
COMMONWEALTH OF PENNSYLVANIA



A SPECIAL INVESTIGATION OF THE
BOROUGH OF ELIZABETH, ALLEGHENY COUNTY

JULY 2008

JACK WAGNER, AUDITOR GENERAL

PENNSYLVANIA DEPARTMENT OF THE AUDITOR GENERAL



July 11, 2008

The Honorable John Yacura
Mayor
Borough of Elizabeth
206 Third Street
Elizabeth, PA 15037

The Honorable Monica Douglas
President
Borough Council
Borough of Elizabeth
206 Third Street
Elizabeth, PA 15037

Dear Mayor Yacura and Council President Douglas:

The Department of the Auditor General's Office of Special Investigations has completed its investigation of allegations of misappropriation of funds from the Borough's various accounts by a former Borough secretary. This report presents the findings and recommendations resulting from our investigation and is intended to assist Borough officials in preventing a recurrence of the problems identified in the report. Our investigation was neither designed nor intended to be a detailed study of every Borough system, procedure, or transaction. Accordingly, the findings and recommendations presented in this report only pertain to matters discovered in the investigation.

During the course of our investigation we found the following:

- The former Borough secretary wrote seven duplicate payroll checks to herself in the amount of \$4,135.85.
- The former Borough secretary wrote nine payroll account checks totaling \$3,305 to make payments on her student loans.
- The former Borough secretary received compensation from the Borough for a total of 836 hours of vacation, holiday, and personal leave that she was not entitled to receive as a part-time employee.

- The former Borough secretary misappropriated an undetermined amount of cash she received on behalf of the Borough in the form of fees paid by Borough residents for trash collection and reimbursements paid by Borough employees for personal use of cell phones.

We strongly urge the Borough to implement all of the recommendations made in this report. We commend the Borough for the measures it has already taken and for its intention to implement our recommendations as expressed in the Borough Solicitor's letter of July 2, 2008, which is appended to this report as "Borough's Response to Draft Report." The Department of the Auditor General will follow up at the appropriate time to confirm that all of our recommendations have been implemented.

A complete report of our investigative findings has been furnished to the Office of the District Attorney of Allegheny County for its review and whatever further action it may deem appropriate.

This report is a public document and its distribution is not limited. Additional copies can be obtained through the Department of the Auditor General's website, www.auditorgen.state.pa.us.

Sincerely,

/S/

JACK WAGNER
Auditor General

TABLE OF CONTENTS

| | |
|--|----|
| Executive Summary | 1 |
| Background and Introduction | 3 |
| Findings: | |
| I. The former Borough secretary wrote seven duplicate payroll checks to herself in the amount of \$4,135.85 | 6 |
| Conclusion and Recommendations | 7 |
| II. The former Borough secretary wrote nine payroll account checks totaling \$3,305 to make payments on her student loans..... | 9 |
| Conclusion and Recommendation | 10 |
| III. The former Borough secretary received compensation from the Borough for a total of 836 hours of vacation, holiday, and personal leave that she was not entitled to receive as a part-time employee . | 11 |
| Conclusion and Recommendation | 12 |
| IV. The former Borough secretary misappropriated an undetermined amount of cash she received on behalf of the Borough in the form of fees paid by Borough residents for trash collection and reimbursements paid by Borough employees for personal use of cell phones | 13 |
| Conclusion and Recommendations | 15 |
| Borough’s Response to Draft Report..... | 16 |
| Department of the Auditor General’s Comments on Borough’s Response to Draft Report | 18 |

Distribution List..... 19

EXECUTIVE SUMMARY

| FINDINGS | RECOMMENDATIONS |
|---|--|
| <p><u>FINDING I:</u> The former Borough secretary wrote seven duplicate payroll checks to herself totaling \$4,135.85.</p> | <p>We recommend that the Borough should establish a policy regarding pay advances to employees setting forth the circumstances in which payroll advances will be granted, the Borough official responsible for granting permission, the method of documenting the approval, and requiring two signatures on the check. The Borough should also consider requiring direct deposit of pay into each employee's personal bank account, thereby eliminating the need for payroll advances.</p> <p>We also recommend that the Borough establish better internal controls over disbursements from Borough accounts, including unannounced bank reconciliations, reviewing cancelled checks for payee and endorsements, requiring two signatures on all checks, maintaining a log of all manually written payroll checks, and periodic reviews of that log.</p> |
| <p><u>FINDING II:</u> The former Borough secretary wrote nine payroll account checks totaling \$3,305 to make payments on her student loans.</p> | <p>We repeat the recommendation of Finding I that the Borough establish a better internal control system with regard to all Borough accounts.</p> |

