

ATTESTATION ENGAGEMENT

Borough of Arona
Westmoreland County, Pennsylvania
64-402
Liquid Fuels Tax Fund
For the Period
January 1, 2015 to December 31, 2017

June 2019



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



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EUGENE A. DePASQUALE
AUDITOR GENERAL

Independent Auditor's Report

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

We examined the accompanying Forms MS-965 With Adjustments for the Liquid Fuels Tax Fund of the Borough of Arona, Westmoreland County, for the period January 1, 2015 to December 31, 2017. The municipality's management is responsible for presenting the Forms MS-965 in accordance with the criteria set forth in Note 1. 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. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether the Forms MS-965 are presented in accordance with the criteria described above, in all material respects. An examination involves performing procedures to obtain evidence about the Forms 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 Forms 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 Note 4, the adjustments included on the Forms MS-965 With Adjustments are made by the Department of the Auditor General.

Independent Auditor's Report (Continued)

As discussed in Finding No. 1, the municipality did not maintain invoices to support expenditures of \$3,908.20 for street lighting and \$3,865.00 for snow removal made on various dates in 2015. Additionally, as discussed in Finding No. 4, we were unable to examine the images of the back of the canceled checks from the municipality's financial institution because the municipality failed to obtain them from its financial institution.

In our opinion, except for matters discussed in the preceding paragraph, the Forms 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 Arona, Westmoreland County, for the period January 1, 2015 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 Forms 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 Forms 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 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 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 Forms 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.

Independent Auditor's Report (Continued)

Our consideration of the internal control was for the limited purpose of expressing an opinion on whether the Forms MS-965 are 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:

- Documentation Supporting Expenditures Was Not Available For Examination.
- The Practice Of Presigning Checks Should Be Discontinued.
- One Signature On Liquid Fuels Tax Fund Checks - Recurring.
- Electronic Imaging Of Cancelled Checks From The Bank Did Not Include The Back Of The Checks.
- Untimely Deposit Of Allocations.

As part of obtaining reasonable assurance about whether the Forms MS-965 are free from material misstatement, we performed tests of the Borough of Arona, Westmoreland 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 Forms 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 the following instances of noncompliance that are required to be reported under *Government Auditing Standards*:

- A Complete Record Of Borough Meeting Minutes Was Not Available For Examination.
- Late Receipt Of Allocations - Recurring.

The examination findings for one signature on Liquid Fuels Tax Fund checks and late receipt of allocations contained in this report cite conditions that existed in the operation of the municipality during the previous engagement period and were not corrected during the current examination period. The municipality should strive to comply with the recommendations noted in this report.

Independent Auditor's Report (Continued)

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 Arona, Westmoreland 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

May 21, 2019

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BOROUGH OF ARONA
WESTMORELAND COUNTY
LIQUID FUELS TAX FUND
BACKGROUND
FOR THE PERIOD
JANUARY 1, 2015 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 ARONA
WESTMORELAND COUNTY
LIQUID FUELS TAX FUND
BACKGROUND
FOR THE PERIOD
JANUARY 1, 2015 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 31st and the Survey of Financial Condition By March 15th.
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 ARONA
WESTMORELAND COUNTY
LIQUID FUELS TAX FUND
2015 FORM MS-965 – SECTION 1
WITH ADJUSTMENTS

<u>Expenditure Summary</u>	<u>Reported</u>	<u>Adjustments (Note 4)</u>	<u>Adjusted Amount</u>
Major equipment purchases	\$ -	\$ -	\$ -
Minor equipment purchases	-	-	-
Computer/Computer related training	-	-	-
Agility projects	-	-	-
Cleaning streets and gutters	-	-	-
Winter maintenance services	3,865.00	-	3,865.00
Traffic control devices	-	-	-
Street lighting	3,346.42	561.78	3,908.20
Storm sewers and drains	-	-	-
Repairs of tools and machinery	-	-	-
Maintenance and repair of roads and bridges	-	-	-
Highway construction and rebuilding projects	-	-	-
Miscellaneous	-	-	-
 Total (To Section 2, Line 5)	 <u>\$ 7,211.42</u>	 <u>\$ 561.78</u>	 <u>\$ 7,773.20</u>

