



BOROUGH OF HOMEWOOD
BEAVER COUNTY
04-417

LIQUID FUELS TAX FUND
EXAMINATION REPORT

FOR THE FOUR YEARS ENDED
DECEMBER 31, 2008

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BOROUGH OF HOMEWOOD
BEAVER COUNTY
LIQUID FUELS TAX FUND
BACKGROUND
FOR THE FOUR YEARS ENDED
DECEMBER 31, 2008

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.





**Department of the Auditor General
Commonwealth of Pennsylvania
Harrisburg, Pennsylvania 17120-0018**

**JACK WAGNER
AUDITOR GENERAL**

Independent Auditor's Report

The Honorable Barry J. Schoch, P.E.
Secretary
Department of Transportation
Harrisburg, PA 17120

We were engaged to examine the accompanying Forms MS-965 With Adjustments for the Liquid Fuels Tax Fund of the Borough of Homewood, Beaver County, for the four years ended December 31, 2008. 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.

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 municipality failed to maintain invoices to support expenditures of \$6,708.16 during 2005, \$3,089.13 during 2006, \$12,700.39 during 2007, and \$8,509.52 during 2008. We were unable to satisfy ourselves by other examination procedures; therefore, we determined that the missing documentation restricted the scope of our examination of the Forms MS-965 – With Adjustments.

Because of the restriction on the scope of our examination discussed in the preceding paragraph, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on whether 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 Homewood, Beaver County, for the four years ended December 31, 2008, in conformity with the criteria set forth in Note 1.

Independent Auditor's Report (Continued)

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 Homewood, Beaver 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 Homewood, Beaver County's Forms MS-965 that is more than inconsequential will not be prevented or detected by the Borough of Homewood, Beaver 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:

- Failure To Maintain Adequate Documentation Resulting In Misappropriation Of Funds.
- Failure To Properly Prepare Forms MS-965.

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 Homewood, Beaver 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. However, we consider the significant deficiencies described above to be material weaknesses.

Independent Auditor's Report (Continued)

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

- A Complete Record Of Borough Council Meeting Minutes Was Not Available For Examination.

We also noted an other 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 Homewood, Beaver County, and is not intended to be and should not be used by anyone other than these specified parties.

April 26, 2011

JACK WAGNER
Auditor General



BOROUGH OF HOMEWOOD
 BEAVER COUNTY
 LIQUID FUELS TAX FUND
 2005 FORM MS-965 – SECTION 1
 WITH ADJUSTMENTS

<u>Expenditure Summary</u>	<u>Reported</u>	<u>Adjustments (Note 4)</u>	<u>Adjusted Amount</u>
Major equipment purchases	\$ -	\$ -	\$ -
Minor equipment purchases	-	-	-
Computer/Computer related training	-	-	-
Agility projects	-	-	-
Cleaning streets and gutters	-	-	-
Winter maintenance services	174.58	12.66	187.24
Traffic control devices	-	-	-
Street lighting	2,295.14	-	2,295.14
Storm sewers and drains	-	-	-
Repairs of tools and machinery	-	-	-
Maintenance and repair of roads and bridges	4,225.78	-	4,225.78
Highway construction and rebuilding projects	-	-	-
Miscellaneous	-	-	-
	<hr/>	<hr/>	<hr/>
Total (To Section 2, Line 5)	<u>\$ 6,695.50</u>	<u>\$ 12.66</u>	<u>\$ 6,708.16</u>

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

BOROUGH OF HOMEWOOD
 BEAVER COUNTY
 LIQUID FUELS TAX FUND
 2005 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, 2005	\$ 3,121.91	\$ -	\$ 3,121.91
Receipts:			
2. State allocation	4,953.26	-	4,953.26
2a. Turnback allocation	650.00	-	650.00
2b. Interest on investments (Note 3)	1.03	-	1.03
2c. Miscellaneous	-	-	-
3. Total receipts	<u>5,604.29</u>	<u>-</u>	<u>5,604.29</u>
4. Total funds available	<u>8,726.20</u>	<u>-</u>	<u>8,726.20</u>
5. Expenditures (Section 1)	<u>6,695.50</u>	<u>12.66</u>	<u>6,708.16</u>
6. Balance, December 31, 2005	<u><u>\$ 2,030.70</u></u>	<u><u>\$ (12.66)</u></u>	<u><u>\$ 2,018.04</u></u>

