

# ATTESTATION ENGAGEMENT

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**Borough of Lititz**  
Lancaster County, Pennsylvania  
36-409  
**Liquid Fuels Tax Fund**  
For the Period  
January 1, 2017 to December 31, 2017

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May 2019



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



Commonwealth of Pennsylvania  
Department of the Auditor General  
Harrisburg, PA 17120-0018  
Facebook: Pennsylvania Auditor General  
Twitter: @PAAuditorGen  
www.PaAuditor.gov

EUGENE A. DePASQUALE  
AUDITOR GENERAL

### Independent Auditor's Report

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

We examined the accompanying Form MS-965 With Adjustments for the Liquid Fuels Tax Fund of the Borough of Lititz, Lancaster County, for the period January 1, 2017 to December 31, 2017. The municipality's management is responsible for presenting the Form MS-965 in accordance with the criteria set forth in Note 1. Our responsibility is to express an opinion on the Form 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. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether the Form MS-965 is presented in accordance with the criteria described above, in all material respects. An examination involves performing procedures to obtain evidence about the Form MS-965. The nature, timing and extent of the procedures selected depend on our judgement, including an assessment of the risks of material misstatement of the Form MS-965, whether due to fraud or error. We believe that the evidence we obtained is sufficient and appropriate to provide 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 Finding No. 3, the adjustments included on the Form MS-965 With Adjustments are made by the Department of the Auditor General.

## Independent Auditor's Report (Continued)

As discussed in Finding No. 1, the municipality expended \$217,299.68 twice from the Liquid Fuels Tax Fund for the same invoice. This amount was reimbursed to the Liquid Fuels Tax Fund on January 26, 2018, which was subsequent to our examination period.

In our opinion, except for the matter discussed in the preceding paragraph, the Form MS-965 With Adjustments presents, in all material respects, the information required by the Pennsylvania Department of Transportation for the Liquid Fuels Tax Fund of the Borough of Lititz, Lancaster County, for the period January 1, 2017 to December 31, 2017, in accordance with the criteria set forth in Note 1.

In accordance with *Government Auditing Standards*, we are required to report all deficiencies that are considered to be significant deficiencies or material weaknesses in internal control; fraud and noncompliance with provisions of laws or regulations that have a material effect on the Form MS-965; and any other instances that warrant the attention of those charged with governance; noncompliance with provisions of contracts or grant agreements, and abuse that has a material effect on the Form MS-965. We are also required to obtain and report the views of responsible officials concerning the findings, conclusions, and recommendations, as well as any planned corrective actions. We performed our examination to express an opinion on whether the Form MS-965 is 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 Form MS-965 or on compliance and other matters; accordingly, we express no such opinions.

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

Our consideration of the internal control was for the limited purpose of expressing an opinion on whether the Form MS-965 is presented in accordance with the criteria described above and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the findings listed below, that we consider to be material weaknesses in internal control:

- Duplicate Payment Of Invoice.
- Electronic Imaging Of Canceled Checks From The Bank Did Not Include The Backs Of The Checks.
- Failure To Properly Prepare Form MS-965.
- Inadequate Internal Control Over The Facsimile Signature Stamp.

Independent Auditor's Report (Continued)

As part of obtaining reasonable assurance about whether the Form MS-965 is free from material misstatement, we performed tests of the Borough of Lititz, Lancaster County's compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of amounts on the Form MS-965. However, providing an opinion on compliance with those provisions was not an objective of our engagement, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The purpose of this report is to determine whether the municipality's Liquid Fuels Tax Fund money is spent in accordance with the laws and regulations identified in the Background section of this report and the Department of Transportation's *Publication 9*. This report is not suitable for any other purpose.

We appreciate the courtesy extended by the Borough of Lititz, Lancaster County, to us during the course of our examination. If you have any questions, please feel free to contact Michael B. Kashishian, CPA, CGAP, CFE, Director, Bureau of County Audits, at 717-787-1363.



Eugene A. DePasquale  
Auditor General

April 5, 2019

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BOROUGH OF LITITZ  
LANCASTER COUNTY  
LIQUID FUELS TAX FUND  
BACKGROUND  
FOR THE PERIOD  
JANUARY 1, 2017 TO DECEMBER 31, 2017

Background

The Liquid Fuels Tax Municipal Allocation Law, Act 655 of 1956, as amended, (72 P.S. § 2615.5 et seq.), 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 allocation of Liquid Fuels Tax funds and annual maintenance payments that it receives into a special fund called either 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 such a 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. Department of Transportation's *Publication 9* includes the policies and procedures for the administration of Act 655, as amended, and the Liquid Fuels Tax Fund money. However, if there is a difference between *Publication 9* and any legislation, the legislation shall govern.