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

BOROUGH OF ARONA
WESTMORELAND COUNTY
LIQUID FUELS TAX FUND
2015 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, 2015	\$ 3,696.88	\$ -	\$ 3,696.88
Receipts:			
2. State allocation	-	-	-
2a. Turnback allocation	-	-	-
2b. Interest on investments (Note 3)	.16	-	.16
2c. Miscellaneous (Note 5)	<u>3,634.89</u>	<u>561.78</u>	<u>4,196.67</u>
3. Total receipts	<u>3,635.05</u>	<u>561.78</u>	<u>4,196.83</u>
4. Total funds available	<u>7,331.93</u>	<u>561.78</u>	<u>7,893.71</u>
5. Expenditures (Section 1)	<u>7,211.42</u>	<u>561.78</u>	<u>7,773.20</u>
6. Balance, December 31, 2015	<u><u>\$ 120.51</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 120.51</u></u>

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

BOROUGH OF ARONA
WESTMORELAND COUNTY
LIQUID FUELS TAX FUND
2015 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	\$ 3,696.88	\$ -	\$ 3,696.88
2. Add: Current year equipment allocation (20% of Lines 2 + 2a, Section 2)	-	-	-
3. PENNDOT approved adjustments	<u>-</u>	<u>-</u>	<u>-</u>
4. Total funds available for equipment acquisition	3,696.88	-	3,696.88
5. Less: Major equipment expenditures	<u>-</u>	<u>-</u>	<u>-</u>
6. Remainder	<u>3,696.88</u>	<u>-</u>	<u>3,696.88</u>
7. Equipment balance available for subsequent year (Lesser of Line 6 or Section 2 balance, but not less than zero)	<u>\$ 120.51</u>	<u>\$ -</u>	<u>\$ 120.51</u>

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

BOROUGH OF ARONA
WESTMORELAND COUNTY
LIQUID FUELS TAX FUND
2016 FORM MS-965 – SECTION 1
WITH ADJUSTMENTS

<u>Expenditure Summary</u>	<u>Reported</u>	<u>Adjustments</u>	<u>Adjusted Amount</u>
Major equipment purchases	\$ -	\$ -	\$ -
Minor equipment purchases	-	-	-
Computer/Computer related training	-	-	-
Agility projects	-	-	-
Cleaning streets and gutters	-	-	-
Winter maintenance services	-	-	-
Traffic control devices	-	-	-
Street lighting	-	-	-
Storm sewers and drains	-	-	-
Repairs of tools and machinery	-	-	-
Maintenance and repair of roads and bridges	-	-	-
Highway construction and rebuilding projects	-	-	-
Miscellaneous	-	-	-
 Total (To Section 2, Line 5)	 <u>\$ -</u>	 <u>\$ -</u>	 <u>\$ -</u>

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

BOROUGH OF ARONA
WESTMORELAND COUNTY
LIQUID FUELS TAX FUND
2016 FORM MS-965 – SECTION 2
WITH ADJUSTMENTS

<u>Fund Balance</u>	<u>Reported</u>	<u>Adjustments</u>	<u>Adjusted Amount</u>
1. Balance, January 1, 2016	\$ 120.51	\$ -	\$ 120.51
Receipts:			
2. State allocation	-	-	-
2a. Turnback allocation	-	-	-
2b. Interest on investments (Note 3)	-	-	-
2c. Miscellaneous	-	-	-
3. Total receipts	-	-	-
4. Total funds available	120.51	-	120.51
5. Expenditures (Section 1)	-	-	-
6. Balance, December 31, 2016	<u>\$ 120.51</u>	<u>\$ -</u>	<u>\$ 120.51</u>

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

BOROUGH OF ARONA
WESTMORELAND COUNTY
LIQUID FUELS TAX FUND
2016 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	\$ 120.51	\$ -	\$ 120.51
2. Add: Current year equipment allocation (20% of Lines 2 + 2a, Section 2)	-	-	-
3. PENNDOT approved adjustments	<u>-</u>	<u>-</u>	<u>-</u>
4. Total funds available for equipment acquisition	120.51	-	120.51
5. Less: Major equipment expenditures	<u>-</u>	<u>-</u>	<u>-</u>
6. Remainder	<u>120.51</u>	<u>-</u>	<u>120.51</u>
7. Equipment balance available for subsequent year (Lesser of Line 6 or Section 2 balance, but not less than zero)	<u>\$ 120.51</u>	<u>\$ -</u>	<u>\$ 120.51</u>

