ATTESTATION ENGAGEMENT

Borough of Loretto

Cambria County, Pennsylvania

11-420

Liquid Fuels Tax Fund

For the Period

January 1, 2011 to December 31, 2013

January 2015

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
Acting 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 Loretto, Cambria County, for the period January 1, 2011 to December 31, 2013. 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.

Except as discussed in the fifth paragraph, 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 Loretto, Cambria County's Forms MS-965 for the period January 1, 2011 to December 31, 2013 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.

As discussed in Finding No. 1, the borough expended $1,410.00 during 2012 and $2,920.00 during 2013 from the Liquid Fuels Tax Fund for the purchase of an anti-skid and salt mix that was not received by the borough. Additionally, as discussed in Finding No. 2, we were unable to examine the images of the back of the canceled checks from the borough's financial institution because the borough failed to obtain them from its financial institution. Consequently, we were unable to perform procedures to determine whether disbursements were made in accordance with applicable laws and regulations.

In our opinion, except for the expenditures for salt in 2012 and 2013 and the effects of such adjustments, if any, as might have been determined to be necessary had we been able to examine an image of the back of the canceled checks, 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 Loretto, Cambria County, for the period January 1, 2011 to December 31, 2013, 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 Loretto, 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 Loretto, Cambria County's Forms MS-965 that is more than inconsequential will not be prevented or detected by the Borough of Loretto, Cambria County's internal control.

We consider the deficiencies described in the findings below to be significant deficiencies in internal control over reporting on the Forms MS-965:

- Theft of Funds.
- Electronic Imaging Of Canceled Checks From The Bank Did Not Include The Back Of The Checks.
- Untimely Deposit of Allocation.

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 Loretto, 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 first two significant deficiencies described above to be material weaknesses.

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

This report is intended solely for the information and use of the Pennsylvania Department of Transportation and the management of the Borough of Loretto, Cambria 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 Loretto, Cambria 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.

September 17, 2014

Eugene A. DePasquale
Auditor General

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BOROUGH OF LORETTO
CAMBRIA COUNTY
LIQUID FUELS TAX FUND
BACKGROUND
FOR THE PERIOD
JANUARY 1, 2011 TO DECEMBER 31, 2013

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, Section 9511 et. seq., 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 LORETTO
CAMBRIA COUNTY
LIQUID FUELS TAX FUND
2011 FORM MS-965 – SECTION 1
WITH ADJUSTMENTS

Expenditure Summary	Reported	Adjustments	Adjusted Amount
Major equipment purchases	$ -	$ -	$ -
Minor equipment purchases	-	-	-
Computer/Computer related training	-	-	-
Agility projects	-	-	-
Cleaning streets and gutters	720.00	-	720.00
Winter maintenance services	7,475.00	-	7,475.00
Traffic control devices	1,706.03	-	1,706.03
Street lighting	7,534.37	-	7,534.37
Storm sewers and drains	3,400.00	-	3,400.00
Repairs of tools and machinery	310.80	-	310.80
Maintenance and repair of roads and bridges	2,075.00	-	2,075.00
Highway construction and rebuilding projects	-	-	-
Miscellaneous	-	-	-
Total (To Section 2, Line 5)	$ 23,221.20	$ -	$ 23,221.20

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

BOROUGH OF LORETTO
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	$ 17,108.78	$ -	$ 17,108.78
Receipts:			
2. State allocation	20,295.67	-	20,295.67
2a. Turnback allocation	-	-	-
2b. Interest on investments (Note 3)	44.63	-	44.63
2c. Miscellaneous	-	-	-
3. Total receipts	20,340.30	-	20,340.30
4. Total funds available	37,449.08	-	37,449.08
5. Expenditures (Section 1)	23,221.20	-	23,221.20
6. Balance, December 31, 2011	$ 14,227.88	$ -	$ 14,227.88

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

BOROUGH OF LORETTO
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	$ 17,108.78	$ -	$ 17,108.78
2. Add: Current year equipment allocation (20% of Lines 2 + 2a, Section 2)	4,059.13	-	4,059.13
3. PENNDOT approved adjustments	-	-	-
4. Total funds available for equipment acquisition	21,167.91	-	21,167.91
5. Less: Major equipment expenditures	-	-	-
6. Remainder	21,167.91	-	21,167.91
7. Equipment balance available for subsequent year (Lesser of Line 6 or Section 2 balance, but not less than zero)	$ 14,227.88	$ -	$ 14,227.88