To qualify for the annual allocation of Liquid Fuels Tax funds, *Publication 9* indicates that each municipality shall:

1. Submit annual reports (MS-965, Actual Use Report, MS-965P, Project and Miscellaneous Receipts, and MS-965S, Record of Checks).
2. Make deposits and payments or expenditures in compliance with Act 655 of 1956, as amended. Failure to do so may result in not receiving allocations from PennDOT until all discrepancies are resolved. *Publication 9*, Section 2.6, includes information about investing Liquid Fuels Tax monies, using loan or bond proceeds, and types of receipts into the Liquid Fuels Tax Fund.

BOROUGH OF LITITZ  
LANCASTER COUNTY  
LIQUID FUELS TAX FUND  
BACKGROUND  
FOR THE PERIOD  
JANUARY 1, 2017 TO DECEMBER 31, 2017

Background (Continued)

3. Submit the Pennsylvania Department of Community and Economic Development's (DCED) Report of Elected and Appointed Officials by January 31<sup>st</sup> and the Survey of Financial Condition By March 15<sup>th</sup>.
4. Ensure resolution of all Contractor Responsibility Program (CRP) holds and blocks imposed by the Department of Revenue and the Department of Labor and Industry.
5. Ensure resolution of all reimbursements required as a result of audits performed by the Department of the Auditor General or monitoring reviews performed by the Department of Transportation's Financial Consultants.

BOROUGH OF LITITZ  
LANCASTER COUNTY  
LIQUID FUELS TAX FUND  
2017 FORM MS-965 – SECTION 1  
WITH ADJUSTMENTS

<u>Expenditure Summary</u>	<u>Reported</u>	<u>Adjustments (Finding No. 3)</u>	<u>Adjusted Amount</u>
Major equipment purchases	\$ -	\$ -	\$ -
Minor equipment purchases	-	-	-
Computer/Computer related training	-	-	-
Agility projects	-	-	-
Cleaning streets and gutters	-	-	-
Winter maintenance services	9,412.67	-	9,412.67
Traffic control devices	27,017.36	-	27,017.36
Street lighting	91,512.13	-	91,512.13
Storm sewers and drains	-	-	-
Repairs of tools and machinery	-	1,339.21	1,339.21
Maintenance and repair of roads and bridges	15,838.47	(1,339.21)	14,499.26
Highway construction and rebuilding projects	916,709.76	-	916,709.76
Miscellaneous (Note 5)	-	240,042.44	240,042.44
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total (To Section 2, Line 5)	<u>\$ 1,060,490.39</u>	<u>\$ 240,042.44</u>	<u>\$ 1,300,532.83</u>

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



BOROUGH OF LITITZ  
LANCASTER COUNTY  
LIQUID FUELS TAX FUND  
2017 FORM MS-965 – SECTION 2  
WITH ADJUSTMENTS

<u>Fund Balance</u>	<u>Reported</u>	<u>Adjustments (Finding No. 3)</u>	<u>Adjusted Amount</u>
1. Balance, January 1, 2017	\$ 319,296.57	\$ -	\$ 319,296.57
Receipts:			
2. State allocation	257,690.78	-	257,690.78
2a. Turnback allocation	720.00	-	720.00
2b. Interest on investments (Note 3)	807.03	-	807.03
2c. Miscellaneous (Note 4)	<u>700,957.67</u>	<u>22,742.76</u>	<u>723,700.43</u>
3. Total receipts	<u>960,175.48</u>	<u>22,742.76</u>	<u>982,918.24</u>
4. Total funds available	<u>1,279,472.05</u>	<u>22,742.76</u>	<u>1,302,214.81</u>
5. Expenditures (Section 1)	<u>1,060,490.39</u>	<u>240,042.44</u>	<u>1,300,532.83</u>
6. Balance, December 31, 2017	<u>\$ 218,981.66</u>	<u>\$ (217,299.68)</u>	<u>\$ 1,681.98</u>

