



BOROUGH OF NORTH BELLE VERNON
WESTMORELAND COUNTY
64-420

LIQUID FUELS TAX FUND
EXAMINATION REPORT

FOR THE THREE YEARS ENDED
DECEMBER 31, 2010

CONTENTS

	<u>Page</u>
Background.....	1
Independent Auditor's Report.....	3
Financial Section:	
2008 Form MS-965 With Adjustments	7
2009 Form MS-965 With Adjustments	10
2010 Form MS-965 With Adjustments	13
Notes To Forms MS-965 With Adjustments.....	16
Findings And Recommendations:	
Finding No. 1 - Electronic Imaging Of Canceled Checks Were Not Available For Examination.....	21
Finding No. 2 - Documentation Supporting Part Of Transfer Was Not Available For Examination.....	23
Finding No. 3 - Failure To Obtain Project Approval	25
Summary Of Exit Conference.....	27
Report Distribution	29

BOROUGH OF NORTH BELLE VERNON
WESTMORELAND COUNTY
LIQUID FUELS TAX FUND
BACKGROUND
FOR THE THREE YEARS ENDED
DECEMBER 31, 2010

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 examined the accompanying Forms MS-965 With Adjustments for the Liquid Fuels Tax Fund of the Borough of North Belle Vernon, Westmoreland County, for the three years ended December 31, 2010. 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 North Belle Vernon, Westmoreland County's Forms MS-965 for the three years ended December 31, 2010 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. 1, we were unable to examine the images of the canceled checks for 2008 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. Additionally, as discussed in Finding No. 2, the municipality did not maintain invoices to support \$3,728.89 of a transfer to the General Fund. Furthermore, as discussed in Finding No. 3, during 2009 the municipality expended \$19,530.00 from its Liquid Fuels Tax Fund without obtaining project approval.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to examine images of the canceled checks, the effects of failure to maintain invoices to support \$3,728.89 of a transfer to the General Fund, and the effects of failure to obtain project approval for expenditures of \$19,530.00, 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 North Belle Vernon, Westmoreland County, for the three years ended December 31, 2010, 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.

Independent Auditor's Report (Continued)

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 North Belle Vernon, Westmoreland 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 North Belle Vernon, Westmoreland County's Forms MS-965 that is more than inconsequential will not be prevented or detected by the Borough of North Belle Vernon, Westmoreland County's internal control. We consider the deficiencies described in the findings below to be significant deficiencies in internal control over reporting on the Form MS-965:

- Electronic Imaging Of Canceled Checks Were Not Available For Examination.
- Documentation Supporting Part Of Transfer Was Not Available For Examination.

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 North Belle Vernon, Westmoreland County's internal control. Our consideration of 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 both of the significant deficiencies described above to be material weaknesses.

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

- Failure To Obtain Project Approval.

Independent Auditor's Report (Continued)

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

January 23, 2012

JACK WAGNER
Auditor General

BOROUGH OF NORTH BELLE VERNON
WESTMORELAND 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	\$ 9,234.34	\$ -	\$ 9,234.34
Minor equipment purchases	1,197.42	-	1,197.42
Computer/Computer related training	-	-	-
Agility projects	-	-	-
Cleaning streets and gutters	2,791.58	-	2,791.58
Winter maintenance services	11,622.32	-	11,622.32
Traffic control devices	5,409.17	-	5,409.17
Street lighting	23,590.92	-	23,590.92
Storm sewers and drains	-	-	-
Repairs of tools and machinery	-	-	-
Maintenance and repair of roads and bridges	1,841.81	-	1,841.81
Highway construction and rebuilding projects	-	-	-
Miscellaneous (Bank service charges)	6.00	-	6.00
 Total (To Section 2, Line 5)	 <u>\$ 55,693.56</u>	 <u>\$ -</u>	 <u>\$ 55,693.56</u>

