



CITY OF LEBANON
LEBANON COUNTY
38-301

LIQUID FUELS TAX FUND
EXAMINATION REPORT

FOR THE TWO YEARS ENDED
DECEMBER 31, 2009

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CITY OF LEBANON
LEBANON COUNTY
LIQUID FUELS TAX FUND
BACKGROUND
FOR THE TWO YEARS ENDED
DECEMBER 31, 2009

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.





**Department of the Auditor General
Commonwealth of Pennsylvania
Harrisburg, Pennsylvania 17120-0018**

**JACK WAGNER
AUDITOR GENERAL**

Independent Auditor's Report

Mr. Barry J. Schoch
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 City of Lebanon, Lebanon County, for the two years ended December 31, 2009. 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, 2009 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, during 2009 the municipality expended \$104,344.83 from its Liquid Fuels Tax Fund for payroll without maintaining daily time sheets identifying the nature of work performed and the location of work assignments. Additionally, as discussed in Finding No. 3, the municipality transferred \$26,778.99 from its Liquid Fuels Tax Fund to its General Fund for the reimbursement of nine street lighting invoices twice on November 2, 2009. The city reimbursed \$26,778.99 to its Liquid Fuels Tax Fund on January 11, 2010, which was subsequent to our examination period. Furthermore, as discussed in Finding No. 4, the municipality expended \$21,000.00 more than the amount approved from its Liquid Fuels Tax Fund for project No. C-08-38301-14CA. Also, as discussed in Finding No. 5, the municipality expended \$220.46 from the Liquid Fuels Tax Fund for a right-of-way for bridge construction, which is a nonpermissible expenditure.

As discussed in the Comment section of this report, during our prior examination period the city expended \$1,013.14 for right-of-way costs for bridge construction, which are nonpermissible expenditures. As of the date of this report, this amount had not been reimbursed to the city's Liquid Fuels Tax Fund.

In our opinion, except for the matters discussed in the preceding two paragraphs, 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, 2009, 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.

Independent Auditor's Report (Continued)

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 deficiencies described in the findings below to be significant deficiencies in internal control over reporting on the Forms MS-965:

- Documentation Supporting Payroll Expenditures Was Not Available For Examination.
- Failure To Properly Prepare Forms MS-965.
- Duplicate Transfer.

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 deficiencies described above to be material weaknesses.

The results of our tests disclosed the following instances of noncompliance that is/are required to be reported under *Government Auditing Standards*:

- Liquid Fuels Money Overexpended On Projects.
- Nonpermissible Expenditure.

Independent Auditor's Report (Continued)

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:

- Commingling Of Funds.

We are concerned in light of the city's failure to correct previously reported findings regarding the failure to properly prepare Forms MS-965 and nonpermissible expenditures. During our current examination the city failed to maintain documentation to support payroll expenditures, failed to properly prepare Forms MS-965, made a duplicate transfer, overexpended Liquid Fuels Tax Fund money on projects, made nonpermissible expenditures from its Liquid Fuels Tax Fund, and commingled funds. The city should strive to implement the recommendations and corrective actions noted in this report.

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

June 29, 2010

JACK WAGNER
Auditor General

CITY OF LEBANON
LEBANON COUNTY
LIQUID FUELS TAX FUND
2008 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	907.88	-	907.88
Computer/Computer related training	-	-	-
Agility projects	-	-	-
Cleaning streets and gutters	5,833.51	-	5,833.51
Winter maintenance services	42,773.07	-	42,773.07
Traffic control devices	27,908.16	-	27,908.16
Street lighting	310,181.28	-	310,181.28
Storm sewers and drains	-	-	-
Repairs of tools and machinery	8,214.36	-	8,214.36
Maintenance and repair of roads and bridges	67,573.56	(1,267.64)	66,305.92
Highway construction and rebuilding projects	100,022.10	-	100,022.10
Miscellaneous	-	-	-
 Total (To Section 2, Line 5)	 <u>\$ 563,413.92</u>	 <u>\$ (1,267.64)</u>	 <u>\$ 562,146.28</u>

