

ATTESTATION ENGAGEMENT

Borough of Ursina
Somerset County, Pennsylvania
55-420
For the Period
January 1, 2010 to December 31, 2012

October 2014



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 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 Ursina, Somerset County, for the period January 1, 2010 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 Ursina, Somerset County's Forms MS-965 for the period January 1, 2010 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.

Independent Auditor's Report (Continued)

As discussed in Finding No. 2, the borough expended \$5,500.00 during 2010 and \$2,850.00 during 2011 from the Liquid Fuels Tax Fund for the plowing and salting of borough roads that was done by a business owned by the brother of the president of council. Additionally, as discussed in Finding No. 3, in our prior examination period we cited the municipality for the misappropriation of funds and questionable costs of \$2,100.00 during 2008, \$3,450.74 during 2009, and \$1,100.00 during 2010. Because the former secretary/treasurer had already reimbursed \$300.00 of her money to the Liquid Fuels Tax Fund on December 29, 2010, the Department of Transportation determined that \$6,350.74 should be reimbursed to the Liquid Fuels Tax Fund for the misappropriation of funds and questionable costs. The municipality reimbursed that amount to its Liquid Fuels Tax Fund on November 22, 2013, which was subsequent to our examination period.

In our opinion, except for the matters discussed in the preceding paragraph, 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 Ursina, Somerset County, for the period January 1, 2010 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 Ursina, Somerset 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 Ursina, Somerset County's Forms MS-965 that is more than inconsequential will not be prevented or detected by the Borough of Ursina, Somerset 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:

- Authorized Check Signers Are Related.

Independent Auditor's Report (Continued)

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 Ursina, Somerset 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*:

- Related Party Transactions.
- Misappropriation Of Funds And Questionable Costs.

We also noted another matter that, while not required to be included in this report by *Government Auditing Standards*, has been included in the finding below:

- Late Receipt Of Allocation.

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

We appreciate the courtesy extended by the Borough of Ursina, Somerset 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 6, 2014

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BOROUGH OF URSINA
SOMERSET COUNTY
LIQUID FUELS TAX FUND
BACKGROUND
FOR THE PERIOD
JANUARY 1, 2010 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.

Title 75 P.S. § 9511 of *the Pennsylvania Vehicle Code*, 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 must submit the following documents and information to the Department of Transportation as scheduled below:

1. Evidence that the treasurer is bonded in accordance with the law, or that its treasurer is a bank requiring no bond, to be submitted 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) to be submitted by January 31 of each year.
3. A report of elected and appointed officials to be submitted by January 31 of each year.
4. A Survey of Financial Condition to be submitted 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 URSINA
SOMERSET COUNTY
LIQUID FUELS TAX FUND
2010 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	640.00	-	640.00
Winter maintenance services	5,750.00	-	5,750.00
Traffic control devices	-	186.15	186.15
Street lighting	3,635.75	-	3,635.75
Storm sewers and drains	-	-	-
Repairs of tools and machinery	-	-	-
Maintenance and repair of roads and bridges	-	-	-
Highway construction and rebuilding projects	-	-	-
Miscellaneous (Note 6)	486.15	1,109.02	1,595.17
	<u>486.15</u>	<u>1,109.02</u>	<u>1,595.17</u>
Total (To Section 2, Line 5)	<u>\$ 10,511.90</u>	<u>\$ 1,295.17</u>	<u>\$ 11,807.07</u>

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

BOROUGH OF URSINA
SOMERSET COUNTY
LIQUID FUELS TAX FUND
2010 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, 2010	\$ 721.19	\$ -	\$ 721.19
Receipts:			
2. State allocation	8,044.76	-	8,044.76
2a. Turnback allocation	-	-	-
2b. Interest on investments (Note 3)	7.13	-	7.13
2c. Miscellaneous (Note 5)	<u>2,298.68</u>	<u>1,295.17</u>	<u>3,593.85</u>
3. Total receipts	<u>10,350.57</u>	<u>1,295.17</u>	<u>11,645.74</u>
4. Total funds available	<u>11,071.76</u>	<u>1,295.17</u>	<u>12,366.93</u>
5. Expenditures (Section 1)	<u>10,511.90</u>	<u>1,295.17</u>	<u>11,807.07</u>
6. Balance, December 31, 2010	<u><u>\$ 559.86</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 559.86</u></u>