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

BOROUGH OF NORTH BELLE VERNON
WESTMORELAND 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	\$ 5,670.81	\$ -	\$ 5,670.81
Receipts:			
2. State allocation	47,373.50	-	47,373.50
2a. Turnback allocation	3,080.00	-	3,080.00
2b. Interest on investments (Note 3)	182.11	-	182.11
2c. Miscellaneous	-	-	-
3. Total receipts	<u>50,635.61</u>	<u>-</u>	<u>50,635.61</u>
4. Total funds available	<u>56,306.42</u>	<u>-</u>	<u>56,306.42</u>
5. Expenditures (Section 1)	<u>55,693.56</u>	<u>-</u>	<u>55,693.56</u>
6. Balance, December 31, 2008	<u><u>\$ 612.86</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 612.86</u></u>

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

BOROUGH OF NORTH BELLE VERNON
WESTMORELAND 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	\$ 841.39	\$ -	\$ 841.39
2. Add: Current year equipment allocation (20% of Lines 2 + 2a, Section 2)	9,234.34	856.36	10,090.70
3. PENNDOT approved adjustments	-	-	-
4. Total funds available for equipment acquisition	10,075.73	856.36	10,932.09
5. Less: Major equipment expenditures	9,234.34	-	9,234.34
6. Remainder	<u>841.39</u>	<u>856.36</u>	<u>1,697.75</u>
7. Equipment balance available for subsequent year (Lesser of Line 6 or Section 2 balance, but not less than zero)	<u>\$ 612.86</u>	<u>\$ -</u>	<u>\$ 612.86</u>

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

BOROUGH OF NORTH BELLE VERNON
WESTMORELAND COUNTY
LIQUID FUELS TAX FUND
2009 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	400.00	-	400.00
Computer/Computer related training	-	-	-
Agility projects	-	-	-
Cleaning streets and gutters	-	-	-
Winter maintenance services	-	-	-
Traffic control devices	-	-	-
Street lighting	20,365.42	-	20,365.42
Storm sewers and drains	-	-	-
Repairs of tools and machinery	849.83	-	849.83
Maintenance and repair of roads and bridges	-	-	-
Highway construction and rebuilding projects	19,530.00	-	19,530.00
Miscellaneous	-	-	-
	<hr/>	<hr/>	<hr/>
Total (To Section 2, Line 5)	<u>\$ 41,145.25</u>	<u>\$ -</u>	<u>\$ 41,145.25</u>

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

BOROUGH OF NORTH BELLE VERNON
WESTMORELAND COUNTY
LIQUID FUELS TAX FUND
2009 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, 2009	\$ 612.86	\$ -	\$ 612.86
Receipts:			
2. State allocation	45,621.35	-	45,621.35
2a. Turnback allocation	3,080.00	-	3,080.00
2b. Interest on investments (Note 3)	81.43	3.75	85.18
2c. Miscellaneous	-	-	-
3. Total receipts	<u>48,782.78</u>	<u>3.75</u>	<u>48,786.53</u>
4. Total funds available	<u>49,395.64</u>	<u>3.75</u>	<u>49,399.39</u>
5. Expenditures (Section 1)	<u>41,145.25</u>	<u>-</u>	<u>41,145.25</u>
6. Balance, December 31, 2009	<u>\$ 8,250.39</u>	<u>\$ 3.75</u>	<u>\$ 8,254.14</u>

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

BOROUGH OF NORTH BELLE VERNON
WESTMORELAND COUNTY
LIQUID FUELS TAX FUND
2009 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	\$ 612.86	\$ -	\$ 612.86
2. Add: Current year equipment allocation (20% of Lines 2 + 2a, Section 2)	9,740.27	-	9,740.27
3. PENNDOT approved adjustments	<u>-</u>	<u>-</u>	<u>-</u>
4. Total funds available for equipment acquisition	10,353.13	-	10,353.13
5. Less: Major equipment expenditures	<u>-</u>	<u>-</u>	<u>-</u>
6. Remainder	<u>10,353.13</u>	<u>-</u>	<u>10,353.13</u>
7. Equipment balance available for subsequent year (Lesser of Line 6 or Section 2 balance, but not less than zero)	<u>\$ 8,250.39</u>	<u>\$ 3.75</u>	<u>\$ 8,254.14</u>

