \$(8,608.00) was made to “Major equipment expenditures” to reflect the adjustment made to major equipment purchases in 2007 – 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 irregularities may occur and remain undetected.

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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:

We will get both departments together to fill out the forms properly.

Auditor's Conclusion

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

CITY OF LEBANON
LEBANON COUNTY
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Finding No. 2 - Nonpermissible Expenditures

Our examination disclosed that the municipality expended \$9,621.14 during 2007 from the Liquid Fuels Tax Fund for the following nonpermissible items:

<u>Description</u>	<u>Totals</u>
Lease payment for a GMC Envoy not used for road work	\$8,608.00
Right-of-way acquisitions	<u>1,013.14</u>
2007 Total	<u>\$9,621.14</u>

The Liquid Fuels Tax Municipal Allocation Law, 72 P.S. § 2615.4, provides, in part, that monies herein allocated may be used only for construction, reconstruction, maintenance, and repairs of such public roads or streets, including bridges, culverts and drainage structures, for which they are legally responsible. Also permitted are expenditures involving acquisition, maintenance, repairs and operation of street signs, traffic signs, traffic signal control systems, road equipment, and snow fences.

The Department of Transportation has been statutorily authorized to promulgate regulations concerning the administration of Liquid Fuels Tax Fund money and has determined that certain items, including sports utility vehicles not used specifically for road work and right-of-way acquisitions, are outside the scope of permissible expenditures.

On December 31, 2007, the municipality reimbursed \$8,608.00 to the Liquid Fuels Tax Fund.

The failure to follow the Liquid Fuels Tax Municipal Allocation Law and the Department of Transportation's Regulations as noted above could result in the municipality having to reimburse \$1,013.14 to its Liquid Fuels Tax Fund.

Recommendations

We recommend that the municipality reimburse \$1,013.14 to its Liquid Fuels Tax Fund upon official notification by the Department of Transportation.

CITY OF LEBANON
LEBANON COUNTY
LIQUID FUELS TAX FUND
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Finding No. 2 - Nonpermissible Expenditures (Continued)

Recommendations (Continued)

We further recommend that, in the future, the municipality comply with the Liquid Fuels Tax Municipal Allocation Law and the Department of Transportation's Regulations regarding permissible expenditures.

Management's Response

The municipal officials stated:

The city spoke to PENNDOT and was informed that we could not use liquid fuels for right-of way acquisitions.

Auditor's Conclusion

The municipal officials should review the Department of Transportation's *Publication 9* to become familiar with permissible Liquid Fuels Tax Fund uses.

CITY OF LEBANON
LEBANON COUNTY
LIQUID FUELS TAX FUND
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Finding No 3 - Investments Made Are Not Permissible Under *The Third Class City Code*

Our examination disclosed that the city invested in a security that is not a permissible Liquid Fuels Tax Fund investment under *The Third Class City Code*. This security was issued by the Federal Home Loan Mortgage Corporation (FHLMC) at an interest rate of 4.0 percent with a maturity date of March 10, 2010 for \$10,291,132.70. Because Liquid Fuels Tax Fund money was deposited into the city's concentration account with money from other funds, a portion of this security represents Liquid Fuels Tax Fund money.

Additionally, as discussed in Note 2, *The Third Class City Code*, (53 P.S. Section 36804.1) has limitations on the types of investments in which cities can invest their funds. Section 36804.1 (d)(2) authorizes cities to invest in "Short-term obligations of the United States Government or its agencies or instrumentalities" Section 36804.1 (d)(4) authorized cities to invest in "Obligations of the United States of America or any of its agencies or instrumentalities backed by the full faith and credit of the United States of America."...

As noted above the city invested in a security issued by the FHLMC. The investment qualifies as a security issued by U.S. instrumentalities. However FHLMC securities are not backed by the full faith and credit of the U.S. government. In addition, the funds from which the city purchased shares have maturity dates in excess of one year. Therefore, the security is not authorized by *The Third Class City Code* because it is neither short-term nor backed by the full faith and credit of the U.S. government.

Recommendation

We recommend that in the future the city comply with the investment limitations set forth in *The Third Class City Code*, 53 P.S. section 36804.1.

Management's Response

The municipal officials stated:

We will contact the bank and inform them that we need to move the Sweep account investments to the short-term investments of no more than a year. We had a change in staff and administration.

Auditor's Conclusion

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

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Finding No. 4 - Late Receipt Of Allocation

Our examination disclosed that the 2007 Liquid Fuels Tax Fund allocation, which should have been distributed during the first week of April of that year, was not received until June 5, 2007 because the municipality failed to comply with the Department of Transportation's Regulation 449.12, which requires the timely filing of particular documents and information, among them:

- Evidence that its treasurer is bonded in accordance with the law or that its treasurer is a bank requiring no bond.
- A report indicating the manner in which its Liquid Fuels Tax Fund was expended in the preceding year.
- Survey of financial condition.
- Roster of municipal officials.

Because the municipality failed to file documents and information timely as noted above, the municipality did not have use of the allocation for two months. Furthermore, had the allocation been received timely, money may have been available for investment purposes, potentially earning interest income which could have been used for road maintenance and repairs.

Recommendation

We recommend that, in the future, the municipality comply with the Department of Transportation's Regulation 449.12 to ensure that the allocations are received during the first week in April as outlined above.

Management's Response

The municipal officials stated:

We will try to provide reports in a timely manner.

Auditor's Conclusion

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

CITY OF LEBANON
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SUMMARY OF EXIT CONFERENCE
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An exit conference was held February 26, 2009. Those participating were:

CITY OF LEBANON

Mr. Thomas G. Watson, Public Works Director
Mrs. Lori Burkey, Finance Officer
Mrs. Vanessa Lopez, Secretary, Public Works

DEPARTMENT OF THE AUDITOR GENERAL

Ms. Georgeanne M. Walacavage, Auditor

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

CITY OF LEBANON
LEBANON COUNTY
LIQUID FUELS TAX FUND
REPORT DISTRIBUTION
FOR THE TWO YEARS ENDED
DECEMBER 31, 2007

This report was initially distributed to:

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

Mr. John J. Contino
Executive Director
Pennsylvania State Ethics Commission

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

The Honorable Darryl R. Cox

President of Council

The Honorable Trish Ward

Mayor

This report is a matter of public record. Copies of this report may be obtained from the Pennsylvania Department of the Auditor General, Office of Communications, 318 Finance Building, Harrisburg, PA 17120. To view this report online or to contact the Department of the Auditor General, please access our web site at www.auditorgen.state.pa.us.