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

BOROUGH OF URSINA
SOMERSET COUNTY
LIQUID FUELS TAX FUND
2010 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	\$ 721.19	\$ -	\$ 721.19
2. Add: Current year equipment allocation (20% of Lines 2 + 2a, Section 2)	1,608.95	-	1,608.95
3. PENNDOT approved adjustments	<u>-</u>	<u>-</u>	<u>-</u>
4. Total funds available for equipment acquisition	2,330.14	-	2,330.14
5. Less: Major equipment expenditures	<u>-</u>	<u>-</u>	<u>-</u>
6. Remainder	<u>2,330.14</u>	<u>-</u>	<u>2,330.14</u>
7. Equipment balance available for subsequent year (Lesser of Line 6 or Section 2 balance, but not less than zero)	<u>\$ 559.86</u>	<u>\$ -</u>	<u>\$ 559.86</u>

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

BOROUGH OF URSINA
SOMERSET COUNTY
LIQUID FUELS TAX FUND
2011 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	2,850.00	-	2,850.00
Traffic control devices	-	-	-
Street lighting	3,748.50	-	3,748.50
Storm sewers and drains	-	-	-
Repairs of tools and machinery	-	-	-
Maintenance and repair of roads and bridges	-	-	-
Highway construction and rebuilding projects	-	-	-
Miscellaneous	-	-	-
	<hr/>	<hr/>	<hr/>
Total (To Section 2, Line 5)	<u>\$ 6,598.50</u>	<u>\$ -</u>	<u>\$ 6,598.50</u>

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

BOROUGH OF URSINA
SOMERSET COUNTY
LIQUID FUELS TAX FUND
2011 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, 2011	\$ 559.86	\$ -	\$ 559.86
Receipts:			
2. State allocation	8,234.26	-	8,234.26
2a. Turnback allocation	-	-	-
2b. Interest on investments (Note 3)	6.30	-	6.30
2c. Miscellaneous (Note 5)	83.30	-	83.30
3. Total receipts	<u>8,323.86</u>	<u>-</u>	<u>8,323.86</u>
4. Total funds available	<u>8,883.72</u>	<u>-</u>	<u>8,883.72</u>
5. Expenditures (Section 1)	<u>6,598.50</u>	<u>-</u>	<u>6,598.50</u>
6. Balance, December 31, 2011	<u>\$ 2,285.22</u>	<u>\$ -</u>	<u>\$ 2,285.22</u>

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

BOROUGH OF URSINA
SOMERSET COUNTY
LIQUID FUELS TAX FUND
2011 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	\$ 559.86	\$ -	\$ 559.86
2. Add: Current year equipment allocation (20% of Lines 2 + 2a, Section 2)	1,646.85	-	1,646.85
3. PENNDOT approved adjustments	<u>-</u>	<u>-</u>	<u>-</u>
4. Total funds available for equipment acquisition	2,206.71	-	2,206.71
5. Less: Major equipment expenditures	<u>-</u>	<u>-</u>	<u>-</u>
6. Remainder	<u>2,206.71</u>	<u>-</u>	<u>2,206.71</u>
7. Equipment balance available for subsequent year (Lesser of Line 6 or Section 2 balance, but not less than zero)	<u>\$ 2,206.71</u>	<u>\$ -</u>	<u>\$ 2,206.71</u>

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

BOROUGH OF URSINA
SOMERSET COUNTY
LIQUID FUELS TAX FUND
2012 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	817.50	-	817.50
Traffic control devices	594.95	-	594.95
Street lighting	3,775.08	-	3,775.08
Storm sewers and drains	-	-	-
Repairs of tools and machinery	-	-	-
Maintenance and repair of roads and bridges	94.01	-	94.01
Highway construction and rebuilding projects	-	-	-
Miscellaneous	-	-	-
 Total (To Section 2, Line 5)	 <u>\$ 5,281.54</u>	 <u>\$ -</u>	 <u>\$ 5,281.54</u>

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

BOROUGH OF URSINA
SOMERSET COUNTY
LIQUID FUELS TAX FUND
2012 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, 2012	\$ 2,285.22	\$ -	\$ 2,285.22
Receipts:			
2. State allocation	8,019.13	-	8,019.13
2a. Turnback allocation	-	-	-
2b. Interest on investments (Note 3)	13.65	-	13.65
2c. Miscellaneous	-	-	-
3. Total receipts	<u>8,032.78</u>	<u>-</u>	<u>8,032.78</u>
4. Total funds available	<u>10,318.00</u>	<u>-</u>	<u>10,318.00</u>
5. Expenditures (Section 1)	<u>5,281.54</u>	<u>-</u>	<u>5,281.54</u>
6. Balance, December 31, 2012	<u>\$ 5,036.46</u>	<u>\$ -</u>	<u>\$ 5,036.46</u>