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

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

<u>Expenditure Summary</u>	<u>Reported</u>	<u>Adjustments</u>	<u>Adjusted Amount</u>
Major equipment purchases	\$ -	\$ -	\$ -
Minor equipment purchases	-	-	-
Computer/Computer related training	-	-	-
Agility projects	-	-	-
Cleaning streets and gutters	-	-	-
Winter maintenance services	-	-	-
Traffic control devices	-	-	-
Street lighting	-	-	-
Storm sewers and drains	-	-	-
Repairs of tools and machinery	-	-	-
Maintenance and repair of roads and bridges	-	-	-
Highway construction and rebuilding projects	-	-	-
Miscellaneous	-	-	-
 Total (To Section 2, Line 5)	 <u>\$ -</u>	 <u>\$ -</u>	 <u>\$ -</u>

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

BOROUGH OF ARONA
WESTMORELAND COUNTY
LIQUID FUELS TAX FUND
2017 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, 2017	\$ 120.51	\$ -	\$ 120.51
Receipts:			
2. State allocation	19,197.44	-	19,197.44
2a. Turnback allocation	-	-	-
2b. Interest on investments (Note 3)	1.42	-	1.42
2c. Miscellaneous (Note 5)	-	793.71	793.71
3. Total receipts	<u>19,198.86</u>	<u>793.71</u>	<u>19,992.57</u>
4. Total funds available	<u>19,319.37</u>	<u>793.71</u>	<u>20,113.08</u>
5. Expenditures (Section 1)	<u>-</u>	<u>-</u>	<u>-</u>
6. Balance, December 31, 2017	<u>\$ 19,319.37</u>	<u>\$ 793.71</u>	<u>\$ 20,113.08</u>

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

BOROUGH OF ARONA
WESTMORELAND 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	\$ 120.51	\$ -	\$ 120.51
2. Add: Current year equipment allocation (20% of Lines 2 + 2a, Section 2)	3,839.49	-	3,839.49
3. PENNDOT approved adjustments	<u>-</u>	<u>-</u>	<u>-</u>
4. Total funds available for equipment acquisition	3,960.00	-	3,960.00
5. Less: Major equipment expenditures	<u>-</u>	<u>-</u>	<u>-</u>
6. Remainder	<u>3,960.00</u>	<u>-</u>	<u>3,960.00</u>
7. Equipment balance available for subsequent year (Lesser of Line 6 or Section 2 balance, but not less than zero)	<u>\$ 3,960.00</u>	<u>\$ -</u>	<u>\$ 3,960.00</u>

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

BOROUGH OF ARONA
 WESTMORELAND COUNTY
 LIQUID FUELS TAX FUND
 NOTES TO FORMS MS-965 WITH ADJUSTMENTS
 FOR THE PERIOD
 JANUARY 1, 2015 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 ARONA
WESTMORELAND COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE PERIOD
JANUARY 1, 2015 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 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.

BOROUGH OF ARONA
WESTMORELAND COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE PERIOD
JANUARY 1, 2015 TO DECEMBER 31, 2017

1. Criteria (Continued)

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.

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 ARONA
WESTMORELAND COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE PERIOD
JANUARY 1, 2015 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	<u>\$20,113.08</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 \$.16 during 2015, \$0 during 2016 (due to the low fund balance), and \$1.42 during 2017, thus providing additional funds for road maintenance and repairs.

4. Adjustments

2015 - Section 1

An adjustment of \$561.78 was made to "Street lighting" because check No. 1058 was not reported.

2015 - Section 2

An adjustment of \$561.78 was made to "Miscellaneous" because these receipts were understated.

2017 - Section 2

An adjustment of \$793.71 was made to "Miscellaneous" because a reimbursement from the General Fund was not reported.

BOROUGH OF ARONA
WESTMORELAND COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE PERIOD
JANUARY 1, 2015 TO DECEMBER 31, 2017

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>2015</u>	<u>2017</u>
General Fund	Reimbursement (Summary Of 2009-2011 Examination Recommendations)	\$3,000.00	\$ -
General Fund	Grants	1,196.67	-
General Fund	Reimbursement (Summary Of 2012-2015 Examination Recommendations)	-	793.71
		<u>-</u>	<u>793.71</u>
Total		<u>\$4,196.67</u>	<u>\$793.71</u>

BOROUGH OF ARONA
WESTMORELAND COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2015 TO DECEMBER 31, 2017

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

Our examination disclosed that during 2015 the municipality did not maintain documentation to support expenditures of \$3,908.20 for street lighting and \$3,865.00 for winter maintenance services.