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

BOROUGH OF NORTH BELLE VERNON
WESTMORELAND 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	-	-	-
Winter maintenance services	-	32,038.53	32,038.53
Traffic control devices	-	-	-
Street lighting	25,012.27	-	25,012.27
Storm sewers and drains	-	-	-
Repairs of tools and machinery	7,851.44	-	7,851.44
Maintenance and repair of roads and bridges	32,038.53	(32,038.53)	-
Highway construction and rebuilding projects	-	-	-
Miscellaneous (Bank service charges)	139.98	-	139.98
 Total (To Section 2, Line 5)	 <u>\$ 65,042.22</u>	 <u>\$ -</u>	 <u>\$ 65,042.22</u>

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

BOROUGH OF NORTH BELLE VERNON
WESTMORELAND 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	\$ 8,250.39	\$ 3.75	\$ 8,254.14
Receipts:			
2. State allocation	43,845.39	-	43,845.39
2a. Turnback allocation	3,080.00	-	3,080.00
2b. Interest on investments (Note 3)	8.11	(3.75)	4.36
2c. Miscellaneous (Note 5)	101,630.04	-	101,630.04
3. Total receipts	<u>148,563.54</u>	<u>(3.75)</u>	<u>148,559.79</u>
4. Total funds available	<u>156,813.93</u>	<u>-</u>	<u>156,813.93</u>
5. Expenditures (Section 1)	<u>65,042.22</u>	<u>-</u>	<u>65,042.22</u>
6. Balance, December 31, 2010	<u><u>\$ 91,771.71</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 91,771.71</u></u>

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

BOROUGH OF NORTH BELLE VERNON
WESTMORELAND COUNTY
LIQUID FUELS TAX FUND
2010 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	\$ 8,250.39	\$ 3.75	\$ 8,254.14
2. Add: Current year equipment allocation (20% of Lines 2 + 2a, Section 2)	9,385.08	-	9,385.08
3. PENNDOT approved adjustments	-	20,326.00	20,326.00
4. Total funds available for equipment acquisition	17,635.47	20,329.75	37,965.22
5. Less: Major equipment expenditures	-	-	-
6. Remainder	<u>17,635.47</u>	<u>20,329.75</u>	<u>37,965.22</u>
7. Equipment balance available for subsequent year (Lesser of Line 6 or Section 2 balance, but not less than zero)	<u>\$ 17,635.47</u>	<u>\$ 20,329.75</u>	<u>\$ 37,965.22</u>

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

BOROUGH OF NORTH BELLE VERNON
WESTMORELAND COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE THREE YEARS ENDED
DECEMBER 31, 2010

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 NORTH BELLE VERNON
WESTMORELAND COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE THREE YEARS ENDED
DECEMBER 31, 2010

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 NORTH BELLE VERNON
WESTMORELAND COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE THREE YEARS ENDED
DECEMBER 31, 2010

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 financial institutions. 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, 2010. 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 NORTH BELLE VERNON
WESTMORELAND COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE THREE YEARS ENDED
DECEMBER 31, 2010

2. Deposits (Continued)

Fund Balance

The fund balance as of December 31, 2010 consists of the following:

Cash	<u>\$91,771.71</u>
------	--------------------

3. Interest On Investments

Our examination disclosed that the municipality deposited idle liquid fuels tax money in interest-bearing accounts which earned \$182.11 during 2008, \$85.18 during 2009, and \$4.36 during 2010, thus providing additional funds for road maintenance and repairs.

4. Adjustments

2008 - Section 3

An adjustment of \$856.36 was made to "Current year equipment allocation" because of a calculation error.

2009 - Section 2

An adjustment of \$3.75 was made to "Interest on investments" because interest earnings were understated.

2010 - Section 1

Adjustments were made to "Winter maintenance services" and "Maintenance and repair of roads and bridges" because expenditures of \$32,038.53 were misclassified.

2010 - Section 2

An adjustment of \$3.75 was made to "Balance, January 1, 2010" to reflect the adjustment made to the fund balance in 2009 - Section 2.

An adjustment of \$(3.75) was made to "Interest on investments" because interest earnings were overstated.

BOROUGH OF NORTH BELLE VERNON
WESTMORELAND COUNTY
LIQUID FUELS TAX FUND
NOTES TO FORMS MS-965 WITH ADJUSTMENTS
FOR THE THREE YEARS ENDED
DECEMBER 31, 2010

4. Adjustments (Continued)

2010 - Section 3

An adjustment of \$3.75 was made to "Prior year equipment balance" to reflect the adjustment made to the equipment balance in 2009 - Section 3.

