



***Audit of the
Luzerne County Transition Committee
for the Period
January 1, 2011 – December 31, 2011***

Fieldwork Performed by:

Patricia J. Llewellyn

Supervised by:

Walter L. Griffith, Jr.

Objective and Scope:

The voters of Luzerne County elected to change to a Home Rule form of Government in November 2010, to be implemented January 2012. The Luzerne County Transition Committee was established to aid in the conversion to the new form of Government.

The Luzerne County Controller's Office has audited the transactions associated with the Luzerne County Transition Committee (LCTC) for the year ended December 31, 2011. During the period under audit, the Committee was an independent body according to the Charter that was adopted by the electorate in November of 2010.

The purpose of the audit was to ensure the LCTC requested the funds properly, performed the requirements stated in the grant contract, maintained adequate documentation to support the expenditures and disbursed the funds for the appropriate purposes and within the budget requirements.

The audit was designed to review that the Committee is acquiring, managing, protecting and using resources including but not limited to funds, personnel, property and equipment in an economic, efficient and effective manner consistent with goals established by the Committee. The audit is also designed to identify uneconomical practices.

The audit included examining controls and procedures used for documentation, collection, distribution and utilization of County and State funding. The audit was planned to obtain a reasonable assurance about whether the internal controls and procedures used, adequately document the revenue and expenses reported. However, because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, irregularities or illegal acts, including fraud and defalcations, may exist and not be detected by us. If any matters of that nature come to our attention, it will be reported directly to management and the County Council. We have not performed a detailed audit of compliance with the grant, however, reviewed the expenses to ensure they were allowable and adequately documented.

The Luzerne County Controller's office is governed by the Home Rule Charter of Luzerne County to conduct fiscal, performance, management, contract, grant, compliance and related audits of any County division, department, bureau, office, agency, board, commission, elective office, the Judiciary, Office of Court Administration or other administrative office. This audit is an internal auditing function (hereinafter referred to as the audit) authorized under order of the Charter, therefore the Controller is required to submit a draft to the Committee for review and issue the final report to the Committee, County Council and the County Manager. The final audit report shall be posted for public inspection on the County website for 60 days following the issuance of this report.

Internal auditing is an independent function established within an organization to examine and evaluate the activities of the office under audit. In planning and performing our audit, we considered auditing standards generally accepted within the United States of America and Government Auditing Standards, issued by the Comptroller General of The United States. When applicable, these standards were applied to the objective of our audit.

Auditors assigned to the engagement are employed by Luzerne County under the Controller's Office and report directly to the Controller. The audit staff is considered organizationally independent to conduct and report on the audit.

Luzerne County Transition Committee Members:

Jim Bobeck * **	<i>Chairman</i>
Rob Bakewell *	<i>Vice Chairman</i>
Ronna Ciaruffoli *	<i>Secretary</i>
Susan Shoal *	<i>Treasurer</i>
Edd Brominski **	
Tom Cooney *	
Elaine Madden Curry **	
Harry Haas **	
Jim Haggerty *	
Kick Heffron *	
Linda McClosky Houck **	
Eugene Kelleher **	
CJ Kersey *	
Tim McGinley **	
Rick Morelli * **	
Maryanne Petrilla *	
Steve A. Urban * **	
Steve J. Urban **	
Rick Williams **	

- * Served on Committee from November 2010 through December 2011
- ** Elected as Council Members in November 2011; Served on Committee through December 2011; Seated as Council Members January 2012

Opinion and Conclusion:

Our procedures included planning and performing the audit to obtain a reasonable assurance about whether the revenues and expenses of the LCTC are presented fairly, in accordance with established procedures and free of material misstatements. Our findings and conclusions are based on test work which included reviewing evidence supporting the amounts of revenues and expenses. It also included reviewing procedures, policies and office practices for effectiveness and efficiency. We believe that the evidence obtained provides a reasonable basis for our opinion.

In our opinion, the Luzerne County Transition Committee has not in all instances received, recorded, reported and reconciled all transactions related to their office accurately and in accordance with the established policies. The testing performed in this audit revealed minimal financial findings, misstatements or other non-compliance activities.

Review of Business Practices:

Based on meetings, reviewing documents provided by the LCTC, and our review of the grant requirements, we have formulated the following understanding over the processing of withdrawals, transfers and disbursements of loan funds.

The LCTC is responsible for oversight of the funds and ensuring compliance with applicable regulations, policies and grant requirements and operates under its own Federal EIN. In January 2011 the LCTC prepared and unanimously approved a budget for \$89,400.