| | |
|--|---|
| <p><u>FINDING III:</u> The former Borough secretary received compensation from the Borough for a total of 836 hours of vacation, holiday, and personal leave that she was not entitled to receive as a part-time employee.</p> | <p>We recommend that the Borough institute internal controls over the payroll system and assign someone to periodically review the payroll service reports to ensure that the pay rates are in agreement with Borough policy and the employees' established pay rates.</p> |
| <p><u>FINDING IV:</u> The former Borough secretary misappropriated an undetermined amount of cash she received on behalf of the Borough in the form of fees paid by Borough residents for trash collection and reimbursements paid by Borough employees for personal use of cell phones.</p> | <p>We recommend that Borough Council implement the internal controls recommended in Findings I and II, and require the use of pre-numbered duplicate receipts for all cash payments (one copy for the customer and the other for the Borough). We also recommend that Borough Council assign someone the responsibility to periodically compare the receipts issued to the bank deposits to verify that the money was actually deposited into the Borough's bank account.</p> |

BACKGROUND AND INTRODUCTION

The Borough of Elizabeth, Allegheny County (“Borough”), consists of 0.4 square miles approximately 14 miles southeast of Pittsburgh. Its population in the 2000 census was 1,609. The Borough is governed by a Mayor and a seven member Borough Council. It employs three full-time employees and thirteen part-time employees.¹

In March 2007, the Department of the Auditor General (“Department”) received allegations that the former secretary of the Borough had misappropriated police pension funds and state grant funds. The matter was referred to the Department’s Office of Special Investigations (“OSI”) for an investigation.

OSI conducted its investigation through interviews with current and former Borough employees and members of Borough Council as well as by reviewing and analyzing various documents related to the case. Through interviews with the Mayor, members of Borough Council and the former Borough secretary (“former secretary”), OSI discovered the following:

- The former secretary worked for the Borough from November, 2000, to December, 2006.
- Her job duties included paying the Borough’s bills, preparing the biweekly payroll reports, submitting the reports to the payroll processing service,² recording the payroll checks into the Borough’s accounting system (i.e., the payroll account), maintaining the Borough’s accounting records, collecting fines and fees from the public, answering the telephone, and opening the mail.
- We found no evidence that anyone at the Borough or on Borough Council reviewed or approved the former secretary’s work.

The investigation concluded that the former secretary misappropriated at least \$15,710 from the Borough, as detailed in Table 1. More specifically, she cashed duplicate paychecks that she wrote to herself from the Borough’s payroll account, she wrote unauthorized checks from the Borough’s bank account to the Pennsylvania Higher Education Assistance Agency (“PHEAA”) to pay her student loans, and she claimed and

¹Source: Municipal Statistics filed with the Pennsylvania Department of Community and Economic Development.

²A payroll processing service is an outside vendor that uses information from a client (i.e., hours worked and pay rate for each of the client’s employees) to calculate the gross payroll for the client and all deductions from gross payroll (e.g., taxes), to determine the net payroll, and prepares individual paychecks for the client’s employees.

was compensated for 836 hours of vacation, holiday, and personal leave that she was not eligible to receive as a part-time employee.³

Table 1
Summary of Borough Funds Misappropriated
by the Former Borough Secretary

| Method | Dollar Amount | Discussed in |
|--|-----------------|--------------------|
| Duplicate Paychecks | \$4,135 | Finding I |
| Payments to PHEAA | \$3,305 | Finding II |
| Ineligible Vacation, Holiday, and Personal Pay | \$8,270 | Finding III |
| Total | \$15,710 | |

We also discovered evidence (discussed in Finding IV) that the former secretary misappropriated a substantial amount of cash she received on behalf of the Borough in the form of fees paid by Borough residents for trash collection and cash paid by Borough employees to reimburse the Borough for personal cell phone use. However, we were not able to ascertain how much she misappropriated due to the Borough’s lack of internal controls regarding these remittances and her failure to keep adequate records.