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

BOROUGH OF HOMEWOOD
 BEAVER COUNTY
 LIQUID FUELS TAX FUND
 2005 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	\$ 1,205.35	\$ -	\$ 1,205.35
2. Add: Current year equipment allocation (20% of Lines 2 + 2a, Section 2)	1,120.65	-	1,120.65
3. PENNDOT approved adjustments	-	-	-
4. Total funds available for equipment acquisition	2,326.00	-	2,326.00
5. Less: Major equipment expenditures	-	-	-
6. Remainder	<u>2,326.00</u>	<u>-</u>	<u>2,326.00</u>
7. Equipment balance available for subsequent year (Lesser of Line 6 or Section 2 balance, but not less than zero)	<u>\$ 2,030.70</u>	<u>\$ (12.66)</u>	<u>\$ 2,018.04</u>

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

BOROUGH OF HOMEWOOD
 BEAVER COUNTY
 LIQUID FUELS TAX FUND
 2006 FORM MS-965 – SECTION 1
 WITH ADJUSTMENTS

<u>Expenditure Summary</u>	<u>Reported</u>	<u>Adjustments (Note 4)</u>	<u>Adjusted Amount</u>
Major equipment purchases	\$ -	\$ -	\$ -
Minor equipment purchases	-	-	-
Computer/Computer related training	-	-	-
Agility projects	-	-	-
Cleaning streets and gutters	-	-	-
Winter maintenance services	103.77	-	103.77
Traffic control devices	-	-	-
Street lighting	2,644.36	(209.00)	2,435.36
Storm sewers and drains	-	-	-
Repairs of tools and machinery	-	-	-
Maintenance and repair of roads and bridges	550.00	-	550.00
Highway construction and rebuilding projects	-	-	-
Miscellaneous	-	-	-
	<hr/>	<hr/>	<hr/>
Total (To Section 2, Line 5)	<u>\$ 3,298.13</u>	<u>\$ (209.00)</u>	<u>\$ 3,089.13</u>

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

BOROUGH OF HOMEWOOD
 BEAVER COUNTY
 LIQUID FUELS TAX FUND
 2006 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, 2006	\$ 2,030.70	\$ (12.66)	\$ 2,018.04
Receipts:			
2. State allocation	5,296.64	-	5,296.64
2a. Turnback allocation	650.00	-	650.00
2b. Interest on investments (Note 3)	1.36	-	1.36
2c. Miscellaneous	-	-	-
3. Total receipts	<u>5,948.00</u>	<u>-</u>	<u>5,948.00</u>
4. Total funds available	<u>7,978.70</u>	<u>(12.66)</u>	<u>7,966.04</u>
5. Expenditures (Section 1)	<u>3,298.13</u>	<u>(209.00)</u>	<u>3,089.13</u>
6. Balance, December 31, 2006	<u><u>\$ 4,680.57</u></u>	<u><u>\$ 196.34</u></u>	<u><u>\$ 4,876.91</u></u>

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

BOROUGH OF HOMEWOOD
 BEAVER COUNTY
 LIQUID FUELS TAX FUND
 2006 FORM MS-965 – SECTION 3
 WITH ADJUSTMENTS

<u>Equipment Balance</u>	<u>Reported</u>	<u>Adjustments (Note 4)</u>	<u>Adjusted Amount</u>
1. Prior year equipment balance	\$ 2,030.70	\$ (12.66)	\$ 2,018.04
2. Add: Current year equipment allocation (20% of Lines 2 + 2a, Section 2)	1,189.33	-	1,189.33
3. PENNDOT approved adjustments	-	-	-
4. Total funds available for equipment acquisition	3,220.03	(12.66)	3,207.37
5. Less: Major equipment expenditures	-	-	-
6. Remainder	<u>3,220.03</u>	<u>(12.66)</u>	<u>3,207.37</u>
7. Equipment balance available for subsequent year (Lesser of Line 6 or Section 2 balance, but not less than zero)	<u>\$ 3,220.03</u>	<u>\$ (12.66)</u>	<u>\$ 3,207.37</u>