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

CITY OF LEBANON
LEBANON COUNTY
LIQUID FUELS TAX FUND
2008 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, 2008	\$ 826,650.15	\$ (67,870.91)	\$ 758,779.24
Receipts:			
2. State allocation	524,309.11	-	524,309.11
2a. Turnback allocation	36,280.00	-	36,280.00
2b. Interest on investments (Note 3)	20,337.12	-	20,337.12
2c. Miscellaneous	-	-	-
3. Total receipts	<u>580,926.23</u>	<u>-</u>	<u>580,926.23</u>
4. Total funds available	<u>1,407,576.38</u>	<u>(67,870.91)</u>	<u>1,339,705.47</u>
5. Expenditures (Section 1)	<u>563,413.92</u>	<u>(1,267.64)</u>	<u>562,146.28</u>
6. Balance, December 31, 2008	<u><u>\$ 844,162.46</u></u>	<u><u>\$ (66,603.27)</u></u>	<u><u>\$ 777,559.19</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
2008 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	\$ 244,475.75	\$ (71,392.00)	\$ 173,083.75
2. Add: Current year equipment allocation (20% of Lines 2 + 2a, Section 2)	112,117.82	-	112,117.82
3. PENNDOT approved adjustments	-	-	-
4. Total funds available for equipment acquisition	356,593.57	(71,392.00)	285,201.57
5. Less: Major equipment expenditures	-	-	-
6. Remainder	<u>356,593.57</u>	<u>(71,392.00)</u>	<u>285,201.57</u>
7. Equipment balance available for subsequent year (Lesser of Line 6 or Section 2 balance, but not less than zero)	<u>\$ 356,593.57</u>	<u>\$ (71,392.00)</u>	<u>\$ 285,201.57</u>

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

CITY OF LEBANON
LEBANON 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	\$ -	\$ -	\$ -
Minor equipment purchases	-	-	-
Computer/Computer related training	-	-	-
Agility projects	-	-	-
Cleaning streets and gutters	33,048.09	-	33,048.09
Winter maintenance services	43,318.33	-	43,318.33
Traffic control devices	60,947.06	-	60,947.06
Street lighting	289,272.53	(36,086.96)	253,185.57
Storm sewers and drains	-	-	-
Repairs of tools and machinery	21,820.35	-	21,820.35
Maintenance and repair of roads and bridges	433,882.19	(123,566.95)	310,315.24
Highway construction and rebuilding projects	103,933.41	-	103,933.41
Miscellaneous (Note 6)	-	36,086.96	36,086.96
	<u>-</u>	<u>36,086.96</u>	<u>36,086.96</u>
Total (To Section 2, Line 5)	<u>\$ 986,221.96</u>	<u>\$ (123,566.95)</u>	<u>\$ 862,655.01</u>

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

CITY OF LEBANON
LEBANON 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	\$ 844,162.46	\$ (66,603.27)	\$ 777,559.19
Receipts:			
2. State allocation	506,199.84	-	506,199.84
2a. Turnback allocation	37,240.00	-	37,240.00
2b. Interest on investments (Note 3)	2,820.23	-	2,820.23
2c. Miscellaneous (Note 5)	-	30,307.97	30,307.97
3. Total receipts	<u>546,260.07</u>	<u>30,307.97</u>	<u>576,568.04</u>
4. Total funds available	<u>1,390,422.53</u>	<u>(36,295.30)</u>	<u>1,354,127.23</u>
5. Expenditures (Section 1)	<u>986,221.96</u>	<u>(123,566.95)</u>	<u>862,655.01</u>
6. Balance, December 31, 2009	<u><u>\$ 404,200.57</u></u>	<u><u>\$ 87,271.65</u></u>	<u><u>\$ 491,472.22</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
2009 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	\$ 356,593.57	\$ (71,392.00)	\$ 285,201.57
2. Add: Current year equipment allocation (20% of Lines 2 + 2a, Section 2)	108,687.97	-	108,687.97
3. PENNDOT approved adjustments	-	-	-
4. Total funds available for equipment acquisition	465,281.54	(71,392.00)	393,889.54
5. Less: Major equipment expenditures	-	-	-
6. Remainder	<u>465,281.54</u>	<u>(71,392.00)</u>	<u>393,889.54</u>
7. Equipment balance available for subsequent year (Lesser of Line 6 or Section 2 balance, but not less than zero)	<u>\$ 404,200.57</u>	<u>\$ (10,311.03)</u>	<u>\$ 393,889.54</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, 2009