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

BOROUGH OF LITITZ  
LANCASTER COUNTY  
LIQUID FUELS TAX FUND  
2017 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	\$ 319,296.57	\$ -	\$ 319,296.57
2. Add: Current year equipment allocation (20% of Lines 2 + 2a, Section 2)	51,682.16	-	51,682.16
3. PENNDOT approved adjustments	<u>-</u>	<u>-</u>	<u>-</u>
4. Total funds available for equipment acquisition	370,978.73	-	370,978.73
5. Less: Major equipment expenditures	<u>-</u>	<u>-</u>	<u>-</u>
6. Remainder	<u>370,978.73</u>	<u>-</u>	<u>370,978.73</u>
7. Equipment balance available for subsequent year (Lesser of Line 6 or Section 2 balance, but not less than zero)	<u>\$ 218,981.66</u>	<u>\$ (217,299.68)</u>	<u>\$ 1,681.98</u>

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

BOROUGH OF LITITZ  
LANCASTER COUNTY  
LIQUID FUELS TAX FUND  
NOTES TO FORM MS-965 WITH ADJUSTMENTS  
FOR THE PERIOD  
JANUARY 1, 2017 TO DECEMBER 31, 2017

1. Criteria

Section 1

This section of Form MS-965 With Adjustments provides a summary of Liquid Fuels Tax Fund expenditures by category. Categories requiring explanation include:

- Major equipment purchases are purchases of road machinery and road equipment with varying yearly costs in excess of the amounts indicated below:

2013	2014	2015/2016	2017
\$10,200.00	\$10,300.00	\$10,500.00	\$10,700.00

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

2013	2014	2015/2016	2017
\$10,200.00	\$10,300.00	\$10,500.00	\$10,700.00

- Agility projects are exchanges of services with the Department of Transportation.

Section 2

This section of Form MS-965 With Adjustments provides information on the fund balance. Categories requiring explanation include:

- The state allocation is available from the Department of Transportation in March of each year. The amount the municipality receives is based half on its population and half on its road mileage.
- Municipalities that transferred roads from the Commonwealth of Pennsylvania to the municipality through the Highway Transfer Program receive annual turnback allocations in March of each year from the Department of Transportation. Turnback allocations are based on the mileage of the roads transferred.

BOROUGH OF LITITZ  
LANCASTER COUNTY  
LIQUID FUELS TAX FUND  
NOTES TO FORM MS-965 WITH ADJUSTMENTS  
FOR THE PERIOD  
JANUARY 1, 2017 TO DECEMBER 31, 2017

1. Criteria (Continued)

Section 2 (Continued)

- Expenditures include the total transferred from Section 1.

Section 3

This section of Form MS-965 With Adjustments determines if the municipality expended Liquid Fuels Tax Fund money in excess of the permissible amount for equipment and the balance that the municipality may carry forward for the purchase of equipment to the subsequent year.

Department of Transportation *Publication 9* requires that the amount expended for equipment purchases in a given year not exceed the sum of the equipment balance carried forward from the previous year and 20 percent of the current year's Liquid Fuels Tax Fund allocation and, if applicable, 20 percent of the turnback allocation plus other Department of Transportation approved adjustments.

If the municipality spent in excess of the amount listed on Line 4, the excess must be reimbursed to the Liquid Fuels Tax Fund.

The equipment balance to be carried forward for the subsequent year is the lesser of the amount on Line 6 or the ending fund balance on Line 6 of Section 2, but not less than zero.

Basis Of Presentation

The financial activities of the municipality are accounted for in separate funds. The Liquid Fuels Tax Fund is used to account for state aid revenues from the Pennsylvania Department of Transportation used primarily for building and improving local roads and bridges. The Form MS-965 has 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 Form MS-965 With Adjustments is restricted to the Liquid Fuels Tax Fund, which represents a segment of the entity.

BOROUGH OF LITITZ  
LANCASTER COUNTY  
LIQUID FUELS TAX FUND  
NOTES TO FORM MS-965 WITH ADJUSTMENTS  
FOR THE PERIOD  
JANUARY 1, 2017 TO DECEMBER 31, 2017

1. Criteria (Continued)

Basis Of Accounting

The accompanying Form MS-965 With Adjustments is prepared in accordance with reporting requirements prescribed by the Pennsylvania Department of Transportation. Under this method, revenues are recognized when received and expenditures are recorded when paid.

General Fixed Assets

General fixed assets are recognized as expenditures at the time of purchase. No depreciation has been provided on the heavy equipment used to maintain and repair roads and bridges.