The former secretary was interviewed by OSI on October 24, 2007, and her statements in response to questions posed appear in the discussion under the findings later in this report. Particularly noteworthy is her response when asked if she took the money (referring to everything), to which she replied, “Do you expect me to answer that without a lawyer present?” She also contended that while she may have done a “poor job” as Borough secretary, she put the money back “one way or another,” which is, of course, an admission that she converted Borough money to her own use for at least the period of time until she put the money back. However, even if she put some of the money back, the evidence shows that a substantial sum of money was never put back.

³Regarding the initial allegations, OSI found no evidence of misuse or fraudulent activity regarding the following Commonwealth grants received by the Borough: Contract No. C000011409 (\$5,000 for new chairs for local senior center and Borough Hall), Contract No. C000016214 (\$10,000 for beautification and police safety gear), C000012564 (\$5,000 for new police equipment), and Contract No. C000008633 (\$10,000 for a new dump truck).

However, OSI was able to trace the pension money the Borough received from the Commonwealth into the Borough’s general fund where, commingled with other Borough revenues, it was used to pay the Borough’s payroll and other operating costs. Municipalities that have employee pension plans receive General Municipal Pension System State Aid from the Commonwealth each year pursuant to Act 205 of 1984, as amended. Upon receipt, a municipality may deposit the money within 30 days into its general fund, but it must then allocate the money among its various pension funds and transfer the money into the pension fund accounts. The Department’s Bureau of Municipal Pension Audits will follow up in its next cyclical audit of the Borough’s pension plans to determine whether all state aid money received by the Borough has been deposited into the Borough’s pension fund accounts.

A complete report of our investigative findings has been furnished to the Office of the District Attorney of Allegheny County for its review and whatever further action it may deem appropriate.

FINDINGS AND RECOMMENDATIONS

Finding I: The former Borough secretary wrote seven duplicate payroll checks to herself totaling \$4,135.85.

The Borough utilized a payroll processing service company (“payroll service”) to prepare its bi-weekly payroll. The former secretary would prepare a bi-weekly report for all Borough employees, documenting the hours worked, and submit the report to the payroll service. The payroll service would prepare and return the payroll checks to the Borough for signature and distribution.

In addition to the blank payroll check stock maintained by the payroll service, the Borough also kept a supply of blank payroll checks for its payroll account that it used to pay the withholding taxes, union dues, and temporary employees.

The Borough’s supply of blank payroll checks was also used by the former secretary to write advance paychecks to employees. The advance paychecks would be written when an employee would be on vacation or other leave on a payday. According to the former secretary and other employees who received advance paychecks, permission was granted by the Borough Council President at the time these advances were made.

Our review of Borough Council meeting minutes for the time period from January, 2004, through June, 2007, found no discussion or authorization of payroll advances. However, the current Borough Council Vice President told OSI that he had granted payroll advances but did not feel comfortable granting them.

Our analysis of the payroll bank account, which is summarized in Table 2, revealed seven instances in which the former secretary received two paychecks within a few days of one another. Both paychecks were endorsed by the former secretary and processed through the bank, i.e., she received the money from them. One of the two paychecks would be written by the payroll service through normal payroll procedures, and the second paycheck would be written by the former secretary using one of the blank payroll checks maintained in the Borough office. The payroll checks prepared by the payroll service are signed by another Borough official. The checks the former secretary wrote to herself were signed solely by her.

Table 2
Summary of Duplicate Payroll Checks Received
by the Former Borough Secretary

| Checks Prepared By Payroll Service | | | | Checks Prepared By Former Secretary | | | |
|------------------------------------|---------------|--------------|-----------|-------------------------------------|---------------|--------------|-------------------|
| Check No. | Date Prepared | Date Cashed* | Amount | Check No. | Date Prepared | Date Cashed* | Amount |
| 468 | 07-01-03 | 07-01-03 | \$ 545.36 | 3336 | 07-01-03 | 07-02-03 | \$ 600.00 |
| 563 | 10-07-03 | 10-16-03 | \$ 618.48 | 3345 | 10-03-03 | 10-06-03 | \$ 620.27 |
| 50087 | 08-24-04 | 08-24-04 | \$ 614.03 | 3417 | 08-18-04 | 08-18-04 | \$ 700.00 |
| 50375 | 05-03-05 | 05-04-05 | \$ 604.11 | 3462 | 04-25-05 | 04-25-05 | \$ 563.87 |
| 50409 | 06-01-05 | 06-10-05 | \$ 582.69 | 3470 | 05-31-05 | 05-31-05 | \$ 597.07 |
| 50459 | 07-12-05 | 07-12-05 | \$ 673.01 | 3484 | 07-08-05 | 07-08-05 | \$ 754.64 |
| 50509 | 08-23-05 | 08-23-05 | \$ 629.72 | 3494 | 08-19-05 | 08-19-05 | \$ 300.00 |
| | | | | Total | | | \$4,135.85 |

* Check cashed on or about date listed.

