



CITY OF READING
BERKS COUNTY
06-301

LIQUID FUELS TAX FUND
EXAMINATION REPORT

FOR THE TWO YEARS ENDED
DECEMBER 31, 2008

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CITY OF READING
BERKS COUNTY
LIQUID FUELS TAX FUND
BACKGROUND
FOR THE TWO YEARS ENDED
DECEMBER 31, 2008

Background

The Liquid Fuels Tax Municipal Allocation Law, Title 72 P.S. § 2615.5, provides municipalities other than counties (townships, boroughs, cities, towns, home rule, and optional plan governments) with an annual allocation of liquid fuels taxes from the state's Motor License Fund to be used for the maintenance and repair of streets, roads, and bridges for which the municipality is responsible. The allocation of these funds to municipalities is based: (1) 50 percent on the municipality's proportion of local road mileage to the total local road mileage in the state, and (2) 50 percent on the proportion of a municipality's population to the total population in the state.

The Vehicle Code, Title 75 P.S. § 9511, provides municipalities with annual maintenance payments to be received from the Motor License Fund for functionally local highways that were transferred to a municipality from the Commonwealth of Pennsylvania.

Each municipality must deposit the Liquid Fuels Tax Fund money and annual maintenance payments that it receives into a special fund called the Municipal Liquid Fuels Tax Fund or State Fund. A municipality may not deposit any other monies into this fund except when the municipality does not have enough money in the special fund to meet the payments called for by its current annual budget for road and bridge purposes. In this case, the municipality may borrow money or transfer money from its General Fund to its Liquid Fuels Tax Fund.

The Department of Transportation has been given the regulatory authority for the administration of these funds. To qualify for its annual allocation, each municipality shall submit the following documents and information to the Department of Transportation:

1. Evidence that the treasurer is bonded in accordance with the law, or that its treasurer is a bank requiring no bond by January 31 of each year.
2. A report indicating the manner in which its liquid fuels tax allocation was expended in the previous year (Form MS-965) by January 31 of each year.
3. A report of elected and appointed officials by January 31 of each year.
4. A Survey of Financial Condition by March 15 of each year.

Department of Transportation *Publication 9* contains the policies and procedures that govern the use of Liquid Fuels Tax Fund money. However, if there is a difference between *Publication 9* and any legislation, the legislation shall govern.



Independent Auditor's Report

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

We examined the accompanying Forms MS-965 With Adjustments for the Liquid Fuels Tax Fund of the City of Reading, Berks County, for the two years ended December 31, 2008. The municipality's management is responsible for the Forms MS-965. Our responsibility is to express an opinion on the Forms MS-965 With Adjustments based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States. An examination includes examining, on a test basis, evidence supporting the City of Reading, Berks County's Forms MS-965 for the two years ended December 31, 2008 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.

In our opinion, the Forms MS-965 With Adjustments present, in all material respects, the information required by the Pennsylvania Department of Transportation for the Liquid Fuels Tax Fund of the City of Reading, Berks County, for the two years ended December 31, 2008, in conformity with the criteria set forth in Note 1.

Independent Auditor's Report (Continued)

In accordance with *Government Auditing Standards*, we are required to report findings of significant deficiencies in internal control, violations of provisions of contracts or grant agreements, and abuse that are material to the Forms MS-965 and any fraud and illegal acts that are more than inconsequential that come to our attention during our examination. We are also required to obtain the views of management on those matters. We performed our examination to express an opinion on whether the Forms MS-965 are presented in accordance with the criteria described above and not for the purpose of expressing an opinion on the internal control over reporting on the Forms MS-965 or on compliance and other matters; accordingly, we express no such opinions.

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

- Failure To Properly Prepare Forms MS-965.

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

Independent Auditor's Report (Continued)

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we did note other matters that, while not required to be included in this report by *Government Auditing Standards*, have been included in the findings below:

- Purchases Over \$10,000.00 In Noncompliance With Advertising And Bidding Requirements.
- Failure To Obtain Project Approval.
- Late Receipt Of Allocations.

We are concerned in light of the municipality's failure to correct a previously reported finding regarding the failure to properly prepare Forms MS-965. During our current examination the municipality failed to properly prepare Forms MS-965, made purchases over \$10,000.00 in noncompliance with advertising and bidding requirements, failed to obtain project approval, and received its allocations late. The municipality should strive to implement the recommendations and corrective actions noted in this report.