2. Deposits

*The Borough Code*, Title 53 P.S. § 46316, authorizes the borough to deposit its funds in the following:

- Deposits in savings accounts or time deposits, other than certificates of deposit or share accounts, of institutions having their principal place of business in the Commonwealth of Pennsylvania and insured by the Federal Deposit Insurance Corporation (FDIC) or other like insurance. For any amount above the insured maximum, the depository shall pledge approved collateral.
- Certificates of deposit purchased from institutions insured by the FDIC or other like insurance to the extent that such accounts are so insured. For any amounts in excess of the insured maximum, such deposits shall be collateralized by a pledge or assignment of assets. Certificates of deposit may not exceed 20 percent of a bank's total capital surplus or 20 percent of a savings and loan or savings bank's assets minus liabilities.

Deposits consist of receipts and deposits in 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.

BOROUGH OF LITITZ  
LANCASTER COUNTY  
LIQUID FUELS TAX FUND  
NOTES TO FORM MS-965 WITH ADJUSTMENTS  
FOR THE PERIOD  
JANUARY 1, 2017 TO DECEMBER 31, 2017

2. Deposits (Continued)

There were no deposits exposed to custodial credit risk as of December 31, 2017. Custodial credit risk, as defined by GASB No. 40, as amended, 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.

Fund Balance

The fund balance as of December 31, 2017, consists of the following:

Cash	\$1,681.98
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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 \$807.03 during 2017, thus providing additional funds for road maintenance and repairs.

4. Miscellaneous Receipts

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

Source	Description	Amount
Commonwealth of Pennsylvania General Fund	Bridge reimbursement agreements (Note 8)	\$694,814.45
General Fund	Corrections of transfers in error (Note 6)	18,638.83
General Fund	Transfer in error (Note 6)	600.00
Commonwealth of Pennsylvania	Deposits in error (Note 7)	3,503.93
Local business	Reimbursement for damages	5,845.27
Vendor	Reimbursement for materials	297.95
Total		\$723,700.43

BOROUGH OF LITITZ  
LANCASTER COUNTY  
LIQUID FUELS TAX FUND  
NOTES TO FORM MS-965 WITH ADJUSTMENTS  
FOR THE PERIOD  
JANUARY 1, 2017 TO DECEMBER 31, 2017

5. 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>Amount</u>
Vendor	Duplicate payment (Finding No. 1)	\$217,299.68
General Fund	Correction of transfer in error (Note 6)	600.00
General Fund	Correction of deposits in error (Note 7)	3,503.93
General Fund	Transfers in error (Note 6)	18,638.83
		<hr/>
Total		<u>\$240,042.44</u>

6. Transfers In Error

On October 7, 2017, the municipality transferred \$600.00 from its General Fund to its Liquid Fuels Tax Fund in error. On November 7, 2017, the municipality transferred this amount from its Liquid Fuels Tax Fund to its General Fund to correct the transfer in error.

On May 18, 2017 and November 27, 2017, the municipality transferred \$17,410.14 and \$1,228.69, respectively, from its Liquid Fuels Tax Fund to its General Fund in error. On May 31, 2017 and December 15, 2017, the municipality transferred \$17,410.14 and \$1,228.69, respectively, from its General Fund to its Liquid Fuels Tax Fund to correct the transfers in error.

7. Deposits In Error

On April 25, 2017 and December 5, 2017, state funds of \$1,200.00 and \$2,303.93, respectively, were electronically deposited into the Liquid Fuels Tax Fund in error. On May 9, 2017 and December 15, 2017, the municipality transferred \$1,200.00 and \$2,303.93, respectively, from its Liquid Fuels Tax Fund to its General Fund to correct the deposits in error.

8. Reimbursable Agreements

During our examination we noted that the municipality entered into reimbursement agreements with the Department of Transportation for the reconstruction of bridges. During our current examination period the municipality received \$694,814.45 as a result of these agreements. As of December 31, 2017, \$128,766.70 was due the Liquid Fuels Tax Fund.

BOROUGH OF LITITZ  
LANCASTER COUNTY  
LIQUID FUELS TAX FUND  
FINDINGS AND RECOMMENDATIONS  
FOR THE PERIOD  
JANUARY 1, 2017 TO DECEMBER 31, 2017

**Finding No. 1 - Duplicate Payment Of Invoice**

Our examination disclosed that the municipality paid the following invoice twice:

<u>Invoice Number</u>	<u>First Check No.</u>	<u>First Date Paid</u>	<u>Second Check No.</u>	<u>Second Date Paid</u>	<u>Invoice Amount</u>
4	2528	08/06/17	Electronic transfer	08/15/17	<u>\$217,299.68</u>

Although this money was reimbursed to the Liquid Fuels Tax Fund on January 26, 2018, which was subsequent to our examination period, the primary concern is the inadequate internal controls which enabled the duplicate payment of \$217,299.68 to remain undetected for five months.