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, 2009

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, 2009

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, 2009

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 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, 2009. 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 Liquid Fuels Tax Fund money 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, a portion of all deposits and investments maintained by the county 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, 2009.

Fund Balance

The fund balance as of December 31, 2009, consists of the following:

Cash and Investments	<u>\$491,472.22</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, 2009

3. Interest On Investments

Our examination disclosed that the municipality deposited idle liquid fuels tax money in interest-bearing accounts which earned \$20,337.12 during 2008, and \$2,820.23 during 2009, thus providing additional funds for road maintenance and repairs.

4. Adjustments

2008 - Section 1

An adjustment of \$(1,267.64) was made to “Maintenance and repair of roads and bridges” because these expenditures were overstated.

2008 - Section 2

An adjustment of \$(67,870.91) was made to “Balance, January 1, 2008” because of prior report adjustments that were not carried forward in the fund balance.

2008 - Section 3

An adjustment of \$(71,392.00) was made to “Prior year equipment balance” because of prior report adjustments that were not carried forward in the equipment balance.

2009 - Section 1

Adjustments were made to “Street lighting” and “Miscellaneous” because expenditures of \$36,086.96 were misclassified.

An adjustment of \$(123,566.95) was made to “Maintenance and repair of roads and bridges” because these expenditures were overstated.

2009 - Section 2

An adjustment of \$(66,603.27) was made to “Balance, January 1, 2009” to reflect the adjustments made in 2008 - Section 1 and 2008 - Section 2.

An adjustment of \$30,307.97 was made to “Miscellaneous” because these receipts were not reported.

CITY OF LEBANON
LEBANON COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE TWO YEARS ENDED
DECEMBER 31, 2009

4. Adjustments (Continued)

2009 - Section 3

An adjustment of \$(71,392.00) was made to "Prior year equipment balance" to reflect the adjustment made in 2008 - 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>2009</u>
Lebanon County	Reimbursement (Finding No. 4)	\$21,000.00
Commonwealth of Pennsylvania	Deposit in error (Note 7)	<u>9,307.97</u>
Total		<u>\$30,307.97</u>

6. Miscellaneous Expenditures

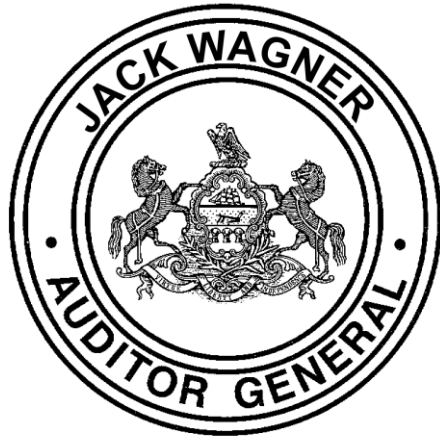
The following miscellaneous expenditures were paid from the Liquid Fuels Tax Fund during the examination period:

<u>Payee</u>	<u>Description</u>	<u>2009</u>
General Fund	Duplicate transfer (Finding No. 3)	\$26,778.99
General Fund	Reimbursement (Note 7)	<u>9,307.97</u>
Total		<u>\$36,086.96</u>

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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7. Deposit In Error

On October 1, 2009, the city deposited \$9,307.97 into the Liquid Fuels Tax Fund that should have been deposited to the General Fund. On October 16, 2009 the city transferred \$9,307.97 from the Liquid Fuels Tax Fund to the General Fund to correct the deposit in error.