An adjustment of \$20,326.00 was made to "PENNDOT approved adjustments" because 20 percent of the unexpended balance in the Turnback account was not reported as an approved adjustment.

5. Miscellaneous Receipts

On January 22, 2010, the municipality deposited the unexpended balance of the Turnback account of \$101,630.04 into its Liquid Fuels Tax Fund.

6. Lease-Purchase Agreement

On January 26, 2004, the municipality entered into a lease-purchase agreement with Ford Motor Credit Company to purchase 2004 Ford F550 with body and equipment for \$50,208.00. The agreement was for a term of five years at an interest rate of 6.00 percent. Principal and interest payments of \$11,244.53 are due annually. Prior years' principal payments from the Liquid Fuels Tax Fund were \$24,214.39. Additionally, the municipality paid principal of \$4,141.04 and interest of \$5,378.16 from the General Fund. Also, the municipality paid principal of \$11,244.53 from the Sewer Account.

During the current examination period the municipality paid principal of \$9,234.34 from the Liquid Fuels Tax Fund. This amount is reflected in major equipment purchases on the 2008 Form MS-965 - Section 1. Additionally, the municipality paid principal of \$1,373.70 and interest of \$636.48 from the General Fund. The lease-purchase agreement was paid-in-full on January 19, 2008.

BOROUGH OF NORTH BELLE VERNON
WESTMORELAND COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE THREE YEARS ENDED
DECEMBER 31, 2010

Finding No. 1 - Electronic Imaging Of Canceled Checks Were Not Available For Examination

Our examination disclosed that the imaging of canceled checks from the bank for the Liquid Fuels Tax Fund account were not available for examination during the 2008 year. For us to properly complete our examination testing, we have to examine the front and the 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.

The municipality maintained images of both the front and back of canceled checks for 2009 and 2010.

Recommendations

We recommend that the municipal officials continue to 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.

BOROUGH OF NORTH BELLE VERNON
WESTMORELAND COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE THREE YEARS ENDED
DECEMBER 31, 2010

Finding No. 1 - Electronic Imaging Of Canceled Checks Were Not Available For Examination
(Continued)

Management's Response

The municipal officials stated:

The Borough was told by our financial institution that the canceled checks that were requested were checks that were "converted checks" and that the checks were converted into an electronic format for payment and no check imaging was available.

Auditor's Conclusion

The municipal officials should print the checks off from the financial institution's website and review both the fronts and backs of the checks. During our next examination we will determine if the municipality complied with our recommendations.

BOROUGH OF NORTH BELLE VERNON
WESTMORELAND COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE THREE YEARS ENDED
DECEMBER 31, 2010

Finding No. 2 - Documentation Supporting Part Of Transfer Was Not Available For Examination

Our examination disclosed that on December 30, 2008, the municipality transferred \$34,062.55 from its Liquid Fuels Tax Fund to its General Fund for the reimbursement of Liquid Fuels Tax Fund expenditures. However, the municipality did not maintain invoices to support \$3,728.89 of the transfer.

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

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 transfers made without supporting documentation, are outside the scope of permissible expenditures.

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

The failure to maintain documentation to support expenditures could result in the municipality having to reimburse \$3,728.89 to its Liquid Fuels Tax Fund.

Recommendations

We recommend that the municipality reimburse \$3,728.89 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 transfers by maintaining adequate documentation to support all transfers.

BOROUGH OF NORTH BELLE VERNON
WESTMORELAND COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE THREE YEARS ENDED
DECEMBER 31, 2010

Finding No. 2 - Documentation Supporting Part Of Transfer Was Not Available For Examination
(Continued)

Management's Response

The municipal officials stated:

Due to the change in office personnel in 2009, we were unable to locate/obtain seven invoices from 2008. Some of the companies which were contracted did not hold invoices that far back.

Auditor's Conclusion

The municipal officials should ensure that invoices are maintained to support all transfers. During our next examination we will determine if the municipality complied with our recommendations.