Committee Budget – Summary of Proposed Expenditures:

Activity	Funds
Legal (Retainer)	\$6,500
Legal (Non-Retainer)	\$13,000
Advertising (Legal)	\$4,000
Advertising (Recruiting)	\$25,000
Clerical Assistant	\$4,800
Professional Consultant (Codes)	\$6,000
Professional Consultant (Recruiting)	\$7,500
Recruiting (Travel)	\$10,000
Recruiting (Lodging)	\$4,500
Recruiting (Other Expenses)	\$3,000
Materials & Supplies	\$3,100
Miscellaneous Expenses	\$2,000
Total Expenses	\$89,400

The County provided the funds, \$89,400, to the Committee in February 2011 and two bank accounts were opened with M&T. The funds were deposited into the checking account and then approximately \$78K was transferred to the Commercial Savings account to maximize the interest that could be earned. Funds were transferred from the Savings back to the Checking account to cover expenses, as needed.

In March the Committee voted to apply for an Early Intervention Program (EIP) grant from the Commonwealth’s Department of Community and Economic Development. The County entered into the Contract with the Commonwealth on the Committee’s behalf. The budget submitted to the Commonwealth follows.

Summary of Proposed Expenditures Submitted to the Commonwealth:

Activity	EIP	Luzerne County	Total
Salary/Fringe Benefits		\$12,500	\$12,500
Consumable Supplies		\$8,500	\$8,500
Promotion/Advertising		\$21,500	\$21,500
Professional Services/Consultants	\$44,700	\$300	\$45,000
Legal Costs		\$30,000	\$30,000
Miscellaneous		\$16,600	\$16,600
Total	\$44,700	\$89,400	\$134,100

In October the Committee received \$6,370 and in December, the Committee received an additional \$16,470 from DCED in grant allocations. The funds were requested as reimbursement for a portion of the Professional Services/Consultant fees expended by the Committee. The total funds received by the Committee from the Commonwealth and County totaled \$112,240. The total amount expended was \$69,140.69, of which \$22K was reimbursed by the Commonwealth under the grant agreement. The remaining funds, \$50,088.18, were returned to the County's General Fund in January 2012.

Testing Methodology:

The audit included examination, of the entire population, the evidence supporting amounts as they pertained to the disbursement of the funds. We also reviewed the transfers between bank accounts to ensure they were supported by adequate documentation and properly approved. We met with staff of the LCTC to obtain an understanding of the business practices surrounding the use of the funds and compliance with appropriate regulations. In addition, we performed a review of the grant documents to identify the requirements of compliance.

- 1) Interviewed personnel of the LCTC including the bookkeeper responsible for processing transactions.
- 2) Identified applicable laws, policies, procedures and regulations.
- 3) Reviewed and assessed controls.
- 4) Tested transactions for compliance with internal controls, contract requirements and regulations established above.
- 5) Tested revenue collected and deposited.
- 6) Performed a review of the bank reconciliations and associated transactions.
- 7) Selected disbursements to determine if they were in compliance with the current internal control policies, within budget requirements, supported by adequate documentation, authorized and completed accurately.
- 8) Reviewed the controls over funds received.
- 9) Ensured forms 1099-M were generated accurately for the appropriate entities.

Our specific findings are listed below.

Findings:

Disbursement Testing:

We noted that 18 transactions, totaling \$8,105, were not listed as being approved by the Committee in the meeting minutes. The funds account for 12% of the overall disbursements made by the Committee during the period reviewed. It should be noted that \$6,500 of these transactions were processed by the County's Budget and Finance department on behalf of the Committee in 2012, after the Committee was disbanded and meetings were no longer held. The items not approved by the Committee during the Committee's actual term account for 2% of the disbursements made.

In addition, two payments, totaling \$242.50, were approved at a public meeting, however, were paid to a different individual, than the person approved, as a reimbursement.

Conversely, we found 2 transactions, totaling \$41, that were approved for payment in the meeting minutes, however, the proof of payment could not be located in the documentation provided. We identified a charge included on an invoice for professional services that was not listed in the contract. There were 7.5 hours charged for reference checks at an hourly rate of \$65. The contract, between the Committee and Consultant, did not include a stated fee for reference checks.

Recommendations:

The Committee should explain the reason the expenses were not approved at a public meeting. In the event it is determined illegal activity occurred, the District Attorney will be requested to perform an investigation.