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

March 8, 2010

JACK WAGNER
Auditor General



CITY OF READING
 BERKS COUNTY
 LIQUID FUELS TAX FUND
 2007 FORM MS-965 – SECTION 1
 WITH ADJUSTMENTS

<u>Expenditure Summary</u>	<u>Reported</u>	<u>Adjustments (Note 4)</u>	<u>Adjusted Amount</u>
Major equipment purchases	\$ 182,038.03	\$ -	\$ 182,038.03
Minor equipment purchases	-	-	-
Computer/Computer related training	-	-	-
Agility projects	-	-	-
Cleaning streets and gutters	-	-	-
Winter maintenance services	144,178.37	-	144,178.37
Traffic control devices	111,591.47	22,623.86	134,215.33
Street lighting	673,974.43	-	673,974.43
Storm sewers and drains	-	-	-
Repairs of tools and machinery	92,704.60	7,248.01	99,952.61
Maintenance and repair of roads and bridges	41,784.35	-	41,784.35
Highway construction and rebuilding projects	-	8,000.00	8,000.00
Miscellaneous	36,002.39	(36,002.39)	-
 Total (To Section 2, Line 5)	 <u>\$ 1,282,273.64</u>	 <u>\$ 1,869.48</u>	 <u>\$ 1,284,143.12</u>

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

CITY OF READING
 BERKS COUNTY
 LIQUID FUELS TAX FUND
 2007 FORM MS-965 – SECTION 2
 WITH ADJUSTMENTS

<u>Fund Balance</u>	<u>Reported</u>	<u>Adjustments (Note 4)</u>	<u>Adjusted Amount</u>
1. Balance, January 1, 2007	\$ 420,246.25	\$ 872,138.44	\$ 1,292,384.69
Receipts:			
2. State allocation	1,270,509.93	-	1,270,509.93
2a. Turnback allocation	-	-	-
2b. Interest on investments (Note 3)	51,776.09	4,241.45	56,017.54
2c. Miscellaneous (Note 5)	2,021.78	3,749.97	5,771.75
3. Total receipts	<u>1,324,307.80</u>	<u>7,991.42</u>	<u>1,332,299.22</u>
4. Total funds available	<u>1,744,554.05</u>	<u>880,129.86</u>	<u>2,624,683.91</u>
5. Expenditures (Section 1)	<u>1,282,273.64</u>	<u>1,869.48</u>	<u>1,284,143.12</u>
6. Balance, December 31, 2007	<u><u>\$ 462,280.41</u></u>	<u><u>\$ 878,260.38</u></u>	<u><u>\$ 1,340,540.79</u></u>

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

CITY OF READING
 BERKS COUNTY
 LIQUID FUELS TAX FUND
 2007 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	\$ 347,447.08	\$ -	\$ 347,447.08
2. Add: Current year equipment allocation (20% of Lines 2 + 2a, Section 2)	254,101.99	-	254,101.99
3. PENNDOT approved adjustments	<u>-</u>	<u>-</u>	<u>-</u>
4. Total funds available for equipment acquisition	601,549.07	-	601,549.07
5. Less: Major equipment expenditures	<u>182,038.03</u>	<u>-</u>	<u>182,038.03</u>
6. Remainder	<u>419,511.04</u>	<u>-</u>	<u>419,511.04</u>
7. Equipment balance available for subsequent year (Lesser of Line 6 or Section 2 balance, but not less than zero)	<u>\$ 419,511.04</u>	<u>\$ -</u>	<u>\$ 419,511.04</u>

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

CITY OF READING
 BERKS 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	\$ 57,308.00	\$ -	\$ 57,308.00
Minor equipment purchases	-	-	-
Computer/Computer related training	-	-	-
Agility projects	-	-	-
Cleaning streets and gutters	-	-	-
Winter maintenance services	96,836.32	-	96,836.32
Traffic control devices	58,664.98	1,209.05	59,874.03
Street lighting	709,670.60	15,289.88	724,960.48
Storm sewers and drains	-	-	-
Repairs of tools and machinery	69,440.92	4,856.32	74,297.24
Maintenance and repair of roads and bridges	54,512.35	-	54,512.35
Highway construction and rebuilding projects	-	-	-
Miscellaneous	17,614.35	(17,614.35)	-
	<u>17,614.35</u>	<u>(17,614.35)</u>	<u>-</u>
Total (To Section 2, Line 5)	<u>\$ 1,064,047.52</u>	<u>\$ 3,740.90</u>	<u>\$ 1,067,788.42</u>