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

BOROUGH OF HOMEWOOD
 BEAVER COUNTY
 LIQUID FUELS TAX FUND
 2007 FORM MS-965 – SECTION 1
 WITH ADJUSTMENTS

<u>Expenditure Summary</u>	<u>Reported</u>	<u>Adjustments (Note 4)</u>	<u>Adjusted Amount</u>
Major equipment purchases	\$ -	\$ -	\$ -
Minor equipment purchases	-	-	-
Computer/Computer related training	-	-	-
Agility projects	-	-	-
Cleaning streets and gutters	-	-	-
Winter maintenance services	1,802.05	(1,777.07)	24.98
Traffic control devices	-	-	-
Street lighting	3,505.15	(214.30)	3,290.85
Storm sewers and drains	-	-	-
Repairs of tools and machinery	121.48	14.74	136.22
Maintenance and repair of roads and bridges	-	544.60	544.60
Highway construction and rebuilding projects	-	-	-
Miscellaneous (Note 6)	-	8,703.74	8,703.74
 Total (To Section 2, Line 5)	 <u>\$ 5,428.68</u>	 <u>\$ 7,271.71</u>	 <u>\$ 12,700.39</u>

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

BOROUGH OF HOMEWOOD
 BEAVER COUNTY
 LIQUID FUELS TAX FUND
 2007 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, 2007	\$ 4,680.32	\$ 196.59	\$ 4,876.91
Receipts:			
2. State allocation	5,479.30	-	5,479.30
2a. Turnback allocation	1,040.00	-	1,040.00
2b. Interest on investments (Note 3)	45.38	-	45.38
2c. Miscellaneous (Note 5)	-	1,350.00	1,350.00
3. Total receipts	<u>6,564.68</u>	<u>1,350.00</u>	<u>7,914.68</u>
4. Total funds available	<u>11,245.00</u>	<u>1,546.59</u>	<u>12,791.59</u>
5. Expenditures (Section 1)	<u>5,428.68</u>	<u>7,271.71</u>	<u>12,700.39</u>
6. Balance, December 31, 2007	<u>\$ 5,816.32</u>	<u>\$ (5,725.12)</u>	<u>\$ 91.20</u>

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

BOROUGH OF HOMEWOOD
 BEAVER COUNTY
 LIQUID FUELS TAX FUND
 2007 FORM MS-965 – SECTION 3
 WITH ADJUSTMENTS

<u>Equipment Balance</u>	<u>Reported</u>	<u>Adjustments (Note 4)</u>	<u>Adjusted Amount</u>
1. Prior year equipment balance	\$ 1,303.86	\$ 1,903.51	\$ 3,207.37
2. Add: Current year equipment allocation (20% of Lines 2 + 2a, Section 2)	1,303.86	-	1,303.86
3. PENNDOT approved adjustments	-	-	-
4. Total funds available for equipment acquisition	2,607.72	1,903.51	4,511.23
5. Less: Major equipment expenditures	-	-	-
6. Remainder	<u>2,607.72</u>	<u>1,903.51</u>	<u>4,511.23</u>
7. Equipment balance available for subsequent year (Lesser of Line 6 or Section 2 balance, but not less than zero)	<u>\$ 2,607.72</u>	<u>\$ (2,516.52)</u>	<u>\$ 91.20</u>