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

BOROUGH OF LORETTO
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	-	500.00	500.00
Computer/Computer related training	-	-	-
Agility projects	-	-	-
Cleaning streets and gutters	753.00	-	753.00
Winter maintenance services	3,845.15	(500.00)	3,345.15
Traffic control devices	408.56	-	408.56
Street lighting	7,703.48	-	7,703.48
Storm sewers and drains	1,128.00	-	1,128.00
Repairs of tools and machinery	575.70	-	575.70
Maintenance and repair of roads and bridges	2,853.00	-	2,853.00
Highway construction and rebuilding projects	-	-	-
Miscellaneous (Note 5)	1,000.00	-	1,000.00
Total (To Section 2, Line 5)	$ 18,266.89	$ -	$ 18,266.89

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

BOROUGH OF LORETTO
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	$ 14,227.88	$ -	$ 14,227.88
Receipts:			
2. State allocation	21,883.03	-	21,883.03
2a. Turnback allocation	-	-	-
2b. Interest on investments (Note 3)	37.68	-	37.68
2c. Miscellaneous (Note 5)	1,000.00	-	1,000.00
3. Total receipts	22,920.71	-	22,920.71
4. Total funds available	37,148.59	-	37,148.59
5. Expenditures (Section 1)	18,266.89	-	18,266.89
6. Balance, December 31, 2012	$ 18,881.70	$ -	$ 18,881.70

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

BOROUGH OF LORETTO
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	$ 14,227.88	$ -	$ 14,227.88
2. Add: Current year equipment allocation (20% of Lines 2 + 2a, Section 2)	4,376.61	-	4,376.61
3. PENNDOT approved adjustments	-	-	-
4. Total funds available for equipment acquisition	18,604.49	-	18,604.49
5. Less: Major equipment expenditures	-	-	-
6. Remainder	18,604.49	-	18,604.49
7. Equipment balance available for subsequent year (Lesser of Line 6 or Section 2 balance, but not less than zero)	$ 18,604.49	$ -	$ 18,604.49

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

BOROUGH OF LORETTO
CAMBRIA COUNTY
LIQUID FUELS TAX FUND
2013 FORM MS-965 – SECTION 1
WITH ADJUSTMENTS

Expenditure Summary	Reported	Adjustments (Note 4)	Adjusted Amount
Major equipment purchases	$ -	$ -	$ -
Minor equipment purchases	-	-	-
Computer/Computer related training	-	-	-
Agility projects	-	-	-
Cleaning streets and gutters	720.00	-	720.00
Winter maintenance services	10,146.25	-	10,146.25
Traffic control devices	2,961.49	-	2,961.49
Street lighting	7,385.66	-	7,385.66
Storm sewers and drains	-	-	-
Repairs of tools and machinery	-	-	-
Maintenance and repair of roads and bridges	7,025.50	95.72	7,121.22
Highway construction and rebuilding projects	-	-	-
Miscellaneous	95.72	(95.72)	-
Total (To Section 2, Line 5)	$ 28,334.62	$ -	$ 28,334.62

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

BOROUGH OF LORETTO
CAMBRIA COUNTY
LIQUID FUELS TAX FUND
2013 FORM MS-965 – SECTION 2
WITH ADJUSTMENTS

Fund Balance	Reported	Adjustments	Adjusted Amount
1. Balance, January 1, 2013	$ 18,881.70	$ -	$ 18,881.70
Receipts:			
2. State allocation	21,531.80	-	21,531.80
2a. Turnback allocation	-	-	-
2b. Interest on investments (Note 3)	1.77	-	1.77
2c. Miscellaneous	-	-	-
3. Total receipts	21,533.57	-	21,533.57
4. Total funds available	40,415.27	-	40,415.27
5. Expenditures (Section 1)	28,334.62	-	28,334.62
6. Balance, December 31, 2013	$ 12,080.65	$ -	$ 12,080.65