Good internal control procedures ensure that there is documentation to support all expenditures.

The Liquid Fuels Tax Municipal Allocation Law, 72 P.S. § 2615.4, provides, in part, that monies herein allocated may be used only for construction, reconstruction, maintenance and repairs of such public roads or streets, including bridges, culverts and drainage structures, for which they are legally responsible. Also permitted are expenditures involving acquisition, maintenance, repairs and operation of street signs, traffic signs, traffic signal control systems, road equipment, and snow fences.

The Department of Transportation has been statutorily authorized to promulgate regulations concerning the administration of Liquid Fuels Tax Fund money and has determined that certain items, including expenditures made without supporting documentation, are outside the scope of permissible expenditures.

Without adequate documentation, we could not determine if the expenditures were permissible according to the Liquid Fuels Tax Municipal Allocation Law and the Department of Transportation's Regulations.

The failure to maintain documentation to support expenditures could result in the municipality having to reimburse \$7,773.20 to its Liquid Fuels Tax Fund.

Recommendations

We recommend that the municipality reimburse \$7,773.20 to its Liquid Fuels Tax Fund upon official notification by the Department of Transportation.

We further recommend that the municipality ensure good internal control over expenditures by maintaining adequate documentation to support all expenditures.

BOROUGH OF ARONA
WESTMORELAND COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2015 TO DECEMBER 31, 2017

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

Management Response

The secretary/treasurer stated:

I am unable to comment on the findings of the audit because I was not working with Arona council during the audit period.

Auditor's Conclusion

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

BOROUGH OF ARONA
WESTMORELAND COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2015 TO DECEMBER 31, 2017

Finding No. 2 - The Practice Of Presigning Checks Should Be Discontinued

Our examination disclosed that the municipal officials signed blank checks from the Liquid Fuels Tax Fund. This practice circumvents internal accounting controls and should be discontinued immediately.

Good internal control procedures require that checks be signed only after the payee, date, and amount to be paid have been confirmed. Additionally, responsible officials should compare this information with other supporting documentation, invoices, contracts, etc., prior to approving the checks.

Without these controls, the risk of unauthorized disbursements, errors, or misappropriations occurring and remaining undetected increases significantly.

Recommendation

We recommend that the municipality discontinue the practice of presigning Liquid Fuels Tax Fund checks.

Management Response

The secretary/treasurer stated:

I am unable to comment on the findings of the audit because I was not working with Arona council during the audit period.

Auditor's Conclusion

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

BOROUGH OF ARONA
WESTMORELAND COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2015 TO DECEMBER 31, 2017

Finding No. 3 - One Signature On Liquid Fuels Tax Fund Checks - Recurring

We cited the municipality for only requiring one signature to authorize checks drawn on the Liquid Fuels Tax Fund in our prior report for the period January 1, 2012 to December 31, 2014. However, our current examination disclosed that only one signature was required to authorize checks drawn on the Liquid Fuels Tax Fund in 2015. There were no checks written in 2016 or 2017.

When only one signature is required there is a significant risk of unauthorized disbursements, errors, or misappropriations occurring and remaining undetected.

To decrease this risk, good internal controls require that at least two authorized signatures be required to authorize checks drawn on the Liquid Fuels Tax Fund.

Recommendation

We again recommend that the municipality improve internal control procedures over disbursements by requiring at least two signatures on all disbursements from the Liquid Fuels Tax Fund account.

Management Response

The secretary/treasurer stated:

I am unable to comment on the findings of the audit because I was not working with Arona council during the audit period.

Auditor's Conclusion

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

BOROUGH OF ARONA
WESTMORELAND COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2015 TO DECEMBER 31, 2017

Finding No. 4 - Electronic Imaging Of Cancelled Checks From The Bank Did Not Include The Back Of The Checks

Our examination disclosed that the imaging of cancelled checks from the bank for the Liquid Fuels Tax Fund account was not acceptable because the bank provides only an image of 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. Because the test of disbursements was limited, we had to qualify our opinion as stated in the Independent Auditor's Report.