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

BOROUGH OF URSINA
SOMERSET COUNTY
LIQUID FUELS TAX FUND
2012 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	\$ 2,206.71	\$ -	\$ 2,206.71
2. Add: Current year equipment allocation (20% of Lines 2 + 2a, Section 2)	1,603.83	-	1,603.83
3. PENNDOT approved adjustments	<u>-</u>	<u>-</u>	<u>-</u>
4. Total funds available for equipment acquisition	3,810.54	-	3,810.54
5. Less: Major equipment expenditures	<u>-</u>	<u>-</u>	<u>-</u>
6. Remainder	<u>3,810.54</u>	<u>-</u>	<u>3,810.54</u>
7. Equipment balance available for subsequent year (Lesser of Line 6 or Section 2 balance, but not less than zero)	<u>\$ 3,810.54</u>	<u>\$ -</u>	<u>\$ 3,810.54</u>

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

BOROUGH OF URSINA
SOMERSET COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE PERIOD
JANUARY 1, 2010 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 costing 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 costing \$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.

BOROUGH OF URSINA
SOMERSET COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE PERIOD
JANUARY 1, 2010 TO DECEMBER 31, 2012

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.

BOROUGH OF URSINA
SOMERSET COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE PERIOD
JANUARY 1, 2010 TO DECEMBER 31, 2012

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

Title 53 P.S § 46316 of *the Borough Code*, 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.

BOROUGH OF URSINA
SOMERSET COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE PERIOD
JANUARY 1, 2010 TO DECEMBER 31, 2012

2. Deposits (Continued)

Fund Balance

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

Cash	\$5,036.46
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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 \$7.13 during 2010, \$6.30 during 2011, and \$13.65 during 2012, thus providing additional funds for road maintenance and repairs.

4. Adjustments

2010 - Section 1

An adjustment of \$186.15 was made to "Traffic control devices" because these expenditures were misclassified as miscellaneous.

An adjustment of \$1,109.02 was made to "Miscellaneous" because expenditures of \$186.15 for traffic control devices were misclassified and a transfer of \$1,295.17 to the General Fund to correct a deposit in error was not reported.

2010 - Section 2

An adjustment of \$1,295.17 was made to "Miscellaneous" because a deposit in error was not reported.

BOROUGH OF URSINA
SOMERSET COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE PERIOD
JANUARY 1, 2010 TO DECEMBER 31, 2012

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>2010</u>	<u>2011</u>
Commonwealth of Pennsylvania	Severe weather assistance	\$1,998.68	\$ -
Commonwealth of Pennsylvania	Deposit in error (Note 7)	1,295.17	-
Resident General Fund	Reimbursement (Finding No. 3) Grant	300.00	-
		<u>-</u>	<u>83.30</u>
Totals		<u>\$3,593.85</u>	<u>\$83.30</u>

6. Miscellaneous Expenditures

The following miscellaneous expenditures were paid from the Liquid Fuels Tax Fund during the examination period:

<u>Source</u>	<u>Description</u>	<u>2010</u>
Financial institution General Fund	Withdrawal (Finding No. 3) Correction of deposit in error (Note 7)	\$ 300.00
		<u>1,295.17</u>
Total		<u>\$1,595.17</u>

7. Deposit In Error

On September 20, 2010, the Pennsylvania Treasury Department electronically deposited \$1,295.17 into the municipality's Liquid Fuels Tax Fund in error. On October 6, 2010, the municipality transferred this amount from its Liquid Fuels Tax Fund to its General Fund to correct the deposit in error.

BOROUGH OF URSINA
SOMERSET COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2010 TO DECEMBER 31, 2012

Finding No. 1 - Authorized Check Signers Are Related

Our examination disclosed that on several cancelled Liquid Fuels Tax Fund checks the signatures required to authorize the checks were the signatures of the president of council and the secretary/treasurer who are husband and wife.

Good internal control procedures ensure that at least two unrelated persons are authorized to sign checks drawn on the Liquid Fuels Tax Fund.