CITY OF LEBANON
LEBANON COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE TWO YEARS ENDED
DECEMBER 31, 2009

Finding No. 1 - Documentation Supporting Payroll Expenditures Was Not Available For Examination

Our examination disclosed that during 2009 the municipality expended \$226,720.27 from the Liquid Fuels Tax Fund for payroll. However, the municipality did not maintain daily payroll time sheets identifying the nature of work performed and the location of work assignments for \$104,344.83 of the \$226,720.27.

Good internal control procedures over payroll ensure that there is documentation identifying the nature of the work performed and location of work assignments.

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 expenditures made without supporting documentation, are outside the scope of permissible expenditures.

Without payroll documentation that includes daily time sheets that identify the nature of work performed and the location of work assignments, we could not determine if the payroll expenditures were permissible according to the Liquid Fuels Tax Municipal Allocation Law.

The failure to maintain documentation of payroll expenditures as noted above could result in the municipality having to reimburse \$104,344.83 to its Liquid Fuels Tax Fund.

Recommendations

We recommend that the municipality reimburse \$104,344.83 to its Liquid Fuels Tax Fund upon official notification by the Department of Transportation.

We further recommend that the municipality ensure good internal control over payroll by maintaining daily time sheets that identify the nature of work performed and the location of work assignments.

CITY OF LEBANON
LEBANON COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE TWO YEARS ENDED
DECEMBER 31, 2009

Finding No. 1 - Documentation Supporting Payroll Expenditures Was Not Available For Examination (Continued)

Management's Response

The municipal officials stated:

The Public Works Department has been educated on what documentation is needed on timesheets for this to be permissible.

CITY OF LEBANON
LEBANON COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE TWO YEARS ENDED
DECEMBER 31, 2009

Finding No. 2 - Failure To Properly Prepare Forms MS-965

Our examination disclosed that there were numerous errors made in the preparation of the municipality's 2008 and 2009 Forms MS-965. These adjustments, which are disclosed in Note 4, are as follows:

2008 - Section 1

- An adjustment of \$(1,267.64) was made to "Maintenance and repair of roads and bridges" because these expenditures were overstated.

2008 - Section 2

- An adjustment of \$(67,870.91) was made to "Balance, January 1, 2008" because of prior report adjustments that were not carried forward in the fund balance.

2008 - Section 3

- An adjustment of \$(71,392.00) was made to "Prior year equipment balance" because of prior report adjustments that were not carried forward in the equipment balance.

2009 - Section 1

- Adjustments were made to "Street lighting" and "Miscellaneous" because expenditures of \$36,086.96 were misclassified.
- An adjustment of \$(123,566.95) was made to "Maintenance and repair of roads and bridges" because these expenditures were overstated.

2009 - Section 2

- An adjustment of \$(66,603.27) was made to "Balance, January 1, 2009" to reflect the adjustments made in 2008 Section 1 and 2008 - Section 2.
- An adjustment of \$30,307.97 was made to "Miscellaneous" because these receipts were not reported.

CITY OF LEBANON
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Finding No. 2 - Failure To Properly Prepare Forms MS-965 (Continued)

2009 - Section 3

- An adjustment of \$(71,392.00) was made to “Prior year equipment balance” to reflect the adjustment made in 2008 - Section 3.

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.

A similar finding was also written in our prior report.