Good internal controls ensure that all invoices are reviewed timely to avoid duplicate payments. The failure to follow this procedure increases the possibility that duplicate payments can be made on vendor invoices and go undetected for long periods of time.

Recommendation

We recommend that the municipality establish and implement internal controls to ensure vendor invoices are reviewed timely to avoid duplicate payments.

Management's Response

The Manager/Secretary/Treasurer stated:

The double payment to the vendor in August 2017, the funds were transferred back to the Highway Aid Fund on January, 26, 2018.

Auditor Conclusion

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



BOROUGH OF LITITZ  
LANCASTER COUNTY  
LIQUID FUELS TAX FUND  
FINDINGS AND RECOMMENDATIONS  
FOR THE PERIOD  
JANUARY 1, 2017 TO DECEMBER 31, 2017

**Finding No. 2 - Electronic Imaging Of Canceled Checks From The Bank Did Not Include The Back Of The Checks**

Our examination disclosed that the municipality made transfers from the Liquid Fuels Tax Fund to the General Fund for the reimbursement of expenditures that could have been paid from the Liquid Fuels Tax Fund. Therefore, our disbursement test included checks from the General Fund account. During our testing, we discovered that the imaging of cancelled checks from the General Fund bank account was not acceptable because the bank provides only the front side of the cancelled checks. For us to properly complete our examination testing, we have to examine the front and back of the cancelled checks. Although the municipality obtained and provided us with copies of the backs of those cancelled checks that we needed to review for our examination, the municipality should be receiving images of the backs of all cancelled checks in order to have good internal controls.

Good internal controls and the Commonwealth of Pennsylvania Management Directive 210.11, dated June 16, 1997, require that imaging systems comply with the provisions of the Internal Revenue Service (IRS) procedures for record keeping with electronic imaging. To be acceptable, the documents provided by the system must meet IRS procedures governing size, content, format, and pattern. Those procedures require that all images produced by the imaging system exhibit a high degree of legibility and readability when displayed on paper. Legibility includes the ability to identify all letters and numerals positively and quickly. Readability includes the ability to recognize a group of letters or numerals as words or completed numbers. Imaged documents must include the front and back of a document in which both the front and back are used.

Further, good internal controls ensure that by having a municipal official review the front and back of the cancelled checks, any errors or misappropriations can be detected on a timely basis.

Without this control, the potential exists for errors or misappropriations to go undetected for long periods of time.

**Recommendations**

We recommend that the municipal officials obtain images of the front and back of cancelled checks in accordance with Directive 210.11. Additionally, municipal officials should review the front and back of each cancelled check for any errors or misappropriations.

BOROUGH OF LITITZ  
LANCASTER COUNTY  
LIQUID FUELS TAX FUND  
FINDINGS AND RECOMMENDATIONS  
FOR THE PERIOD  
JANUARY 1, 2017 TO DECEMBER 31, 2017

**Finding No. 2 - Electronic Imaging Of Canceled Checks From The Bank Did Not Include  
The Back Of The Checks (Continued)**

Management's Response

The Manager/Secretary/Treasurer stated:

I am working with the bank to get copies of backs of checks, not their regular process. I asked for all highway aid checks for 2017, 2018 and from now on.

Auditor's Conclusion

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

BOROUGH OF LITITZ  
LANCASTER COUNTY  
LIQUID FUELS TAX FUND  
FINDINGS AND RECOMMENDATIONS  
FOR THE PERIOD  
JANUARY 1, 2017 TO DECEMBER 31, 2017

**Finding No. 3 - Failure To Properly Prepare Form MS-965**

Our examination disclosed that there were numerous errors made in the preparation of the municipality's 2017 Form MS-965. These errors resulted in the following adjustments:

Section 1

- Adjustments were made to "Repairs of tools and machinery" and "Maintenance and repair of roads and bridges" because expenditures of \$1,339.21 were misclassified.
- An adjustment of \$240,042.44 was made to "Miscellaneous" because these expenditures were not reported (see Note 5).

Section 2

- An adjustment of \$22,742.76 was made to "Miscellaneous" because these receipts were understated.