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

BOROUGH OF HOMEWOOD
 BEAVER COUNTY
 LIQUID FUELS TAX FUND
 2008 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	171.37	-	171.37
Winter maintenance services	214.19	-	214.19
Traffic control devices	-	-	-
Street lighting	3,678.18	-	3,678.18
Storm sewers and drains	-	-	-
Repairs of tools and machinery	95.78	-	95.78
Maintenance and repair of roads and bridges	850.00	-	850.00
Highway construction and rebuilding projects	-	-	-
Miscellaneous (Note 6)	3,500.00	-	3,500.00
 Total (To Section 2, Line 5)	 <u>\$ 8,509.52</u>	 <u>\$ -</u>	 <u>\$ 8,509.52</u>

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

BOROUGH OF HOMEWOOD
 BEAVER COUNTY
 LIQUID FUELS TAX FUND
 2008 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, 2008	\$ 91.20	\$ -	\$ 91.20
Receipts:			
2. State allocation	6,031.05	-	6,031.05
2a. Turnback allocation	1,040.00	-	1,040.00
2b. Interest on investments (Note 3)	21.95	-	21.95
2c. Miscellaneous (Note 5)	1,503.18	-	1,503.18
3. Total receipts	<u>8,596.18</u>	<u>-</u>	<u>8,596.18</u>
4. Total funds available	<u>8,687.38</u>	<u>-</u>	<u>8,687.38</u>
5. Expenditures (Section 1)	<u>8,509.52</u>	<u>-</u>	<u>8,509.52</u>
6. Balance, December 31, 2008	<u><u>\$ 177.86</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 177.86</u></u>

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

BOROUGH OF HOMEWOOD
 BEAVER COUNTY
 LIQUID FUELS TAX FUND
 2008 FORM MS-965 – SECTION 3
 WITH ADJUSTMENTS

<u>Equipment Balance</u>	<u>Reported</u>	<u>Adjustments (Note 4)</u>	<u>Adjusted Amount</u>
1. Prior year equipment balance	\$ -	\$ 91.20	\$ 91.20
2. Add: Current year equipment allocation (20% of Lines 2 + 2a, Section 2)	1,414.21	-	1,414.21
3. PENNDOT approved adjustments	-	-	-
4. Total funds available for equipment acquisition	1,414.21	91.20	1,505.41
5. Less: Major equipment expenditures	-	-	-
6. Remainder	<u>1,414.21</u>	<u>91.20</u>	<u>1,505.41</u>
7. Equipment balance available for subsequent year (Lesser of Line 6 or Section 2 balance, but not less than zero)	<u>\$ 177.86</u>	<u>\$ -</u>	<u>\$ 177.86</u>

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

BOROUGH OF HOMEWOOD
BEAVER COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE FOUR YEARS ENDED
DECEMBER 31, 2008

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.
- Minor equipment purchases are purchases of road machinery and road equipment that cost \$4,000.00 or less.
- 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.

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.

BOROUGH OF HOMEWOOD
BEAVER COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE FOUR YEARS ENDED
DECEMBER 31, 2008

1. Criteria (Continued)

Section 3 (Continued)

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 HOMEWOOD
BEAVER COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE FOUR YEARS ENDED
DECEMBER 31, 2008

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, 2008. 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 HOMEWOOD
BEAVER COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE FOUR YEARS ENDED
DECEMBER 31, 2008

2. Deposits (Continued)

Fund Balance

The fund balance as of December 31, 2008 consists of the following:

Cash	<u>\$177.86</u>
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3. Interest On Investments

Our examination disclosed that the municipality deposited idle liquid fuels tax money in an interest-bearing account which earned \$1.03 during 2005, \$1.36 during 2006, \$45.38 during 2007, and \$21.95 during 2008 thus providing additional funds for road maintenance and repairs.

4. Adjustments

2005 - Section 1

An adjustment of \$12.66 was made to “Winter maintenance services” because check No. 792 was not reported.

2006 - Section 1

An adjustment of \$(209.00) was made to “Street Lighting” because these expenditures were overstated.