The Committee should provide documentation to support the Consultant's fee not included in the contract. In the event it is determined illegal activity occurred, the District Attorney will be requested to perform an investigation.

Responses:

As stated in the audit, it should be first noted that \$6500.00 of the alleged \$8,105.00 non-approved funds were approved by Budget and Finance Division of the County and not by the Transition Committee, which was dissolved by statute and had no ability whatsoever to approve bills received after its dissolution. Therefore, the committee disagrees with its inclusion as the Transition Committee properly utilized \$6500.00. Excluding the \$6500.00, the remaining disagreement is over \$1605.00. (\$8105.00 - \$6500.00).

Because the audit does not list the disputed transactions, it is proves difficult to form a fully formed response. However, in speaking and exchanging communications with the auditor over several months, the following is a summary and response to the \$1605.00 in dispute:

- \$242.50, as mentioned in the report, was correctly approved, except the meeting minutes reflect an incorrect name.
- The committee believes the audit should include \$722.00 that was for mandated bond insurance for the Chair and Treasurer of the Committee, which was the quoted price from Joyce Insurance. Those bills were approved at their quoted price at the March 23, 2011 Committee meeting, which the following excerpt from the March 23, 2011 proves:
"Motion to accept the quoted insurance/bond coverage, with price as quoted, by Joyce Insurance Group. Motion Ronna Ciaruffoli. Second Maryanne Petrilla. Unanimous vote." It is understood that the auditor disagrees that the minutes accurately reflect the approval, but the "bond" reference in the minutes was directed to the quoted bonds provided by Joyce for the Chair and Treasurer in March 2011.

Deducting the \$242.50 and \$722.00, the total of the unresolved dispute is \$640.50, which represents less the 1% of the overall budget. Dissecting the unresolved \$640.50, the following is a summary and response to the remaining disagreement:

- It is believed that \$408.00 of the \$640.50 in dispute pertains to Times Leader advertising costs in October 2011 related to the recruitment of new Division heads necessary under Home Rule, which is not clearly noted in the minutes.

- The remaining \$222.00 appears to stem from payments to the Transition Committee's clerk for reimbursement for clerical expenses. However, the meeting minutes do not accurately reflect this reimbursement.

However, summarily, all expenses were properly paid and were work-related.

Regarding Consultant costs, Reference Checks and other Human Resources related services were included within the scope of the Consultant's contract, which is outlined on Page 4 of Proposal of Services. It should also be noted that the misunderstanding with the auditor may have occurred because the Consultant actually gave the Transition Committee a discounted rate of \$65.00 per hour to perform these services, which was less than the contracted \$90.00 per hour, which provided a savings to the County of \$187.50.

1099-M Testing:

Forms 1099-M are required to be filed with the IRS for non-incorporated individuals receiving payments for services in excess of \$600. The Committee submitted three 1099-M forms. Based on our review of the disbursements to these entities, there was an error on one of the forms. The 1099 was overstated by \$33.

Recommendation:

The Committee should correct the 1099-M form and distribute it to the recipient. In addition, the Committee should submit a revised 1096 to the IRS indicating the corrections.

Response:

The Transition Committee maintains that the 1099 for the Transition Committee's clerk accurately reflects the compensation for the year 2011. For any potential discrepancy that may appear, the difference of \$33.00 may be the result of the Transition Committee Secretary advancing funds to the clerk for work performed, which the minutes do not accurately reflect, or were mislabeled in the minutes, which may also have resulted in the audit listing \$41.00 that was approved at a meeting, but not disbursed.

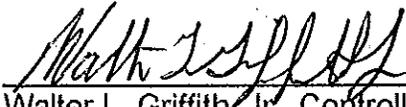
Grant Review:

As of the end of our fieldwork, the Consultant had not completed the Final Report, as required under Appendix A/B of the DCED EIP Grant. The Department also requires a fiscal status and project closeout report that the County's Grant Writer is in the process of completing. The due date for the reports is June 30, 2013, after the contract expires. We do not consider these to be items of non-compliance however, they should be considered for follow-up.

Response:

The aforementioned statement is correct, and the Consultant has been in contact with PA DCED about the final grant report and is planning to complete the final report within the allotted time.

Controller's Office:



Walter L. Griffith, Jr., Controller

Luzerne County Transition Committee:



James Bobeck, Esq., Chairman LCTC



Patricia J. Llewellyn, Senior Auditor