Good internal controls ensure that the municipality complete its Form MS-965 accurately and completely. The failure to properly complete Form MS-965 increases the risk that errors or misappropriations may occur and remain undetected.

Recommendation

We recommend that the municipality ensure that its Form MS-965 is complete and accurate.

Management's Response

The manager/secretary/treasurer stated:

Due to the double payment in Finding No. 1, this was transferred back in 2018.

Auditor Conclusion

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

BOROUGH OF LITITZ  
LANCASTER COUNTY  
LIQUID FUELS TAX FUND  
FINDINGS AND RECOMMENDATIONS  
FOR THE PERIOD  
JANUARY 1, 2017 TO DECEMBER 31, 2017

**Finding No. 4 - Inadequate Internal Control Over The Facsimile Signature Stamp**

Our examination disclosed a significant weakness in the municipality's internal control that requires at least two authorized signatures on checks drawn on the Liquid Fuels Tax Fund. The authorized signatures are the President of council and Borough Manager/Secretary/Treasurer. This control was circumvented each time that the consultant (borough employee) applied the facsimile signature stamp that included the signatures of both the president and the manager/secretary/treasurer. The Borough Manager/Secretary/Treasurer would also sign most of the checks, but there were several checks with only the signatures from the signature stamp.

Good internal controls require that there are at least two authorized signatures on checks drawn on the Liquid Fuels Tax Fund. If a facsimile signature stamp represents any of the authorized signatures, then the municipal official whose signature is represented on each stamp and only that municipal official should apply the stamp and safeguard it to prevent unauthorized use. Facsimile signature stamps should not contain multiple signatures. Without this control, the risk that errors or misappropriations may occur and remain undetected increases significantly.

Recommendation

We recommend that the municipality establish and implement an adequate system of internal controls over disbursements. This includes ensuring that there are at least two authorized signatures on checks, and that if the facsimile signature stamp of the municipal officials is used, each municipal official have their own stamp and the stamp should be maintained and applied by the municipal official whose name is represented on the stamp.

Management's Response

The Manager/Secretary/Treasurer stated:

The signature stamp has President and Treasurer's signatures, stamped by the consultant and then signed by the manager/secretary/treasurer. We will get another signature stamp with only the President's signature so that the Manager/Secretary/Treasurer's signature on the checks will be the original and not also a stamped signature.

Auditor's Conclusion

As stated above, if a signature stamp is used, the municipal official whose signature it contains should maintain control of the stamp be the only person to apply the signature. During our next examination we will determine if the municipality complied with our recommendation.

BOROUGH OF LITITZ  
LANCASTER COUNTY  
LIQUID FUELS TAX FUND  
SUMMARY OF PRIOR EXAMINATION RECOMMENDATION  
FOR THE PERIOD  
JANUARY 1, 2017 TO DECEMBER 31, 2017

Summary Of Prior Examination Recommendation

In our prior report we recommended that the municipality file all required documents and information timely to receive its allocation during the first week in March.

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

BOROUGH OF LITITZ  
LANCASTER COUNTY  
LIQUID FUELS TAX FUND  
SUMMARY OF EXIT CONFERENCE  
FOR THE PERIOD  
JANUARY 1, 2017 TO DECEMBER 31, 2017

An exit conference was held March 5, 2019. Those participating were:

BOROUGH OF LITITZ

Ms. Sue Barry, Borough Manager/Secretary/Treasurer

DEPARTMENT OF THE AUDITOR GENERAL

Mr. Michael Klassen, Audit Supervisor

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

BOROUGH OF LITITZ  
LANCASTER COUNTY  
LIQUID FUELS TAX FUND  
REPORT DISTRIBUTION  
FOR THE PERIOD  
JANUARY 1, 2017 TO DECEMBER 31, 2017

This report was initially distributed to:

**The Honorable Leslie Richards**  
Secretary  
Department of Transportation

**Borough of Lititz**  
Lancaster County  
7 South Broad Street  
Lititz, PA 17543

**The Honorable Karen M. Weibel**  
President of Council

**Ms. Sue Barry**  
Borough Manager/Secretary/Treasurer

This report is a matter of public record and is available online at [www.PaAuditor.gov](http://www.PaAuditor.gov). Media questions about the report can be directed to the Pennsylvania Department of the Auditor General, Office of Communications, 229 Finance Building, Harrisburg, PA 17120; via email to: [news@PaAuditor.gov](mailto:news@PaAuditor.gov).