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

Recommendations

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

Management's Response

The secretary/treasurer stated:

A new secretary/treasurer was appointed in May 2011 due to the resignation of the prior secretary/treasurer. Council elected to have three people responsible to sign checks (two signatures required). The president of council, secretary/treasurer, and borough council were not aware that relatives cannot sign together. Somerset Trust will be notified to remove the president of council and council will appoint a third person at the next council meeting.

Auditor's Conclusion

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

BOROUGH OF URSINA
SOMERSET COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2010 TO DECEMBER 31, 2012

Finding No. 2 - Related Party Transactions

Our examination disclosed that the borough expended \$5,500.00 during 2010 and \$2,850.00 during 2011 from the Liquid Fuels Tax Fund for the plowing and salting of borough roads by a business owned by the brother of the president of council. Due to the president's brothers' financial interest in the business, and the lack of an open and public award process, these expenditures appear to violate *The Borough Code* and The Public Official and Employee Ethics Act.

The Borough Code, 53 P.S. § 46404, as amended, states, in part:

. . . no borough official, either elected or appointed, or township employee who knows, or who by the exercise of reasonable diligence could know, shall be interested to any appreciable degree, either directly or indirectly, in any purchase made or contract entered into or expenditure of money made by the borough or relating to the business of the borough, involving the expenditure by the borough of more than one thousand dollars (\$1000.00) in any calendar year, but this limitation shall not apply to cases where such officer or appointee of the borough is an employee of the person, firm or corporation to which the money is to be paid in a capacity with no possible influence on the transaction and in which he cannot be possibly benefited thereby either financially or otherwise. But in the case of a councilman or mayor, if he knows that he is within the exception just mentioned he shall so inform council and shall refrain from voting on the expenditure or any ordinance relating thereto, and shall in no manner participate therein. . . .

This information is also published in § 1404 of *The Borough Code* as published by the Local Government Commission.

The Public Official and Employee Ethics Act ("Ethics Act"), 65 P.S. 1103(a), states, in part:

No public official or public employee shall engage in conduct that constitutes a conflict of interest. A conflict of interest is defined as use by a public official or public employee of the authority of his office or employment or any confidential information received through his holding public office or employment for the private pecuniary benefit of himself, a member of his immediate family, or a business with which he or a member of his immediate family is associated. "Conflict" or "conflict of interest" does not include an action having a de minimis economic impact or which affects to the same degree a class consisting of the general public or a subclass consisting of an industry, occupation, or other group which includes the public official or public employee, a member of his immediate family, or a business with which he or a member of his immediate family is associated.

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Finding No. 2 - Related Party Transactions (Continued)

Because this contract violates *The Borough Code* and the Ethics Act the borough could be required by the Pennsylvania Department of Transportation to reimburse \$8,350.00 to its Liquid Fuels Tax Fund.

Copies of this finding will be forwarded to the Pennsylvania Department of Transportation and the State Ethics Commission for their review and whatever action they may deem appropriate.

The president of council retired from council in May 2011. His brother's business was not paid any money from the Liquid Fuels Tax Fund after May 2011.

Recommendations

We recommend that the borough reimburse \$8,350.00 to its Liquid Fuels Tax Fund upon official notification by the Department of Transportation.

We further recommend that, in the future, the borough continue to comply with *The Borough Code* and the Ethics Act.

Management's Response

The secretary/treasurer stated:

Council acknowledges that due to an above average amount of snow and ice, we incurred excess expenses for snow removal and salt. The borough applied for emergency assistance.

Auditor's Conclusion

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

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Finding No. 3 - Misappropriation Of Funds And Questionable Costs

In our prior report, for the period January 1, 2008 to December 31, 2009, we cited the borough for the misappropriation of funds and questionable costs in the amount of \$2,100.00 during 2008 and \$3,450.74 during 2009. In the same report we also disclosed misappropriated funds and questionable costs of \$1,100.00 incurred in 2010. Although the 2010 transactions occurred outside our prior examination period, the information was included in the prior report to assist the borough.

On September 17, 2012, the former secretary/treasurer pleaded guilty to the theft of \$9,810.74 of borough funds between 2008 and 2010. She was sentenced to three years of probation for one count of theft by deception-false impression. She repaid the \$9,810.74 to the borough. The Department of Transportation determined that \$6,350.74 should be transferred to the borough's Liquid Fuels Tax Fund.