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

CITY OF READING
 BERKS 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	\$ 462,280.41	\$ 878,260.38	\$ 1,340,540.79
Receipts:			
2. State allocation	1,402,639.75	-	1,402,639.75
2a. Turnback allocation	-	-	-
2b. Interest on investments (Note 3)	11,821.02	1,254.54	13,075.56
2c. Miscellaneous (Note 5)	-	3,627.40	3,627.40
3. Total receipts	<u>1,414,460.77</u>	<u>4,881.94</u>	<u>1,419,342.71</u>
4. Total funds available	<u>1,876,741.18</u>	<u>883,142.32</u>	<u>2,759,883.50</u>
5. Expenditures (Section 1)	<u>1,064,047.52</u>	<u>3,740.90</u>	<u>1,067,788.42</u>
6. Balance, December 31, 2008	<u><u>\$ 812,693.66</u></u>	<u><u>\$ 879,401.42</u></u>	<u><u>\$ 1,692,095.08</u></u>

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

CITY OF READING
 BERKS COUNTY
 LIQUID FUELS TAX FUND
 2008 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	\$ 419,511.04	\$ -	\$ 419,511.04
2. Add: Current year equipment allocation (20% of Lines 2 + 2a, Section 2)	280,527.95	-	280,527.95
3. PENNDOT approved adjustments	<u>-</u>	<u>-</u>	<u>-</u>
4. Total funds available for equipment acquisition	700,038.99	-	700,038.99
5. Less: Major equipment expenditures	<u>57,308.00</u>	<u>-</u>	<u>57,308.00</u>
6. Remainder	<u>642,730.99</u>	<u>-</u>	<u>642,730.99</u>
7. Equipment balance available for subsequent year (Lesser of Line 6 or Section 2 balance, but not less than zero)	<u>\$ 642,730.99</u>	<u>\$ -</u>	<u>\$ 642,730.99</u>

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

CITY OF READING
BERKS COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE TWO YEARS ENDED
DECEMBER 31, 2008

1. Criteria

Section 1

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

- Major equipment purchases are purchases of road machinery and road equipment that cost in excess of \$4,000.00.
- Minor equipment purchases are purchases of road machinery and road equipment that cost \$4,000.00 or less.
- Agility projects are exchanges of services with the Department of Transportation.

Section 2

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

- The state allocation is generally received from the Department of Transportation during the first week in April of each year. The amount the municipality receives is based half on its population and half on its road mileage.
- The turnback allocation is generally received from the Department of Transportation during the first week in April of each year. A municipality receives a yearly turnback allocation based on road mileage for all roads that were transferred to the municipality from the Commonwealth of Pennsylvania through the Highway Transfer Program.
- Expenditures include the total transferred from Section 1.

Section 3

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

CITY OF READING
BERKS COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE TWO YEARS ENDED
DECEMBER 31, 2008

1. Criteria (Continued)

Section 3 (Continued)

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

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

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

Basis Of Presentation

The financial activities of the municipality are accounted for in separate funds. The Liquid Fuels Tax Fund is used to account for state aid revenues from the Pennsylvania Department of Transportation used primarily for building and improving local roads and bridges. The Forms MS-965 have been prepared in accordance with reporting requirements prescribed by the Pennsylvania Department of Transportation as a result of the Fuels Tax Act 655, dated 1956 and as amended, which does not constitute a complete presentation of the entity's assets, liabilities, expenses, and fund balance. Accordingly, the presentation of Forms MS-965 With Adjustments is restricted to the Liquid Fuels Tax Fund, which represents a segment of the entity.

Basis Of Accounting

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

CITY OF READING
BERKS COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE TWO YEARS ENDED
DECEMBER 31, 2008

1. Criteria (Continued)

General Fixed Assets

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

2. Deposits

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

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

Deposits consist of receipts and deposits in a financial institution. Pennsylvania statutes require all deposits to be insured and, for any amount above the insured maximum, to be secured with approved collateral as defined.

There were no deposits exposed to custodial credit risk as of December 31, 2008. Custodial credit risk, as defined by GASB No. 40, includes deposits that are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the municipality's name.

CITY OF READING
BERKS COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE TWO YEARS ENDED
DECEMBER 31, 2008

2. Deposits (Continued)

Fund Balance

The fund balance as of December 31, 2008 consists of the following:

Cash	<u>\$1,692,095.08</u>
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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 \$56,017.54 during 2007 and \$13,075.56 during 2008, thus providing additional funds for road maintenance and repairs.