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 ARONA
WESTMORELAND COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2015 TO DECEMBER 31, 2017

**Finding No. 4 - Electronic Imaging Of Cancelled Checks From The Bank Did Not Include
The Back Of The Checks (Continued)**

Management Response

The secretary/treasurer stated:

I am unable to comment on the findings of the audit because I was not working with Arona council during the audit period.

Auditor's Conclusion

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

BOROUGH OF ARONA
WESTMORELAND COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2015 TO DECEMBER 31, 2017

Finding No. 5 - Untimely Deposit Of Allocations

Our examination disclosed that the 2015 Liquid Fuels Tax Fund allocation, which was paid by the Department of Transportation on July 14, 2017, was not deposited into the Liquid Fuels Tax Fund until August 22, 2017. We further noted that the 2016 allocation, which was paid by the Department of Transportation on July 25, 2017, was not deposited into the Liquid Fuels Tax Fund until August 22, 2017. We also noted that the 2017 allocation, which was paid by the Department of Transportation on June 22, 2018, was not deposited into the Liquid Fuels Tax Fund until July 9, 2018.

Good internal control procedures require that all funds received be deposited immediately upon receipt. The failure to do so increases the risk that errors and misappropriations may occur and remain undetected.

Because the municipality failed to deposit the allocations timely as noted above, the municipality did not have use of the 2015 allocation for 39 days, the 2016 allocation for 28 days and the 2017 allocation for 18 days. 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.

Recommendations

We recommend that, in the future, the municipality deposit all allocations immediately upon receipt.

In addition, the municipal officials should consider using the electronic transfer of funds offered by the Department of Transportation.

Management's Response

The secretary/treasurer stated:

This is automatically deposited. We don't have an option as to when this is put into our account. We do electronically deposit currently.

BOROUGH OF ARONA
WESTMORELAND COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2015 TO DECEMBER 31, 2017

Finding No. 5 - Untimely Deposit Of Allocations

Auditor's Conclusion

According to the bank statements the deposits of the 2015 to 2017 Liquid Fuels Tax Fund allocations were made at the bank and were not electronically deposited. During our next examination we will determine if the municipality complied with our recommendations.

BOROUGH OF ARONA
WESTMORELAND COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2015 TO DECEMBER 31, 2017

Finding No. 6 - A Complete Record Of Borough Meeting Minutes Was Not Available For Examination

Our current examination disclosed that a complete record of minutes reflecting advertised meetings of council were not available for examination for the period January 1, 2015 to December 31, 2017.

Section 1111 of the Borough Code states, in part, that “the secretary shall attend all meetings of the borough council and keep full minutes of its proceedings. The secretary shall certify copies of any book, paper, bylaw, rule, regulation, resolution, ordinance or proceeding of the borough, under the seal, when so certified, shall be admissible in Commonwealth Court.” Furthermore, Section 1113 states, in part, that “the minute book shall be open to inspection of any taxpayer.”

The primary purpose of the minutes is to provide an official record of council meetings. Without a complete record of readable minutes, we were unable to determine if there were any reference to information which would have had an impact on the propriety of liquid fuels expenditures. Additionally, we were unable to determine if litigation or related party transaction were noted.

Recommendation

We recommend that, in the future, transcribed minutes for council meetings be available for public review within a reasonable period of time after each meeting.

Management Response

The secretary/treasurer stated:

I am unable to comment on the findings of the audit because I was not working with Arona council during the audit period.

Auditor’s Conclusion

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

BOROUGH OF ARONA
WESTMORELAND COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2015 TO DECEMBER 31, 2017

Finding No. 7 - Late Receipt Of Allocations - Recurring

We cited the municipality for not receiving its 2011 Liquid Fuels Tax Fund allocation of \$7,973.93 until May 1, 2013, in our report for the period January 1, 2009 to December 31, 2011. Additionally, we cited the municipality for not receiving its 2012 and 2013 Liquid Fuels Tax Fund allocations of \$7,583.63 and \$7,460.77 until June 8, 2013 in our prior report for the period January 1, 2012 to December 31, 2014. The 2014 Liquid Fuels Tax Fund allocation of \$8,040.08 was never received by the municipality because it failed to file its Statement of Financial Condition within the allotted time of 27 months. Our current examination disclosed that the 2015, 2016 and 2017 Liquid Fuels Tax Fund allocations of \$8,856.56, \$10,340.88, and \$10,820.96, respectively, which should have been distributed from the Department of Transportation to the municipality during the first week of March of each year, were not received until July 14, 2017, July 25, 2017, and July 5, 2018 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 Elected 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.
- 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.