Recommendation

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

Management’s Response

The municipal officials stated:

- This report is completed by the Public Works Department.
- The expenditures portion of the form is completed using information obtained from an Accounts Payable Report run off our Naviline System.
- The expenditures listed on the MS-965 do not match the expenditures shown on the Accounts Payable report supplied to the auditor.
- In the future, once the Public Works Department completes the MS-965, it should be double checked by the Finance Department before being submitted.

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. 3 - Duplicate Transfer

Our examination disclosed that the municipality transferred \$26,778.99 from its Liquid Fuels Tax Fund to its General Fund for the reimbursement of nine street lighting invoices twice on November 2, 2009. The city reimbursed \$26,778.99 to its Liquid Fuels Tax Fund on January 11, 2010, which was subsequent to our examination period.

Although this money was reimbursed to the Liquid Fuels Tax Fund on January 11, 2010, the primary concern is the inadequate internal controls which enabled the duplicate transfer of \$26,778.99 to remain undetected for two months.

The city should implement internal controls to ensure that duplicate transfers are not made and go undetected for long periods of time. This includes ensuring that when a transfer is made to cover an expenditure, the amount of the transfer is noted on the supporting invoice. Then prior to making a payment on the invoice, the city should review the invoice to confirm that a transfer was made and that a payment was not already made for the invoice.

Recommendation

We recommend that the municipality establish and implement internal controls as noted above.

Management's Response

The municipal officials stated:

- The MetED bill for October 2009, which was paid on November 2, 2009, was erroneously entered into the system twice.
- Since this is an auto payment from our bank account, the payment was only actually made once.
- The duplicate invoice was reversed out of the system on January 11, 2010.

Auditor's Conclusion

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

CITY OF LEBANON
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Finding No. 4 - Liquid Fuels Money Overexpended On Projects

Our examination disclosed that the municipality expended \$100,022.10 of Liquid Fuels Tax Fund money on construction project No. C-08-38301-14CA. However, the amount approved to be expended from the Liquid Fuels Tax Fund for this project was \$79,022.10. The difference of \$21,000.00 should have been paid directly from the General Fund.

Additionally, the municipality expended \$103,933.41 of Liquid Fuels Tax Fund money on construction project No. C-09-38301-19. However, the amount approved to be expended from the Liquid Fuels Tax Fund for this project was \$82,933.41. The difference of \$21,000.00 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.

On December 17, 2009, the municipality reimbursed \$21,000.00 to the Liquid Fuels Tax Fund for project No. C-09-38301-19.

The failure to comply with the Department of Transportation's Regulations could result in the municipality having to reimburse \$21,000.00 to its Liquid Fuels Tax Fund for project No. C-08-38301-14CA.

Recommendations

We recommend that the municipality reimburse \$21,000.00 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.

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Finding No. 4 - Liquid Fuels Money Overexpended On Projects (Continued)

Management's Response

The municipal officials stated:

C-08-38301-14CA County Aid was received but was not deposited into the Liquid Fuels account.

This was deposited into the General Fund by mistake and was corrected as soon as it was discovered.

C-09-38301-19 County Aid was deposited into Liquid Fuels – which resulted in a wash due to all the expenditures for the project being paid out of Liquid Fuels.

A portion of the expenditures for which the county provided aid to the city should have been paid out of the General Fund with the remaining amount paid out of Liquid Fuels. If this is done correctly, when the city received the reimbursement from the county, it should be deposited into the General Fund.

Auditor's Conclusion

As of date of this report \$21,000.00 had not been reimbursed to the Liquid Fuels Tax Fund for project No. 08-38301-14CA. During our next examination we will determine if the municipality complied with our recommendations.

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LEBANON COUNTY
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Finding No. 5 - Nonpermissible Expenditure

Our examination disclosed that on February 8, 2008, the municipality expended \$220.46 from the Liquid Fuels Tax Fund for a right-of-way for bridge construction, which is a nonpermissible expenditure.

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 right-of-ways, are outside the scope of permissible expenditures.

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 \$220.46 to its Liquid Fuels Tax Fund.