When the former secretary was shown the duplicate paychecks written to her and asked if the checks were pay advances, she stated that they probably were pay advances. When she was informed that the duplicate checks were not voided and were processed through the bank (i.e., that she had cashed the checks), she stated that she probably cashed them and later wrote a check back to the general fund.

When she was informed that OSI reviewed all the bank records and could not find any deposits detailing any checks or money going back into the general fund, she stated that she was pretty sure she put the money back into the account.

Her explanation, even if true, is an admission that she converted the proceeds of the duplicate checks to her own use for at least the period of time until she wrote a check back to the general fund. However, the review of the bank deposits proves that her proffered explanation is false.

Conclusion and Recommendations

The former secretary misappropriated \$4,135.85 from the Borough's general fund. She was able to accomplish this due to the Borough's lax internal controls. No one was responsible for reviewing the former secretary's work, and there is no evidence that anyone performed periodic bank reconciliations or reviewed the use of manually prepared payroll checks.

We recommend that the Borough should establish a policy regarding pay advances to employees setting forth the circumstances in which payroll advances will be granted, the Borough official responsible for granting permission, the method of

documenting the approval, and requiring two signatures on the check. The Borough should also consider requiring direct deposit of pay into each employee's personal bank account, thereby eliminating the need for payroll advances.

We also recommend that the Borough establish better internal controls over disbursements from Borough accounts, including unannounced bank reconciliations, reviewing cancelled checks for payee and endorsements, requiring two signatures on all checks, maintaining a log of all manually written payroll checks, and periodic reviews of that log.

Finding II: The former Borough secretary wrote nine payroll account checks totaling \$3,305 to make payments on her student loans.

OSI's analysis of the payroll account also disclosed that the former secretary wrote nine checks payable to the Pennsylvania Higher Education Assistance Agency between September, 2003, and March, 2005, in the total amount of \$3,305. Her social security number is entered on the memo line of the checks, and the checks were in payment of her student loan account with PHEAA.

**Table 3
Unauthorized Payments to PHEAA**

| Check Number | Check Date | Amount |
|---------------------|-------------------|-----------------|
| 3343 | 09-10-2003 | \$ 55 |
| 3352 | 11-24-2003 | 450 |
| 3365 | 02-10-2004 | 400 |
| 3390 | 05-10-2004 | 200 |
| 3415 | 08-16-2004 | 500 |
| 3432 | 12-20-2004 | 350 |
| 3479 | 06-29-2005 | 500 |
| 3506 | 09-22-2005 | 500 |
| 3454 | 03-10-2005 | 350 |
| | TOTAL | \$ 3,305 |

The former secretary stated that she was authorized by the former Borough Council President to pay her PHEAA loan as an added benefit, because the Borough could not give her a raise.⁴ She also stated that the former Borough Council President told her to keep it quiet so other employees would not be upset.

The former Borough Council President was interviewed by OSI on October 26, 2007, and was asked if he authorized the former secretary to pay her student loan from the Borough's payroll account. His response was: "Absolutely not."

The former secretary also stated that Borough Council wanted to "keep the PHEAA thing under the radar," and that is why the checks to PHEAA were not recorded in the Borough's accounting records.

According to the Mayor and Borough Council members interviewed, the former secretary was not authorized by Borough Council to write checks to PHEAA.

⁴According to the year-end summary reports provided by the payroll service, the former secretary received a \$1/hour raise effective March 1, 2003, and a second \$1/hour raise effective July 1, 2005.

Conclusion and Recommendation

The former secretary misappropriated \$3,305 of Borough funds to make payments on her student loan account at PHEAA. She was able to accomplish this due to the Borough's lax internal controls. As stated in the discussion under Finding I, no one was responsible for reviewing the former secretary's work, and there is no evidence that anyone performed periodic bank reconciliations or reviewed the use of manually written payroll account checks.

