BOROUGH OF WESTMONT
CAMBRIA COUNTY
11-432

LIQUID FUELS TAX FUND
EXAMINATION REPORT

FOR THE PERIOD
JANUARY 1, 2011 TO DECEMBER 31, 2012

COMMONWEALTH OF PENNSYLVANIA

EUGENE A. DEPASQUALE - AUDITOR GENERAL

DEPARTMENT OF THE AUDITOR GENERAL

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EUGENE A. DEPASQUALE
AUDITOR GENERAL

Independent Auditor's Report

The Honorable Barry J. Schoch, 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 Borough of Westmont, Cambria County, for the period January 1, 2011 to December 31, 2012. 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 Borough of Westmont, Cambria County's Forms MS-965 for the period January 1, 2011 to December 31, 2012 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 Borough of Westmont, Cambria County, for the period January 1, 2011 to December 31, 2012, in conformity with the criteria set forth in Note 1.

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 Borough of Westmont, Cambria 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 Borough of Westmont, Cambria County's Forms MS-965 that is more than inconsequential will not be prevented or detected by the Borough of Westmont, Cambria County's internal control. We consider the deficiency described in the finding below to a significant deficiency in internal control over reporting on the Forms MS-965:

- Inadequate Internal Control Over The Facsimile Signature Stamp.

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 Borough of Westmont, Cambria 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.

The results of our tests disclosed the following instances of noncompliance that are required to be reported under *Government Auditing Standards*:

- Nonpermissible Expenditure.

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

August 22, 2013

EUGENE A. DEPASQUALE
Auditor General

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BOROUGH OF WESTMONT
CAMBRIA COUNTY
LIQUID FUELS TAX FUND
BACKGROUND
FOR THE PERIOD
JANUARY 1, 2011 TO DECEMBER 31, 2012

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.

BOROUGH OF WESTMONT
CAMBRIA COUNTY
LIQUID FUELS TAX FUND
2011 FORM MS-965 – SECTION 1
WITH ADJUSTMENTS

Expenditure Summary	Reported	Adjustments (Note 4)	Adjusted Amount
Major equipment purchases	$ -	$ -	$ -
Minor equipment purchases	3,305.72	(3,305.72)	-
Computer/Computer related training	-	-	-
Agility projects	-	-	-
Cleaning streets and gutters	-	-	-
Winter maintenance services	78,330.68	-	78,330.68
Traffic control devices	-	-	-
Street lighting	-	-	-
Storm sewers and drains	-	-	-
Repairs of tools and machinery	-	3,305.72	3,305.72
Maintenance and repair of roads and bridges	60,827.07	-	60,827.07
Highway construction and rebuilding projects	-	-	-
Miscellaneous	-	-	-
Total (To Section 2, Line 5)	$ 142,463.47	$ -	$ 142,463.47

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

BOROUGH OF WESTMONT
CAMBRIA COUNTY
LIQUID FUELS TAX FUND
2011 FORM MS-965 – SECTION 2
WITH ADJUSTMENTS

Fund Balance	Reported	Adjustments	Adjusted Amount
1. Balance, January 1, 2011	$ 78,098.60	$ -	$ 78,098.60
Receipts:			
2. State allocation	125,834.37	-	125,834.37
2a. Turnback allocation	-	-	-
2b. Interest on investments (Note 3)	45.63	-	45.63
2c. Miscellaneous (Note 5)	25,526.29	-	25,526.29
3. Total receipts	151,406.29	-	151,406.29
4. Total funds available	229,504.89	-	229,504.89
5. Expenditures (Section 1)	142,463.47	-	142,463.47
6. Balance, December 31, 2011	$ 87,041.42	$ -	$ 87,041.42

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

BOROUGH OF WESTMONT
CAMBRIA COUNTY
LIQUID FUELS TAX FUND
2011 FORM MS-965 – SECTION 3
WITH ADJUSTMENTS

Equipment Balance	Reported	Adjustments	Adjusted Amount
1. Prior year equipment balance	$ 78,098.60	$ -	$ 78,098.60
2. Add: Current year equipment allocation (20% of Lines 2 + 2a, Section 2)	25,166.87	-	25,166.87
3. PENNDOT approved adjustments	-	-	-
4. Total funds available for equipment acquisition	103,265.47	-	103,265.47
5. Less: Major equipment expenditures	-	-	-
6. Remainder	103,265.47	-	103,265.47
7. Equipment balance available for subsequent year (Lesser of Line 6 or Section 2 balance, but not less than zero)	$ 87,041.42	$ -	$ 87,041.42