A similar finding was also written in our prior examination period.

Recommendations

We recommend that the municipality reimburse \$220.46 to its Liquid Fuels Tax Fund upon official notification by the Department of Transportation.

We again 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:

A purchase order will be written as soon as possible to correct this error.

CITY OF LEBANON
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LIQUID FUELS TAX FUND
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Finding No. 5 - Nonpermissible Expenditure (Continued)

Auditor's Conclusion

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

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Finding No. 6 - Commingling Of Funds

Our examination disclosed that city maintained its Liquid Fuels Tax Fund money in a concentration account that included money from other city funds. Although the city maintained a ledger detailing receipts and disbursements made from the Liquid Fuels Tax Fund, it did not maintain documentation for the calculation of interest earned on Liquid Fuels Tax Fund money. Therefore, we were unable to determine if the interest calculations were accurate.

The Liquid Fuels Tax Municipal Allocation Law, Title 72 P.S. § 2615.5, provides, in pertinent part, that in order to qualify for its share of the money provided, each municipality shall:

- (4) establish and maintain a special fund into which the moneys provided in section 4, clause (1) of this act shall be deposited and into which no other moneys may be deposited or commingled; . . .

Although this section of the Liquid Fuels Tax Municipal Allocation Law provides that money received under the Liquid Fuels Tax Act may not be commingled with other municipal funds, this does not mean that they cannot be combined for investment purposes, as long as certain conditions are met. The Pennsylvania Department of Transportation's Publication 9, Chapter Two, Section 2.6.1, states:

All monies in the liquid fuels account should be invested to earn interest until expended and may be combined with other municipal funds for investment purposes. However, the municipality must maintain records (MS-994 investment Schedule or its equivalent) that provide a clear audit trail for both the principal and interest earnings.

Recommendation

We recommend that, when liquid fuels funds are combined with other funds for investment purposes, the calculation of interest earned must be documented.

Management's Response

The municipal officials stated:

As of May 7, 2010 all the city's bank accounts have been transferred to separate accounts.

CITY OF LEBANON
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LIQUID FUELS TAX FUND
COMMENT
FOR THE TWO YEARS ENDED
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Comment - Summary Of Prior Examination Recommendations

In our prior report we recommended that the Department of Transportation review our examination finding to determine if the municipality should reimburse \$1,013.14 to its Liquid Fuels Tax Fund for right-of-ways for bridge construction, which are nonpermissible expenditures. A similar finding was also written in our current report (see Finding No. 5).

During our current examination we reviewed a letter dated March 15, 2010, from the Department of Transportation informing the municipality to reimburse \$1,013.14 to its Liquid Fuels Tax Fund. As of the date of this report this amount had not been reimbursed to its Liquid Fuels Tax Fund.

In our prior report we also recommended:

- That the municipality file all required documents and information timely to receive its allocation during the first week in April.
- That the municipality comply with the investment limitations of the *Third Class City Code*.

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

CITY OF LEBANON
LEBANON COUNTY
LIQUID FUELS TAX FUND
SUMMARY OF EXIT CONFERENCE
FOR THE TWO YEARS ENDED
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An exit conference was held June 29, 2010. Those participating were:

CITY OF LEBANON

The Honorable Sherry L. Capello, Mayor
Mrs. Cheryl Gibson, City Clerk
Ms. Debra Gates, Director of Administration
Ms. Lori Burkey, Finance Officer
Ms. Helen Westphal, Accountant
Mr. Gordon Kirlessnar, Director of Public Works
Ms. Vanessa Lopez, Public Works
Ms. Mary Holvak, CPA Firm

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, 2009

This report was initially distributed to:

Mr. Barry J. Schoch
Acting Secretary
Department of Transportation

City of Lebanon
Lebanon County
400 South 8th Street
Lebanon, PA 17042

The Honorable Sherry L. Capello

Mayor

Mrs. Cheryl Gibson

City Clerk

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.