2006 - Section 2

An adjustment of \$(12.66) was made to “Balance, January 1, 2006” to reflect the adjustment made to the fund balance in 2005 - Section 2.

2006 - Section 3

An adjustment of \$(12.66) was made to “Prior year equipment balance” to reflect the adjustment made to the equipment balance in 2005 - Section 3.

BOROUGH OF HOMEWOOD
BEAVER COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE FOUR YEARS ENDED
DECEMBER 31, 2008

4. Adjustments (Continued)

2007 - Section 1

An adjustment of \$(1,777.07) was made to “Winter maintenance services” because these expenditures were overstated.

An adjustment of \$(214.30) was made to “Street lighting” because these expenditures were overstated.

An adjustment of \$14.74 was made to “Repairs of tools and machinery” because these expenditures were understated.

An adjustment of \$544.60 was made to “Maintenance and repair of roads and bridges” because these expenditures were understated.

An adjustment of \$8,703.74 was made to “Miscellaneous” because these expenditures were not reported.

2007 - Section 2

An adjustment of \$196.59 was made to “Balance, January 1, 2007” because an incorrect fund balance was carried forward.

An adjustment of \$1,350.00 was made to “Miscellaneous” because a transfer from the General Fund was not reported.

2007 - Section 3

An adjustment of \$1,903.51 was made to “Prior year equipment balance” because an incorrect equipment balance was carried forward.

2008 - Section 3

An adjustment of \$91.20 was made to “Prior year equipment balance” because an incorrect equipment balance was carried forward.

BOROUGH OF HOMEWOOD
 BEAVER COUNTY
 LIQUID FUELS TAX FUND
 NOTES TO FORMS MS-965 WITH ADJUSTMENTS
 FOR THE FOUR YEARS ENDED
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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>2007</u>	<u>2008</u>
General Fund	Reimbursements (Finding No.1)	<u>\$1,350.00</u>	<u>\$1,503.18</u>

6. Miscellaneous Expenditures

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

<u>Payee</u>	<u>Description</u>	<u>2007</u>	<u>2008</u>
Cash	Unknown (Finding No.1)	\$4,600.00	\$ -
Vendor	Unknown	4,067.74	-
Financial institution	Bank service charges	36.00	-
Homewood Borough	Unknown	<u>-</u>	<u>3,500.00</u>
Totals		<u>\$8,703.74</u>	<u>\$3,500.00</u>

BOROUGH OF HOMEWOOD
 BEAVER COUNTY
 LIQUID FUELS TAX FUND
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Finding No. 1 - Failure To Maintain Adequate Documentation Resulting In Misappropriation Of Funds

Our examination disclosed that the municipality did not maintain invoices to support any expenditures during the examination period. This includes expenditures of \$6,708.16 during 2005, \$3,089.13 during 2006, \$12,700.39 during 2007, and \$8,509.52 during 2008.

Additionally, included in the amounts above were the following checks made payable to cash during 2007 as follows.

<u>Check No.</u>	<u>Date</u>	<u>Amount</u>
830	03/14/07	\$1,000.00
836	04/26/07	600.00
837	05/10/07	1,500.00
838	05/22/07	<u>1,500.00</u>
Total		<u>\$4,600.00</u>

These checks were deposited into the account of a business owned by a former secretary/treasurer. Also two checks were written from the Liquid Fuels Tax Fund for the payment of electric service at the former secretary/treasurer's residence. The first payment was check No. 813 on March 4, 2007 for \$345.94. The second payment was check No. 833 on March 26, 2007 for \$854.94.

Furthermore, on January 4, 2008, check No. 457 for \$255.00 was issued to a collection agency to pay an electric company for electric service at the former secretary/treasurer's residence. Additionally on July 14, 2008 check No. 464 for \$73.28 was issued to a vendor for snow plowing at a business owned by the former secretary/treasurer.