Because the municipality failed to file documents and information timely as noted above, the municipality did not have use of the 2015 allocation for more than two years, the 2016 allocation for more than one year, and the 2017 allocation for more one year. 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.

BOROUGH OF ARONA
WESTMORELAND COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2015 TO DECEMBER 31, 2017

Finding No. 7 - Late Receipt Of Allocations - Recurring (Continued)

Recommendation

We again recommend that, in the future, the municipality complies with the Department of Transportation's *Publication 9* to ensure that the allocations are received during the first week in March as outlined above.

Management Response

The secretary/treasurer stated:

I am unable to comment on the findings of the audit because I was not working with Arona council during the audit period.

Auditor's Conclusion

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

BOROUGH OF ARONA
WESTMORELAND COUNTY
LIQUID FUELS TAX FUND
SUMMARY OF PRIOR EXAMINATIONS' RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2015 TO DECEMBER 31, 2017

Summary Of 2009-2011 Examination Recommendations

In our 2009-2011 report we recommended that the Department of Transportation review our examination findings to determine if the municipality should reimburse \$19,352.23 to its Liquid Fuels Tax Fund. This amount consists of \$14,707.23 for failure to maintain documentation to support expenditures and \$4,645.00 for failure to maintain documentation for price quotations.

During our 2012-2015 examination we reviewed a letter dated February 12, 2015, from the Department of Transportation informing the municipality to reimburse \$3,000.00 of the \$19,352.23 to its Liquid Fuels Tax Fund. We noted that the municipality reimbursed \$3,000.00 to its Liquid Fuels Tax Fund on March 4, 2015.

Summary Of 2012-2015 Examination Recommendations

In our 2012-2015 report we recommended that the Department of Transportation review our examination finding to determine if the municipality should reimburse \$793.71 to its Liquid Fuels Tax Fund for nonpermissible expenditures.

During our current examination we reviewed a letter dated August 2, 2017, from the Department of Transportation informing the municipality to reimburse \$793.71 to its Liquid Fuels Tax Fund. We noted that the municipality reimbursed this amount to its Liquid Fuels Tax Fund on November 30, 2017.

In our 2012-2015 report we also recommended that the municipality:

- Improve internal control procedures over disbursements by requiring at least two signatures on all disbursements from the Liquid Fuels Tax Fund account.
- Ensure that its Forms MS-965 are complete and accurate.
- Complies with the Liquid Fuels Tax Municipal Allocation Law and the Department of Transportation's Regulations regarding permissible expenditures.
- The municipality complies with the Department of Transportation's *Publication 9* to ensure that the allocations are received during the first week in March as outlined above.

BOROUGH OF ARONA
WESTMORELAND COUNTY
LIQUID FUELS TAX FUND
SUMMARY OF PRIOR EXAMINATIONS' RECOMMENDATIONS
FOR THE YEARS ENDED
DECEMBER 31, 2017

Summary Of 2012-2015 Examination Recommendations (Continued)

During our current examination we noted that the municipality complied with our second and third bulleted recommendations but did not comply with our first and fourth bulleted recommendations (see Finding Nos. 3 and 7).

BOROUGH OF ARONA
WESTMORELAND COUNTY
LIQUID FUELS TAX FUND
SUMMARY OF EXIT CONFERENCE
FOR THE PERIOD
JANUARY 1, 2015 TO DECEMBER 31, 2017

An exit conference was held January 9, 2019. Those participating were:

BOROUGH OF ARONA

Mr. Joseph Levandosky, Secretary/Treasurer

DEPARTMENT OF THE AUDITOR GENERAL

Mrs. Oldriska Hoch, Auditor

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

BOROUGH OF ARONA
WESTMORELAND COUNTY
LIQUID FUELS TAX FUND
REPORT DISTRIBUTION
FOR THE PERIOD
JANUARY 1, 2015 TO DECEMBER 31, 2017

This report was initially distributed to:

The Honorable Leslie Richards
Secretary
Department of Transportation

Borough of Arona
Westmoreland County
P. O. Box 200
Arona, PA 15683

The Honorable Kathy L. Sikora
President of Council

The Honorable David Rupert
Vice-President of Council

Mr. Joseph Levandosky
Secretary/Treasurer

This report is a matter of public record and is available online at 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.