We repeat the recommendation of Finding I that the Borough establish a better internal control system with regard to all Borough accounts.

Finding III: The former Borough secretary received compensation from the Borough for a total of 836 hours of vacation, holiday, and personal leave that she was not entitled to receive as a part-time employee.

On September 17, 2007, and again on February 7, 2008, the current President of Borough Council was interviewed and provided the following information:

- The former secretary was a part-time employee.
- Part-time employees are eligible for paid sick leave.
- Part-time employees may take time off, i.e., vacation or personal days, but are not compensated for the leave.
- Part-time employees are only compensated for actual time worked on a holiday.
- At the end of each calendar year, the payroll service submits a year-end summary report for each employee documenting the total hours and compensation paid, overtime hours worked, sick leave hours used, vacation hours taken, and holiday pay.

As summarized in Table 4, OSI’s review of the year-end payroll summary reports revealed that the former secretary claimed and received compensation from the Borough for a total of 836 hours of vacation, holiday, and personal leave that she was not entitled to receive as a part-time employee.

**Table 4
Payments for Vacation, Holiday and Personal Leave**

| Time Period | Vacation Hours | Holiday Hours | Personal Hours | Total Hours | Pay Rate | Total Compensation |
|-----------------------|-----------------------|----------------------|-----------------------|--------------------|-----------------|---------------------------|
| 1-01-02 – 3-31-03 | 72 | 84 | 6 | 162 | \$ 8.75 | \$1,417.50 |
| 4-01-03 – 6-30-05 | 239 | 142 | 12 | 393 | \$ 9.75 | 3,831.75 |
| 7-01-05 – 12-23-06 | 189 | 92 | 0 | 281 | \$10.75 | 3,020.75 |
| Totals | 500 | 318 | 18 | 836 | N/A | \$8,270.00 |

As a part-time employee, the former secretary was not entitled to paid vacation, holiday or personal leave. The only way the payroll service would have paid her for these hours is if the bi-weekly payroll reports, which she personally prepared, would have indicated that she used the time and was entitled to be compensated for the hours used.

Conclusion and Recommendation

The former secretary misappropriated \$8,270 in Borough funds by manipulating the bi-weekly payroll forms she submitted to the payroll service. She was able to manipulate this document due to the Borough's lax internal controls. It appears that no one periodically reviewed the payroll reports generated by the payroll service to verify that the amount paid to each employee was in accordance with Borough policy and the employee's established pay rate.

We recommend that the Borough institute internal controls over the payroll system and assign someone to periodically review the payroll service reports to ensure that the pay rates are in agreement with Borough policy and the employees' established pay rates.

Finding IV: The former Borough secretary misappropriated an undetermined amount of cash she received on behalf of the Borough in the form of fees paid by Borough residents for trash collection and reimbursements paid by Borough employees for personal use of cell phones.

Trash Collection Revenues

The Borough contracts with County Hauling, Inc. to collect trash from residents and businesses within the Borough. Currently, the Borough pays County Hauling, Inc. \$4,700 per month, or \$56,400 per year. Prior to January, 2007, the Borough paid approximately \$4,400 per month, or \$52,800 per year.

The Borough bills each unit (business, residence, or apartment) a flat annual fee for trash collection and offers a \$10 discount if paid within the first 30 days. The annual fee for 2007 was \$125, and for prior years it was \$120.

There are 523 units in the Borough. Therefore, if everyone paid within the discount period, the total amount collected would have been \$60,145 in 2007 and \$57,530 in prior years.

As Borough secretary, the former secretary was responsible for collecting, recording, and depositing the Borough's trash collection fees, some of which were paid by check and some in cash.

In her interview, the former secretary stated the following:

- Residents would come to the Borough office to pay their bills.
- She would collect the money and provide the resident with a sticker to be placed in a window or on the trash cans.
- This sticker served as the resident's receipt.
- If the resident requested an additional receipt, she would write "paid" on the resident's invoice.
- She did not keep any receipts or a ledger documenting the collections at the Borough office.

After the former secretary resigned on December 12, 2006, the current President of Borough Council took over the responsibilities of the Borough secretary, including collection of trash fees.