4. Adjustments

2007 - Section 1

An adjustment of \$22,623.86 was made to "Traffic control devices" because expenditures of \$21,989.44 were misclassified as "Miscellaneous" and expenditures of \$634.42 were understated.

An adjustment of \$7,248.01 was made to "Repairs of tools and machinery" because expenditures of \$6,012.95 were misclassified as "Miscellaneous" and expenditures of \$1,235.06 were understated.

An adjustment of \$8,000.00 was made to "Highway construction and rebuilding projects" because these expenditures were misclassified as miscellaneous.

An adjustment of \$(36,002.39) was made to "Miscellaneous" because expenditures of \$21,989.44 for traffic control devices, \$6,012.95 for repairs of tools and machinery, and \$8,000.00 for highway construction and rebuilding projects were misclassified.

2007 - Section 2

An adjustment of \$872,138.44 was made to "Balance, January 1, 2007" because an incorrect fund balance was reported.

An adjustment of \$4,241.45 was made to "Interest on investments" because interest earnings were understated.

An adjustment of \$3,749.97 was made to "Miscellaneous" because these receipts were understated.

CITY OF READING
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LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE TWO YEARS ENDED
DECEMBER 31, 2008

4. Adjustments (Continued)

2008 - Section 1

An adjustment of \$1,209.05 was made to "Traffic control devices" because these expenditures were misclassified as miscellaneous.

An adjustment of \$15,289.88 was made to "Street lighting" because these expenditures were misclassified as miscellaneous.

An adjustment of \$4,856.32 was made to "Repairs of tools and machinery" because expenditures of \$1,115.42 were misclassified as miscellaneous and expenditures of \$3,740.90 were understated.

An adjustment of \$(17,614.35) was made to "Miscellaneous" because expenditures of \$1,209.05 for traffic control devices, \$15,289.88 for street lighting, and \$1,115.42 for repairs of tools and machinery were misclassified.

2008 - Section 2

An adjustment of \$878,260.38 was made to "Balance, January 1, 2008" to reflect the adjustments made in 2007 - Section 1 and 2007 - Section 2.

An adjustment of \$1,254.54 was made to "Interest on investments" because interest earnings were understated.

An adjustment of \$3,627.40 was made to "Miscellaneous" because this receipt was not reported.

CITY OF READING
 BERKS COUNTY
 LIQUID FUELS TAX FUND
 NOTES TO FORMS MS-965 WITH ADJUSTMENTS
 FOR THE TWO YEARS ENDED
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5. Miscellaneous Receipts

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

<u>Source</u>	<u>Description</u>	<u>2007</u>	<u>2008</u>
General Fund	Sale of rock salt	\$2,073.54	\$ -
General Fund	Reimbursement (Comment No. 1)	1,885.84	-
General Fund	Reimbursement for road materials	1,812.37	3,627.40
	Totals	<u>\$5,771.75</u>	<u>\$3,627.40</u>

6. Temporary Loans

During the examination period ending December 31, 2005, the municipality loaned \$190,000.00 from the City EMS Fund to the Liquid Fuels Tax Fund. As of December 31, 2008, \$190,000.00 was due the City EMS Fund.

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

During the prior examination period, the municipality loaned an additional \$200,000.00 from the General Fund to the Liquid Fuels Tax Fund. As of December 31, 2008, \$620,017.30 was due the General Fund.

CITY OF READING
BERKS COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE TWO YEARS ENDED
DECEMBER 31, 2008

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

Our examination disclosed that there were numerous errors made in the preparation of the municipality's 2007 and 2008 Forms MS-965. These adjustments, which are disclosed in Note 4, are as follows:

2007 - Section 1

- An adjustment of \$22,623.86 was made to "Traffic control devices" because expenditures of \$21,989.44 were misclassified as "Miscellaneous" and expenditures of \$634.42 were understated.
- An adjustment of \$7,248.01 was made to "Repairs of tools and machinery" because expenditures of \$6,012.95 were misclassified as "Miscellaneous" and expenditures of \$1,235.06 were understated.
- An adjustment of \$8,000.00 was made to "Highway construction and rebuilding projects" because these expenditures were misclassified as miscellaneous.
- An adjustment of \$(36,002.39) was made to "Miscellaneous" because expenditures of \$21,989.44 for traffic control devices, \$6,012.95 for repairs of tools and machinery, and \$8,000.00 for highway construction and rebuilding projects were misclassified.