The former secretary/treasurer was charged by the Pennsylvania State Police with three counts of theft by deception, false impression for the misapplication of the borough's Liquid Fuels Tax Fund and General Fund money totaling \$44,076.33. The former secretary/treasurer has repaid approximately \$38,000.00 to the borough. On November 8, 2010, he was admitted to the Accelerated Rehabilitative Disposition (ARD) program on the condition that the remaining money is repaid.

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

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Finding No. 1 - Failure To Maintain Adequate Documentation Resulting In Misappropriation Of Funds (Continued)

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

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

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

During 2007 and 2008, the municipality reimbursed \$1,350.00 and \$1,503.18, respectively, to its Liquid Fuels Tax Fund.

The failure to maintain documentation to support expenditures could result in the municipality having to reimburse \$28,154.02 to its Liquid Fuels Tax Fund.

Recommendations

We recommend that the municipality reimburse \$28,154.02 to its Liquid Fuels Tax Fund upon official notification by the Department of Transportation.

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

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BEAVER COUNTY
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Finding No. 1 - Failure To Maintain Adequate Documentation Resulting In Misappropriation Of Funds (Continued)

Management's Response

The secretary and the president of council stated:

Both of us only became involved in the borough as of January 2010. All of this occurred before we were in office and we were not presented with all of the records.

Auditor's Conclusion

Good internal control procedures ensure that there is adequate documentation to support all expenditures. In this case the lack of documentation and supervision resulted in a misappropriation of funds. The municipal officials should maintain adequate documentation and ensure that bank statements are reconciled by someone other than an authorized check signer. During our next examination we will determine if the municipality complied with our recommendations.

BOROUGH OF HOMEWOOD
BEAVER COUNTY
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Finding No. 2 - Failure To Properly Prepare Forms MS-965

Our examination disclosed that there were numerous errors made in the preparation of the municipality's 2005, 2006, 2007, and 2008 Forms MS-965. These adjustments, which are disclosed in Note 4, are as follows:

2005 - Section 1

- An adjustment of \$12.66 was made to "Winter maintenance services" because check No. 792 was not reported.

2006 - Section 1

- An adjustment of \$(209.00) was made to "Street Lighting" because these expenditures were overstated.

2006 - Section 2

- An adjustment of \$(12.66) was made to "Balance, January 1, 2006" to reflect the adjustment made to the fund balance in 2005 - Section 2.

2006 - Section 3

- An adjustment of \$(12.66) was made to "Prior year equipment balance" to reflect the adjustment made to the equipment balance in 2005 - Section 3.

2007 - Section 1

- An adjustment of \$(1,777.07) was made to "Winter maintenance services" because these expenditures were overstated.
- An adjustment of \$(214.30) was made to "Street lighting" because these expenditures were overstated.
- An adjustment of \$14.74 was made to "Repairs of tools and machinery" because these expenditures were understated.
- An adjustment of \$544.60 was made to "Maintenance and repair of roads and bridges" because these expenditures were understated.

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Finding No. 2 - Failure To Properly Prepare Forms MS-965 (Continued)

2007 - Section 1 (Continued)

- An adjustment of \$8,703.74 was made to “Miscellaneous” because these expenditures were not reported.

2007 - Section 2

- An adjustment of \$196.59 was made to “Balance, January 1, 2007” to reflect the adjustment made to the fund balance in 2006 - Section 2.
- An adjustment of \$1,350.00 was made to “Miscellaneous” because an incorrect fund balance was carried forward.

2007 - Section 3

- An adjustment of \$1,903.51 was made to “Prior year equipment balance” because an incorrect equipment balance was carried forward.

2008 - Section 3

- An adjustment of \$91.20 was made to “Prior year equipment balance” because an incorrect equipment balance was carried forward.

Good internal controls ensure that the municipality complete its Forms MS-965 accurately and completely. The failure to properly complete Forms MS-965 increases the risk that errors or irregularities may occur and remain undetected.

Recommendation

Good internal controls ensure that the municipality complete its Form MS-965 accurately and completely. The failure to properly prepare Forms MS-965 increases the risk that errors or irregularities may occur and remain undetected. We recommend that the municipality ensure that its Forms MS-965 are complete and accurate.