In 2007, after the Borough Council President began collecting trash revenues, the amount recorded by the Borough as received increased significantly in comparison with the three years during which the former secretary collected the money. Table 5 summarizes the differences between estimated trash collection fees receivable and trash collection fees collected and recorded for the years 2004 through 2007.

Table 5
Trash Collection fees

| Year | Revenue Recorded as Collected | Estimated Revenue to be Collected | Difference |
|-------------|--|--|-------------------|
| 2004 | \$37,399 | \$57,530 | (\$ 20,131) |
| 2005 | \$55,408 | \$57,530 | (\$ 2,122) |
| 2006 | \$42,728 | \$57,530 | (\$ 14,802) |
| 2007 | \$69,762* | \$60,145 | \$ 9,617 |

* Part of the increase in revenue collected for the year 2007 was due to the Borough's aggressive collection in 2007 of past due bills, including bills extending into the past years.

Unusual or unexplained fluctuations in account balances from one year to the next are often an indication of fraud. For revenue accounts, such as trash collection fees, declines in account balances can indicate that funds are being taken prior to the money being deposited and recorded in the accounting records.

The former secretary was the individual with primary responsibility for the collection, recording, and depositing of trash collection fees. She, therefore, had the opportunity to misappropriate some portion of the money remitted, especially the payments made in cash. By failing to issue receipts and keep proper records of the collections, she was able to conceal the amount taken.

Cellular Phone Service

The Borough, on behalf of its employees, has a contract for cellular telephone service with Nextel. The employees were permitted to select their own plan and cell phones and reimburse the Borough for the service. The service contract was put in the name of the Borough so there would be a greater discount to all involved.

When the former secretary was in charge of collecting these reimbursements, she would notify the employees, via a post-it note on their paycheck, of how much they owed for the cell phone service. According to the employees interviewed by OSI, the former secretary would only accept cash as payment. She would also "hound" the employees if they did not pay promptly, and, if they paid by check, she would always come back weeks later stating the check was lost⁵ and require that they pay her in cash.

The payments the former secretary received from employees were not being used to pay the Nextel bill which was over \$6,000 in arrears for at least part of the time that the former secretary was in charge of collecting the reimbursements.

⁵After the former secretary was terminated, the President of Borough Council found in the Borough office copies of employees' checks written in payment for their cellular phone service.

As with the trash collection fees, the former secretary had primary responsibility for the collection, recording, and depositing the cell phone reimbursements from employees. Her insistence that employees make their remittances in cash has no innocent explanation. Additionally, due to lack of oversight by other Borough officials and lack of internal controls, she had the opportunity to take the money and to conceal her actions by failing to maintain even a basic accounting of the collections.

When asked to explain the large arrearage with Nextel, the former secretary stated that the employees would not pay their bills if they did not agree with the amount, that this was a problem from the beginning, and that the employees would not address it with Nextel, but only with her.

Conclusion and Recommendations

The former secretary misappropriated a substantial amount of cash from trash collection fees and cell phone reimbursements she was responsible for collecting on behalf of the Borough. However, because of the lack of internal controls and her failure to keep adequate records, it was not possible to determine how much she misappropriated.

We recommend that Borough Council implement the internal controls recommended in Findings I and II, and require the use of pre-numbered duplicate receipts for all cash payments (one copy for the customer and the other for the Borough). We also recommend that Borough Council assign someone the responsibility to periodically compare the receipts issued to the bank deposits to verify that the money was actually deposited into the Borough's bank account.

BOROUGH'S RESPONSE TO DRAFT REPORT

LAW OFFICES OF PATRICIA L. MCGRAIL, LLC
1714 LINCOLN WAY • WHITE OAK, PA 15131
PHONE (412) 664-4433
FACSIMILE (412) 664-4525
EMAIL pmcgrail@plmoffice.com

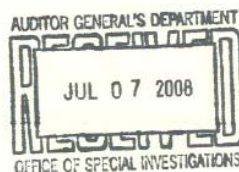
PATRICIA L. MCGRAIL, ESQUIRE

REBECCA SHAW MCHOLME, ESQUIRE
OF COUNSEL

July 2, 2008

Sent via facsimile at 717-705-0887 and U.S. Mail

Jeffrey H. Gribb, Director
Commonwealth of Pennsylvania
Department of the Auditor General
Office of Special Investigations
327 Finance Building
Harrisburg, PA 17120-0018



RE: Borough of Elizabeth
Our File No.: ELIZBORO.001

Dear Mr. Gribb:

Please be advised that this office acts as Solicitor to the Borough of Elizabeth, Allegheny County, Pennsylvania. The draft report of your special investigation of the Borough of Elizabeth has been forwarded to me by Council President, Monica Douglas, for response.