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

BOROUGH OF WESTMONT
CAMBRIA COUNTY
LIQUID FUELS TAX FUND
2012 FORM MS-965 – SECTION 1
WITH ADJUSTMENTS

Expenditure Summary	Reported	Adjustments (Note 4)	Adjusted Amount
Major equipment purchases	$ -	$ -	$ -
Minor equipment purchases	11,293.90	(7,289.05)	4,004.85
Computer/Computer related training	-	-	-
Agility projects	-	-	-
Cleaning streets and gutters	-	-	-
Winter maintenance services	49,221.57	-	49,221.57
Traffic control devices	-	975.00	975.00
Street lighting	-	-	-
Storm sewers and drains	-	-	-
Repairs of tools and machinery	-	7,873.10	7,873.10
Maintenance and repair of roads and bridges	46,049.65	(1,559.05)	44,490.60
Highway construction and rebuilding projects	-	-	-
Miscellaneous	-	-	-
Total (To Section 2, Line 5)	$ 106,565.12	$ -	$ 106,565.12

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

BOROUGH OF WESTMONT
CAMBRIA COUNTY
LIQUID FUELS TAX FUND
2012 FORM MS-965 – SECTION 2
WITH ADJUSTMENTS

Fund Balance	Reported	Adjustments	Adjusted Amount
1. Balance, January 1, 2012	$ 87,041.42	$ -	$ 87,041.42
Receipts:			
2. State allocation	123,156.18	-	123,156.18
2a. Turnback allocation	-	-	-
2b. Interest on investments (Note 3)	29.63	-	29.63
2c. Miscellaneous	-	-	-
3. Total receipts	123,185.81	-	123,185.81
4. Total funds available	210,227.23	-	210,227.23
5. Expenditures (Section 1)	106,565.12	-	106,565.12
6. Balance, December 31, 2012	$ 103,662.11	$ -	$ 103,662.11

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

BOROUGH OF WESTMONT
CAMBRIA COUNTY
LIQUID FUELS TAX FUND
2012 FORM MS-965 – SECTION 3
WITH ADJUSTMENTS

Equipment Balance	Reported	Adjustments	Adjusted Amount
1. Prior year equipment balance	$ 87,041.42	$ -	$ 87,041.42
2. Add: Current year equipment allocation (20% of Lines 2 + 2a, Section 2)	24,631.24	-	24,631.24
3. PENNDOT approved adjustments	-	-	-
4. Total funds available for equipment acquisition	111,672.66	-	111,672.66
5. Less: Major equipment expenditures	-	-	-
6. Remainder	111,672.66	-	111,672.66
7. Equipment balance available for subsequent year (Lesser of Line 6 or Section 2 balance, but not less than zero)	$ 103,662.11	$ -	$ 103,662.11

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

BOROUGH OF WESTMONT
CAMBRIA COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE PERIOD
JANUARY 1, 2011 TO DECEMBER 31, 2012

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 prior to 2012 and in excess of $10,000.00 during 2012 and subsequent years.

- Minor equipment purchases are purchases of road machinery and road equipment that cost $4,000.00 or less prior to 2012 and $10,000.00 or less during 2012 and subsequent years.

- 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.

1. Criteria (Continued)

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.

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.

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 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'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, 2012. 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.

2. Deposits (Continued)

Fund Balance

The fund balance as of December 31, 2012 consists of the following:

Cash	$103,662.11

3. Interest On Investments

Our examination disclosed that the municipality deposited idle liquid fuels tax money in an interest-bearing account which earned $45.63 during 2011, and $29.63 during 2012, thus providing additional funds for road maintenance and repairs.

4. Adjustments

2011 - Section 1

Adjustments were made to "Minor equipment purchases" and "Repairs of tools and machinery" because expenditures of $3,305.72 were misclassified.

2012 - Section 1

Adjustments were made to "Minor equipment purchases," "Traffic control devices," "Repairs of tools and machinery," and "Maintenance and repair of roads and bridges" because expenditures of $8,848.10 were misclassified.