BOROUGH OF HOMEWOOD
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Finding No. 2 - Failure To Properly Prepare Forms MS-965 (Continued)

Management's Response

The secretary and president of council stated:

Both of us only became involved in the borough as of January 2010. All of this occurred before we were in office and we were not presented with all of the records.

Auditor's Conclusion

Good internal controls ensure that the municipality completes its Form MS-965 accurately and completely. The failure to properly prepare Form MS-965 increases the risk that errors or irregularities may occur and remain undetected. During our next examination we will determine if the municipality complied with our recommendation.

BOROUGH OF HOMEWOOD
BEAVER COUNTY
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Finding No. 3 - A Complete Record Of Borough Council Meeting Minutes Was Not Available
For Examination

Our examination disclosed that the minutes reflecting advertised meetings of council were not available with the exception of portions of two meetings to award bids for road projects. The meeting minutes were in the borough secretary/treasurer's shorthand system and had not been transcribed in order to be readable by the public.

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

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

Recommendation

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

Management's Response

The secretary and the president of council stated:

Both of us only became involved in the borough as of January 2010. All of this occurred before we were in office and we were not presented with all of the records.

BOROUGH OF HOMEWOOD
BEAVER COUNTY
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Finding No. 3 - A Complete Record Of Borough Council Meeting Minutes Was Not Available
For Examination (Continued)

Auditor's Conclusion

The borough officials should ensure that a complete record of borough council meeting minutes is maintained. Without a complete record of readable minutes, we were unable to determine if there were any references to the road projects or if any additional information would have an impact on the propriety of liquid fuels expenditures. Additionally, we were unable to determine if litigation or related party transactions were noted. During our next examination we will determine if the municipality complied with our recommendation.

BOROUGH OF HOMEWOOD
BEAVER COUNTY
LIQUID FUELS TAX FUND
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Finding No. 4 - Late Receipt Of Allocation

Our examination disclosed that the 2008 Liquid Fuels Tax Fund allocation, 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 June 9, 2008, 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 2008 allocation for more than two months. 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 municipality received its allocation on time during 2009.

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.

BOROUGH OF HOMEWOOD
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LIQUID FUELS TAX FUND
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Finding No. 4 - Late Receipt Of Allocation (Continued)

Management's Response

The secretary and the president of Council stated:

Both of us only became involved in the borough as of January 2010. All of this occurred before we were in office and we were not presented with all of the records.

Auditor's Conclusion

The municipality should comply with the Department of Transportation's *Publication 9* as cited above to ensure that it receives its allocation timely each year. During our next examination we will determine if the municipality complied with our recommendation.

BOROUGH OF HOMEWOOD
BEAVER COUNTY
LIQUID FUELS TAX FUND
SUMMARY OF EXIT CONFERENCE
FOR THE FOUR YEARS ENDED
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An exit conference was held April 26, 2011. Those participating were:

BOROUGH OF HOMEWOOD

The Honorable Paul E. Phillips, President of Council
Mrs. LuAnn Phillips, Secretary

DEPARTMENT OF THE AUDITOR GENERAL

Mr. Paul Palombo, Auditor

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



BOROUGH OF HOMEWOOD
BEAVER COUNTY
LIQUID FUELS TAX FUND
REPORT DISTRIBUTION
FOR THE FOUR YEARS ENDED
DECEMBER 31, 2008

This report was initially distributed to:

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

Borough of Homewood
Beaver County
102 Second Avenue
Beaver Falls, PA 15010

The Honorable Paul E. Phillips

President of Council

The Honorable Jeff Policaro

Vice-President of Council

Mrs. LuAnn Phillips

Secretary

This report is a matter of public record. Copies of this report may be obtained from the Pennsylvania Department of the Auditor General, Office of Communications, 318 Finance Building, Harrisburg, PA 17120. To view this report online or to contact the Department of the Auditor General, please access our web site at www.auditorgen.state.pa.us.