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

BOROUGH OF LORETTO
CAMBRIA COUNTY
LIQUID FUELS TAX FUND
2013 FORM MS-965 – SECTION 3
WITH ADJUSTMENTS

Equipment Balance	Reported	Adjustments	Adjusted Amount
1. Prior year equipment balance	$ 18,604.49	$ -	$ 18,604.49
2. Add: Current year equipment allocation (20% of Lines 2 + 2a, Section 2)	4,306.36	-	4,306.36
3. PENNDOT approved adjustments	-	-	-
4. Total funds available for equipment acquisition	22,910.85	-	22,910.85
5. Less: Major equipment expenditures	-	-	-
6. Remainder	22,910.85	-	22,910.85
7. Equipment balance available for subsequent year (Lesser of Line 6 or Section 2 balance, but not less than zero)	$ 12,080.65	$ -	$ 12,080.65

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

BOROUGH OF LORETTO
CAMBRIA COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE PERIOD
JANUARY 1, 2011 TO DECEMBER 31, 2013

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:

Prior To 2012	2012	2013	2014
$4,000.00	$10,000.00	$10,200.00	$10,300.00

- Minor equipment purchases are purchases of road machinery and road equipment with varying yearly costs, or less, than the amounts indicated below:

Prior To 2012	2012	2013	2014
$4,000.00	$10,000.00	$10,200.00	$10,300.00

- 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 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.

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.

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, 53 P.S § 46316), authorizes the borough to deposit its funds as follows:

- 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.

2. Deposits (Continued)

There were no deposits exposed to custodial credit risk as of December 31, 2013. 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.

Fund Balance

The fund balance as of December 31, 2013 consists of the following:

Cash	$12,080.65

3. Interest On Investments

Our examination disclosed that the municipality deposited idle liquid fuels tax money in an interest-bearing account which earned $44.63 during 2011, $37.68 during 2012, and $1.77 during 2013, thus providing additional funds for road maintenance and repairs.

4. Adjustments

2012 - Section 1

Adjustments were made to "Minor equipment purchases" and "Winter maintenance services" because expenditures of $500.00 were misclassified.

2013 - Section 1

Adjustments were made to "Maintenance and repair of roads and bridges" and "Miscellaneous" because expenditures of $95.72 were misclassified.

5. Deposit In Error

On February 7, 2012 the municipality deposited $1,000.00 into its Liquid Fuels Tax Fund in error. On February 13, 2012 the municipality transferred this amount from its Liquid Fuels Tax Fund to its General Fund to correct the deposit in error.

BOROUGH OF LORETTO
CAMBRIA COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2011 TO DECEMBER 31, 2013

Finding No. 1 - Theft Of Funds

Our examination disclosed that there was misappropriation of funds totaling $4,330.00. We noted that the borough expended $1,410.00 during 2012 and $2,920.00 during 2013 from the Liquid Fuels Tax Fund for the purchase of anti-skid and salt mix from a borough employee. The invoices that were given to the borough for payment and paid were in the name of the borough employee and the invoices did not indicate where the mix was obtained. These purchases were as follows:

Invoice Number	Invoice Date	Tons Purchased	Price/Ton	Amount	Totals
0000002	01/07/12	8.00	$45.00	$360.00	
0000003	02/11/12	13.00	45.00	585.00	
100	04/08/12	5.00	45.00	225.00	
0000001	12/07/12	6.00	40.00	240.00	
Total for 2012		32.00			$1,410.00
100	01/12/13	19.00	40.00	760.00	
100	02/08/13	24.00	40.00	960.00	
100	03/10/13	18.00	40.00	720.00	
100	04/07/13	12.00	40.00	480.00	
Total for 2013		73.00			2,920.00
Two year totals:					$4,330.00

The borough had also awarded snow removal contracts for the 2011-2012 and 2012-2013 winter seasons for $35.00 an hour and $45.00 an hour, respectively, to a contractor that was not an employee. The contractor plowed and salted borough roads during the winter seasons.

Finding No. 1 - Theft Of Funds (Continued)

The borough stated that the employee used the borough's truck to pick up the 96 tons of salt and anti-skid mix that was invoiced. However, the only truck the borough owns is a ½ ton pick-up truck, which is not large enough to haul these amounts of the anti-skid and salt mix invoiced and reported in the table above. The borough has only 2.3 miles of road and the amount of the anti-skid purchased would have been more than the amount of mix needed for any single day winter weather day. The excess would have to be stored at a location for future use and the borough does not have a salt shed or other suitable location to store the unused mix. Accordingly, it appeared that the borough never received the salt and that the invoices submitted by the employee were false. The matter was referred to the Pennsylvania State Police (PSP), Western Organized Crime Task Force for criminal investigation into a potential theft of Commonwealth funds in January of 2014. The PSP commenced a criminal investigation which yielded felony theft charges being filed against the borough employee on July 8, 2014.