2007 - Section 2

- An adjustment of \$872,138.44 was made to "Balance, January 1, 2007" because an incorrect fund balance was reported.
- An adjustment of \$4,241.45 was made to "Interest on investments" because interest earnings were understated.
- An adjustment of \$3,749.97 was made to "Miscellaneous" because these receipts were understated.

CITY OF READING
BERKS COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
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Finding No. 1 - Failure To Properly Prepare Forms MS-965 (Continued)

2008 - Section 1

- An adjustment of \$1,209.05 was made to “Traffic control devices” because these expenditures were misclassified as miscellaneous.
- An adjustment of \$15,289.88 was made to “Street lighting” because these expenditures were misclassified as miscellaneous.
- An adjustment of \$4,856.32 was made to “Repairs of tools and machinery” because expenditures of \$1,115.42 were misclassified as miscellaneous and expenditures of \$3,740.90 were understated.
- An adjustment of \$(17,614.35) was made to “Miscellaneous” because expenditures of \$1,209.05 for traffic control devices, \$15,289.88 for street lighting, and \$1,115.42 for repairs of tools and machinery were misclassified.

2008 - Section 2

- An adjustment of \$878,260.38 was made to “Balance, January 1, 2008” to reflect the adjustments made in 2007 - Section 1 and 2007 - Section 2.
- An adjustment of \$1,254.54 was made to “Interest on investments” because interest earnings were understated.
- An adjustment of \$3,627.40 was made to “Miscellaneous” because this receipt was not reported.

Good internal controls ensure that the municipality completes 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.

CITY OF READING
BERKS COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
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DECEMBER 31, 2008

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

Management's Response

The municipal officials stated:

Cooperation between the Finance and Engineering departments has improved, with Finance now preparing the MS-965 Form. A "draft" version of the MS-965 Form will be prepared and reviewed before submission to the Commonwealth.

Auditor's Conclusion

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

CITY OF READING
 BERKS COUNTY
 LIQUID FUELS TAX FUND
 FINDINGS AND RECOMMENDATIONS
 FOR THE TWO YEARS ENDED
 DECEMBER 31, 2008

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

Our examination disclosed that the municipality expended \$11,230.27 during 2007 from the Liquid Fuels Tax Fund for upgrades to the pedestrian signals and \$15,289.88 during 2008 for the purchase and installation of LED lights without advertising for bids. These expenditures were as follows:

<u>Invoice Number</u>	<u>Invoice Date</u>	<u>Check Number</u>	<u>Check Date</u>	<u>Amount</u>	<u>Totals</u>
17183	05/29/07	214697	06/19/07	<u>\$11,230.27</u>	
2007 Total					\$11,230.27
2008-16	03/08/08	222235	03/28/08	6,575.00	
3058	03/18/08	222730	04/11/08	<u>8,714.88</u>	
2008 Total					<u>15,289.88</u>
Two Year Total					<u><u>\$26,520.15</u></u>

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

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

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

The failure to follow *The Home Rule Charter of the City of Reading* could result in the municipality having to reimburse \$26,520.15 to its Liquid Fuels Tax Fund.

Recommendations

We recommend that the municipality reimburse \$26,520.15 to its Liquid Fuels Tax Fund upon official notification by the Department of Transportation.

We further recommend that, in the future, the municipality comply with *The Home Rule Charter of the City of Reading* as noted in this finding.

Management's Response

The municipal officials offered no formal response at this time.

CITY OF READING
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Finding No. 3 - Failure To Obtain Project Approval

Our examination disclosed that the municipality expended \$8,000.00 for the resurfacing of Thorn Street without obtaining the approval of the Department of Transportation. Because the resurfacing was more than one inch in depth, the municipality was required to obtain the approval of the Department of Transportation. The municipality did not file an application with the Department of Transportation for the project and also failed to submit specifications for approval.

The Department of Transportation's *Publication 9* contains the policies and procedures for the administration of the Liquid Fuels Tax Fund. *Publication 9*, Chapter Two, Section 2.7.2, states that nonpermissible expenditures include "Construction and reconstruction projects without prior PENNDOT approval."

Additionally, *Publication 9*, Chapter Two, Section 2.8, states, in part:

The following criteria is used to determine when a project is required for work on local roads utilizing Liquid Fuels Tax Funds, when construction, reconstruction and/or resurfacing work exceeds one inch or more in depth as well as other activities.

Bituminous Surface: One inch thickness or greater

The failure to comply with the Department of Transportation's *Publication 9* could result in the municipality having to reimburse \$8,000.00 to its Liquid Fuels Tax Fund.