The municipality reimbursed \$6,350.74 to the Liquid Fuels Tax Fund on November 22, 2013, which was subsequent to our examination period.

We did not discover any misappropriation of funds or questionable costs during 2011 or 2012.

The misappropriation of funds and questionable costs incurred during 2010 occurred because of poor internal controls that permitted the former secretary treasurer to create and pay fictitious invoices, write checks payable to herself, and transfer money from the Liquid Fuels Tax Fund to the General Fund without documentation to support the transfer.

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Finding No. 3 - Misappropriation Of Funds And Questionable Costs (Continued)

The practice of transferring liquid fuels money into any account other than the Liquid Fuels Tax Fund account is contrary to the Act of June 1, 1956, P.L. (1955) 1944, 72 P.S. § 2615.5, known as the Liquid Fuels Tax Municipal Allocation Law, which states:

...each city, borough, town and township, shall...Establish and maintain a special fund into which the moneys [liquid fuels tax funds]...shall be deposited and into which no other moneys may be deposited or commingled...

The risk that Liquid Fuels Tax Fund money may be used for unauthorized purposes increases when liquid Fuels money is commingled with other funds.

Further, there was no evidence that a borough official who is not an authorized check signer reconciled the bank statements or reviewed copies of the canceled checks received from the bank. Had this been done, the misuse and misappropriations could have been detected on a timely basis.

Recommendations

We recommend that in the future, the municipality only transfer Liquid Fuels Tax Fund money to other funds for the reimbursement of permissible Liquid Fuels Tax Fund expenditures.

Additionally, we recommend that a borough official who is not an authorized check signer reconcile the bank statements and review the fronts and backs of canceled checks monthly.

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Finding No. 3 - Misappropriation Of Funds And Questionable Costs (Continued)

Management's Response

The secretary/treasurer stated:

Funds were pilfered from Ursina Borough for an unknown number of years. Upon discovery, the Auditor General's office was contacted and an investigation begun in 2011. The Department of Transportation later did another audit. The prior secretary was convicted; she made restitution November 27, 2012 of \$3,800.00 and December 14, 2012 of \$6,010.74. Monies were deposited in a separate account (per Attorney General's office). At the conclusion of the Auditor General's investigation, the Department of Transportation's audit and subsequent visits from our PENNDOT financial consultant, we were instructed to deposit \$6,350.74 into the Liquid Fuels Tax Fund on November 22, 2013 (balance was deposited in General Fund). The former secretary/treasurer resigned in May 2011. New procedure is to have checks attached to backup bills and all council reviews and approves before a second signature is obtained.

Auditor's Conclusion

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

BOROUGH OF URSINA
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FINDINGS AND RECOMMENDATIONS
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Finding No. 4 - Late Receipt Of Allocation

Our examination disclosed that the 2011 Liquid Fuels Tax Fund allocation of \$8,234.26, which should have been distributed from the Department of Transportation to the municipality during the first week of April of that year, was not received until May 6, 2011, 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.

Because the municipality failed to file documents and information timely as noted above, the municipality did not have use of the 2011 allocation for one month. Furthermore, had the allocation 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.

We noted that the 2012 allocation was received timely.

Recommendation

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

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Finding No. 4 - Late Receipt Of Allocation (Continued)

Management's Response

The secretary/treasurer stated:

I was newly appointed during mid 2011. I received no training and was unaware that there were numerous forms to be completed in December, January and February.

Auditor's Conclusion:

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

BOROUGH OF URSINA
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SUMMARY OF EXIT CONFERENCE
FOR THE PERIOD
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An exit conference was held March 11, 2014. Those participating were:

BOROUGH OF URSINA

Mrs. Janet M. Nolf, Secretary/Treasurer

DEPARTMENT OF THE AUDITOR GENERAL

Erica DeStefano, MBA, Auditor

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

BOROUGH OF URSINA
SOMERSET COUNTY
LIQUID FUELS TAX FUND
REPORT DISTRIBUTION
FOR THE PERIOD
JANUARY 1, 2010 TO DECEMBER 31, 2012

This report was initially distributed to:

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

Mr. Robert P. Caruso
Executive Director
Pennsylvania State Ethics Commission

Borough of Ursina
Somerset County
418 Park Street
Confluence, PA 15424

The Honorable Gordon Fennell	Mayor
The Honorable William R. Nolf	President of Council
Mrs. Janet M. Nolf	Secretary/Treasurer

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.