BOROUGH OF NORTH BELLE VERNON
WESTMORELAND COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE THREE YEARS ENDED
DECEMBER 31, 2010

Finding No. 3 - Failure To Obtain Project Approval

Our examination disclosed that during 2009 the municipality expended \$19,530.00 from its Liquid Fuels Tax Fund for paving in excess of one inch on alleys between May and Jones Streets and between May and Fell Streets without obtaining the approval of the Department of Transportation. Municipalities must obtain the approval of the Department of Transportation before paving of one inch in thickness or greater is done. However, the municipality did not file an application with the Department of Transportation for the project and also failed to submit specifications for approval.

The Department of Transportation's *Publication 9* contains the policies and procedures for the administration of the Liquid Fuels Tax Fund. *Publication 9*, Chapter Two, Section 2.7.2, states that nonpermissible expenditures include "Construction and reconstruction projects without prior PENNDOT approval."

Additionally, *Publication 9*, Chapter Two, Section 2.8, states, in part:

The following criteria is used to determine when a project is required for work on local roads utilizing Liquid Fuels Tax Funds, when construction, reconstruction and/or resurfacing work exceeds one inch or more in depth as well as other activities.

Bituminous Surface: One inch thickness or greater

The failure to comply with the Department of Transportation's *Publication 9* could result in the municipality having to reimburse \$19,530.00 to its Liquid Fuels Tax Fund.

Recommendations

We recommend that the municipality reimburse \$19,530.00 to its Liquid Fuels Tax Fund upon official notification by the Department of Transportation.

We further recommend that before the municipality expends money on a project, it applies for and obtains prior approval for the project, and when the project is completed it obtains approval of the completed work.

BOROUGH OF NORTH BELLE VERNON
WESTMORELAND COUNTY
LIQUID FUELS TAX FUND
FINDINGS AND RECOMMENDATIONS
FOR THE THREE YEARS ENDED
DECEMBER 31, 2010

Finding No. 3 - Failure To Obtain Project Approval (Continued)

Management's Response

The municipal officials stated:

Being two alleys, we were not aware of it needing approval. These were not a main roadway. Both alleys were connected to Vernon Street which was approved in the paving project that was currently underway. Both alleys came in below the \$10,000.00 bid limit separately and only a three inch modified binder was placed in the alley. One alley was only partially paved with modified binder. It was decided that since the machinery was already on site for doing the paving project, both alleys would be done since they were connected to Vernon Street. That was why the bids were so low. We were not aware of the paperwork that needed to be done with the two alleys nor of the project number which should have been assigned.

Auditor's Conclusion

All paving projects of one inch in thickness or greater require the approval of the Department of Transportation. During our next examination we will determine if the municipality complied with our recommendations.

BOROUGH OF NORTH BELLE VERNON
WESTMORELAND COUNTY
LIQUID FUELS TAX FUND
SUMMARY OF EXIT CONFERENCE
FOR THE THREE YEARS ENDED
DECEMBER 31, 2010

An exit conference was held January 23, 2012. Those participating were:

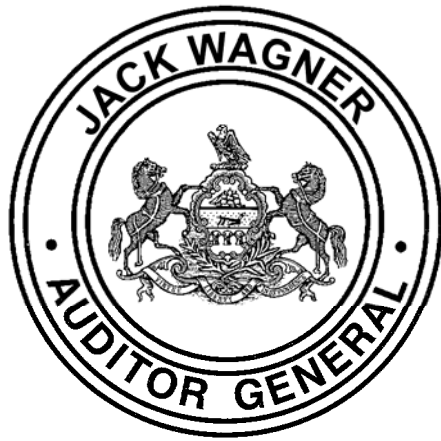
BOROUGH OF NORTH BELLE VERNON

Mrs. Lisa J. Pollock, Secretary/Treasurer

DEPARTMENT OF THE AUDITOR GENERAL

Ms. Erica DeStefano, Auditor

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



BOROUGH OF NORTH BELLE VERNON
WESTMORELAND COUNTY
LIQUID FUELS TAX FUND
REPORT DISTRIBUTION
FOR THE THREE YEARS ENDED
DECEMBER 31, 2010

This report was initially distributed to:

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

Borough of North Belle Vernon
Westmoreland County
503 Speer Street
North Belle Vernon, PA 15012

The Honorable Dennis R. Simboli

President of Council

Mrs. Lisa J. Pollock

Secretary/Treasurer

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.