Recommendations

We recommend that the municipality reimburse \$8,000.00 to its Liquid Fuels Tax Fund upon official notification by the Department of Transportation.

We further recommend that before the county spends money on a project, it applies for and obtains prior approval of the project, and when the project is completed it obtains approval of the completed work.

CITY OF READING
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Finding No. 3 - Failure To Obtain Project Approval (Continued)

Management's Response

The municipal officials stated:

The City of Reading reimbursed the Reading Parking Authority \$8,000.00 for the resurfacing of Thorn Street. The work was completed by a vendor, who was paid by the Reading Parking Authority. We now understand that any paving over 1" required a Penn Dot project number and completion report whenever liquid fuels funding is utilized. We believed erroneously that the Reading Parking Authority was handling the project number and completion report. We concur with this finding.

Auditor's Conclusion

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

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Finding No. 4 - Late Receipt Of Allocations

Our examination disclosed that the 2007 and 2008 Liquid Fuels Tax Fund allocations, which should have been distributed during the first week of April of that year, was not received until June 5, 2007, and November 3, 2008, respectively, because the municipality failed to comply with the Department of Transportation's *Publication 9*, Chapter Two, Section 2.4, which states:

To qualify for the annual liquid fuels tax allocation, a municipality shall:

- Submit annual reports (MS-965, Actual Use Report, MS-965P, Project and Miscellaneous Receipts, and MS-965S, Record of Checks)
- Make deposits and payments or expenditures in compliance with the Act 655. Failure to do so may result in not receiving allocations from PENNDOT until all discrepancies are resolved.
- Submit the Pennsylvania Department of Community and Economic Development's (DCED) Report of Elect and Appointed Officials by January 31st and the Survey of Financial Condition by March 15th.
- Ensure resolution of all Contractor Responsibility Program (CRP) holds and blocks imposed by the Department of Revenue and the Department of Labor and Industry.

Because the municipality failed to file documents and information timely as noted above, the municipality did not have use of the allocation for more than two months in 2007 and seven months in 2008. Furthermore, had the allocations been received timely, money may have been available for investment purposes, potentially earning interest income which could have been used for road maintenance and repairs.

A similar finding was also written in our prior report. However, we noted that the municipality received its allocation timely in both 2009 and 2010.

Recommendation

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

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FOR THE TWO YEARS ENDED
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Finding No. 4 - Late Receipt Of Allocations (Continued)

Management's Response

The municipal officials stated:

The City of Reading is not sure why we did not receive our 2007 and 2008 allocations in a timely manner. We received our 2007 allocation on June 5, 2007 and our 2008 allocation on November 3, 2008, as opposed to the normal time frame of early April of each year. We believe that we filed both years' reports in a timely manner. The 2009 and 2010 reports were both filed timely and our allocations were received on April 2, 2009 and March 1, 2010, respectively. We believe that this will not be a finding in future audits.

Auditor's Conclusion

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

CITY OF READING
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LIQUID FUELS TAX FUND
COMMENTS
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Comment No. 1 - Summary Of Prior 2004 Audit Recommendation

In our 2004 report we recommended that the Department of Transportation review our audit finding to determine if the municipality should reimburse \$1,885.84 to its Liquid Fuels Tax Fund for the purchase of a trash compactor truck, which is a nonpermissible expenditure.

During our 2006 examination we reviewed a letter dated September 28, 2006, from the Department of Transportation informing the municipality to reimburse \$1,885.84 to its Liquid Fuels Tax Fund. We noted that the municipality reimbursed this amount to its Liquid Fuels Tax Fund on May 7, 2007.

Comment No. 2 - Summary Of 2006 Examination Recommendations

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

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

In our prior report we also recommended that the municipality comply with *The Home Rule Charter for the City of Reading* by maintaining documentation for price quotations.

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

CITY OF READING
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LIQUID FUELS TAX FUND
SUMMARY OF EXIT CONFERENCE
FOR THE TWO YEARS ENDED
DECEMBER 31, 2008

An exit conference was held March 8, 2010. Those participating were:

CITY OF READING

Mr. David M. Cituk, City Auditor

Ms. Dawn Cieniewicz, Finance Manager

Mr. Charles M. Jones, Public Works Director

DEPARTMENT OF THE AUDITOR GENERAL

Mr. Michael Klassen, Auditor

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



CITY OF READING
BERKS COUNTY
LIQUID FUELS TAX FUND
REPORT DISTRIBUTION
FOR THE TWO YEARS ENDED
DECEMBER 31, 2008

This report was initially distributed to:

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

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

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

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.