Council of the Borough of Elizabeth has reviewed the draft report received from your office dated June 2, 2008, which describes the investigation of the Borough of Elizabeth's financial affairs during the period of time when the former Borough Secretary, was employed by the Borough. Upon review of the findings and recommendations prepared by the Department of the Auditor General provided for in the June 2, 2008 preliminary report, Council intends to establish policies to provide safeguards against future abuses by Borough employees.

No payroll advances will be granted to employees thereby eliminating the need to establish a procedure for the authorization of such advances. In general, Council intends to establish better internal controls over disbursements from all Borough accounts, including unannounced bank reconciliations, reviewing cancelled checks for payee endorsements, and requiring that a log of all manually written checks be provided to Council President or another Borough official on a weekly basis. In general, the Borough anticipates establishing a system for reviewing the Borough Secretary's bookkeeping and financial function in order to provide oversight by periodic bank reconciliations and/or review of manually written account checks.

Jeffrey H. Gribb
Page 2 of 2
July 2, 2008

Finally, the Borough intends to authorize an individual to provide oversight of employee attendance, use of vacation days, sick days and personal days for purposes of ensuring that all employees work the required number of days and do not take days in excess of those which they are allotted pursuant to the terms of their agreement with the Borough or the Collective Bargaining Agreement which has been established between the Bargaining Unit and the Borough of Elizabeth.

The Summary Report of Investigation dated June 2, 2008, provided to the Borough for review has provided Borough officials with an outline of internal controls which need to be put in place to prevent the conduct described in the report from occurring in the future. It is the Borough's intention to take action in the next few months to implement the recommendations contained in the report.

Thank you for your assistance in undertaking this special investigation. In the event that your office needs additional information to complete this report, please do not hesitate to contact this office.

Very truly yours,



PATRICIA L. McGRAIL

PLM/spr

cc: Michael Bolan, Auditor General's Office
Monica Douglas, Council President

**DEPARTMENT OF THE AUDITOR GENERAL'S
COMMENTS ON BOROUGH'S RESPONSE TO DRAFT REPORT**

We commend the Borough for the measures it has already taken to implement new controls on its financial operations and its commitment to fully implement the recommendations set forth in the report.

The Department of the Auditor General will follow up at the appropriate time to confirm that all of our recommendations have been implemented.

DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell
Governor

The Honorable Robin L. Wiessmann
State Treasurer

The Honorable Mary A. Soderberg
Secretary of the Budget

The Honorable Gibson E. Armstrong
Chair
Senate Appropriations Committee

The Honorable Gerald LaValle
Acting Democratic Chair
Senate Appropriations Committee

The Honorable Dwight Evans
Chair
House Appropriations Committee

The Honorable Mario J. Civera, Jr.
Republican Chair
House Appropriations Committee

Anna Maria Anderson
Chief Accounting Officer
Office of the Budget

The Honorable Stephen A. Zappala, Jr.
District Attorney of Allegheny County

Lawrence N. Claus, Esquire
Deputy District Attorney
Office of District Attorney of Allegheny County

John Fitzgerald, Esquire
Assistant District Attorney
Office of District Attorney of Allegheny County

The Honorable John Yacura
Mayor
Borough of Elizabeth

Patricia L. McGrail, Esquire
Solicitor
Borough of Elizabeth

The Honorable Monica Douglas
President
Elizabeth Borough Council

The Honorable Mary Van Fosson
Elizabeth Borough Council

The Honorable Robin Miller
Elizabeth Borough Council

The Honorable Chad Rager
Elizabeth Borough Council

The Honorable David Householder
Elizabeth Borough Council

The Honorable Margaret Fleishchauer
Elizabeth Borough Council

The Honorable Paul Shaner
Elizabeth Borough Council

This report is matter of public record. Copies of this report are available on the Department of the Auditor General's website, www.auditorgen.state.pa.us, and from the Department's Office of Communications, 318 Finance Building, Harrisburg, Pennsylvania 17120.