We commend the PSP and Cambria County District Attorney's office for their efforts during this the course of this investigation. This is a prime example of government working together to combat waste, fraud and abuse relating to Commonwealth funds. A copy of this final report will be forwarded to the Cambria County District Attorney's Office and PSP for informational purposes.

Good internal control procedures ensure that the borough obtain invoices directly from the vendor that provided the materials or services and pay the vendor directly. Furthermore, the borough should have ensured that the mix that was ordered was received.

Recommendations

We recommend that the municipality reimburse $4,330.00 to its Liquid Fuels Tax Fund upon official notification by the Department of Transportation.

We further recommend that, in the future, the borough obtain invoices from vendors that provide materials or services to the borough and pay the vendor directly. Additionally, borough officials should also ensure that materials purchases are received.

Finding No. 1 - Theft Of Funds (Continued)

Management's Response

The municipal officials stated:

> The Loretto Borough Council does not necessarily agree with the finding of misappropriation of funds. The council has agreed to repay $4,330.00 to the Loretto Borough Liquid Fuels Tax Fund.

Auditor's Conclusion

A criminal investigation was commenced by the Pennsylvania State Police that yielded felony theft charges being filed against a borough employee. Therefore, our finding is for theft of funds.

Finding No. 2 - Electronic Imaging Of Canceled Checks From The Bank Did Not Include The Back Of The Checks

Our examination disclosed that the imaging of canceled 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 canceled checks. For us to properly complete our examination testing, we have to examine the front and back of the canceled 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 canceled 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 canceled checks in accordance with Directive 210.11. Additionally, municipal officials should review the front and back of each canceled check for any errors or misappropriations.

Management's Response

The municipal officials stated:

> The bank was already contacted. We have the images, front and back, of all checks beginning January 2014.

Finding No. 2 - Electronic Imaging Of Canceled Checks From The Bank Did Not Include The Back Of The Checks (Continued)

Auditor's Conclusion

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

Finding No. 3 - Untimely Deposit Of Allocation

Our examination disclosed that the 2013 Liquid Fuels Tax Fund allocation of $21,531.80, which was received on April 1, 2013, was not deposited into the Liquid Fuels Tax Fund until May 7, 2013.

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. Additionally, had the allocation been deposited in a timely manner, money may have been available for investment, 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 municipal officials stated:

> The deposit of allocation will be timely.

Auditor's Conclusion

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

BOROUGH OF LORETTO
CAMBRIA COUNTY
LIQUID FUELS TAX FUND
SUMMARY OF PRIOR EXAMINATION RECOMMENDATION
FOR THE PERIOD
JANUARY 1, 2011 TO DECEMBER 31, 2013

Summary Of Prior Examination Recommendation

In our prior report we recommended that the municipality expend only the approved amount of Liquid Fuels Tax Fund money on road construction projects.

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

BOROUGH OF LORETTO
CAMBRIA COUNTY
LIQUID FUELS TAX FUND
SUMMARY OF EXIT CONFERENCE
FOR THE PERIOD
JANUARY 1, 2011 TO DECEMBER 31, 2013

An exit conference was held September 17, 2014. Those participating were:

BOROUGH OF LORETTO

The Honorable Ward Prostejovsky, President of Council

Mrs. Ann C. Sutton, Secretary/Treasurer

DEPARTMENT OF THE AUDITOR GENERAL

Mr. Ronald Fairman, Auditor

Mr. Nathan Lipton, Office of Chief Counsel

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

BOROUGH OF LORETTO
CAMBRIA COUNTY
LIQUID FUELS TAX FUND
REPORT DISTRIBUTION
FOR THE PERIOD
JANUARY 1, 2011 TO DECEMBER 31, 2013

This report was initially distributed to:

The Honorable Leslie Richards
Acting Secretary
Department of Transportation

Marcus Brown
Acting Commissioner
Pennsylvania State Police

Kelly Callihan
District Attorney
Cambria County

Borough of Loretto
Cambria County
P. O. Box 7
Loretto, PA 15940

The Honorable Ward Prostejousky	President of Council
Mrs. Ann C. Sutton	Secretary/Treasurer

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