5. Miscellaneous Receipts

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

Source	Description	2011
General Fund	Reimbursement (Finding No. 2)	$10,041.57
General Fund	Reimbursement (Comment)	15,484.72
Total		$25,526.29

BOROUGH OF WESTMONT
CAMBRIA COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2011 TO DECEMBER 31, 2012

Finding No. 1 - Inadequate Internal Control Over The Facsimile Signature Stamp

Our examination disclosed a significant weakness in the municipality's internal control that requires at least two authorized signatures on checks drawn on the Liquid Fuels Tax Fund. Checks require any two council members' signatures and either the signature of the secretary or assistant secretary/treasurer. This control was circumvented each time that the secretary or the assistant secretary/treasurer applied a facsimile signature stamp that included the signatures of the president of council and the vice-president of council and signed the checks as one of the authorized signatures.

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

Recommendation

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

Management's Response

The secretary stated:

> I understand that more control needs to be used and will take corrective action to rectify the situation.

Auditor's Conclusion

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

Finding No. 2 - Nonpermissible Expenditure

Our examination disclosed that the municipality expended $10,041.57 during 2011 from the Liquid Fuels Tax Fund for Petromat. Petromat is a nonwoven fabric that is field saturated with an asphalt cement tack coat to create a continuous moisture barrier and stress absorbing interlayer in new or rehabilitated pavements. However, Petromat is not approved by the Department of Transportation for use by municipalities.

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 Petromat, are outside the scope of permissible expenditures.

On June 24, 2011, the municipality reimbursed $10,041.57 to the Liquid Fuels Tax Fund.

A similar finding was also written in our prior report. However, the municipality did not purchase Petromat during 2012.

Recommendation

We recommend that, in the future, the municipality continue to comply with the Liquid Fuels Tax Municipal Allocation Law and the Department of Transportation's Regulations regarding permissible expenditures.

Management's Response

The municipal officials stated:

> The borough repaid $10,041.57 on June 24, 2011 when we realized that it was a nonpermissible expenditure.

Auditor's Conclusion

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

BOROUGH OF WESTMONT
CAMBRIA COUNTY
LIQUID FUELS TAX FUND
COMMENT
FOR THE PERIOD
JANUARY 1, 2011 TO DECEMBER 31, 2012

Comment - Summary Of Prior Examination Recommendations

In our prior report, we recommended that the Department of Transportation review our examination findings to determine if the municipality should reimburse $15,484.72 to its Liquid Fuels Tax Fund. This amount consists of $10,852.00 for the purchase of Petromat, which is a nonpermissible expenditure, and $4,632.72 for paving without obtaining the approval of the Department of Transportation. A finding was written for the purchase of Petromat during our current examination (See Finding No. 2).

During our current examination we reviewed a letter dated August 23, 2012, from the Department of Transportation informing the municipality to reimburse $15,484.72 to its Liquid Fuels Tax Fund. We noted that the municipality reimbursed this amount to its Liquid Fuels Tax Fund on December 29, 2011.

In our prior report we also recommended that before the municipality expends money on a project, it applies for and obtains prior approval for the project, and when the project is completed it obtains approval of the completed work.

During our current examination we noted that the municipality did not expend any Liquid Fuels Tax Fund on road construction projects.

BOROUGH OF WESTMONT
CAMBRIA COUNTY
LIQUID FUELS TAX FUND
SUMMARY OF EXIT CONFERENCE
FOR THE PERIOD
JANUARY 1, 2011 TO DECEMBER 31, 2012

An exit conference was held August 22, 2013. Those participating were:

BOROUGH OF WESTMONT

Mrs. Gail Y. Heeter, Secretary

DEPARTMENT OF THE AUDITOR GENERAL

Mr. Ronald J. Fairman, Auditor

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

BOROUGH OF WESTMONT
CAMBRIA COUNTY
LIQUID FUELS TAX FUND
REPORT DISTRIBUTION
FOR THE PERIOD
JANUARY 1, 2011 TO DECEMBER 31, 2012

This report was initially distributed to:

The Honorable Barry J. Schoch, P.E.
Secretary
Department of Transportation

Borough of Westmont
Cambria County
1000 Luzerne Street
Johnstown, PA 15905

The Honorable Don C. Hall, II	President of Council
Mrs. Gail Y. Heeter	Secretary

This report is a matter of public record and is available online at http://www.auditorgen.state.pa.us. Media questions about the report can be directed to the Pennsylvania Department of the Auditor General, Office of Communications, 231 Finance Building, Harrisburg, PA 17120; via email to: news@auditorgen.state.pa.us.