

Management Letter

Township of Newtown,
Delaware County

December 31, 2010

*R*ainer
& Company

A Professional Corporation
Certified Public Accountants



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Certified Public Accountants

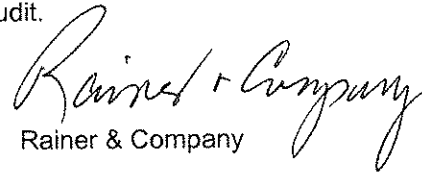
Board of Supervisors
Township of Newtown, Delaware County
Newtown Square, Pennsylvania

In planning and performing our audit of the financial statements of the Township of Newtown for the year ended December 31, 2010, in accordance with U.S. generally accepted auditing standards, we considered the Township's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Township's internal control. Accordingly, we do not express an opinion on the effectiveness of the Township's internal control.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments regarding those matters. This letter does not affect our report, dated September 19, 2011 on the financial statements of the Township of Newtown.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various Township personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

We take this opportunity to express our appreciation for the assistance, courtesy and cooperation extended us by the Township's employees during our audit.


Rainer & Company

September 19, 2011

PRIOR YEAR COMMENTS

I. Segregation of Cash Duties

We noted that the same person is responsible for all cash functions, including cash receipts, cash disbursements, and reconciling the bank statements, including access to the signature stamps. Segregation of duties is normally difficult to accomplish within a small organization, but management should be ever mindful of areas that can easily be improved. Some suggestions for improving internal control over this area are to have the Township Manager maintain the signature stamps in a secure location and have the signors stamp the checks when presented to them at the Board meeting. Another suggestion is to have the Township Manager open the bank statement and scan canceled checks and other transactions for any unusual or improper items, or have a different individual perform the bank reconciliation. We believe that either alternative is feasible for the Township.

Current Status - We noted that the Township Manager now maintains possession of the signature stamp, but still provides the stamp to the staff accounting manager. We suggest that the Township Manager maintain possession of the stamp at all times. We suggest that the Township Manager provide the stamp to the Board member when reviewing and approving the disbursements at the Board meeting. At no time should the signature stamp be in the possession of the individual issuing the checks, posting activity to the general ledger and reconciling the bank statement.

II. Establish a Formal Purchase Order System

We noted that the Township utilizes requisition forms to document Township purchases, but does not have a formal purchase order system in place. The purpose of a purchase order system is to control spending of Township resources and to help ensure that the Township pays only for items that are actually received. The system should provide for approval of purchases, including establishment of reasonable limitations on approval authority of specific individuals. A purchase order is usually in writing and is a legal document indicating an offer to buy. For most routine items, a purchase order is used to indicate the offer. A purchase order would be issued to a vendor for a specified item at a certain price to be delivered at or by a designated time. Prices and other terms would be included on purchase orders for verification during the payment process. Purchase orders should be matched to vendor invoices to assure that only agreed-upon prices are paid.

Our audit tests also indicated that requisitions are occasionally prepared after items are received. This practice may defeat the control a purchase order system is intended to provide. To help monitor the volume of purchases due to budget constraints and ensure that purchases are initiated with proper approval, we recommend that purchase orders be prepared and approved before items are received or ordered by other means.

Current Status - The Township does not have a formal purchase order system, but all Township purchases are reported on a Township requisition form and approved by the Township Manager. We recommend that the Township investigate the possibility of purchasing a purchase order module from your current accounting software company, Harris.

PRIOR YEAR COMMENTS

III. GASB Statement No. 34

The Government Accounting Standards Board (GASB) released GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* on June 30, 1999. GASB Statement No. 34 is the single most important and complex change in the history of accounting and financial reporting for state and local governments. The new reporting model is designed to provide financial information from the perspective of the total government, which is an entirely new concept in government finance.

Although the new financial reporting model is too complex and detailed to list everything in a brief summary, following are some of the most important requirements:

- Management's Discussion and Analysis (MD&A): MD&A must include a narrative introduction and an analysis overview of the government's financial activities.
- Government-Wide Reporting: The new financial reporting model will focus on the government "taken as a whole," but at the same time retain the traditional fund approach.
- Major Funds: The new reporting model will focus on major individual funds rather than on fund types, with aggregated information for all non-major funds.
- New Basis of Accounting for Governmental Activities: The modified basis of accounting will be retained for the purpose of fund reporting. However, the full accrual basis of accounting will be required for all activities reported in the government-wide financial statements.
- Changes in Budgetary Reporting: In the new financial reporting model, governments will only be required to present the budgetary comparisons as "required supplemental information" following the notes to the financial statements rather than as a basic financial statement. Budgetary comparisons will also need to present the original budget in addition to the final amended budget.
- Accounting for Depreciation: Governments will be required to report depreciation expense for all of their capital assets, including general infrastructure assets in the government-wide financial statements.
- Conversion of Data from the Modified Accrual Basis of Accounting to Full Accrual Basis of Accounting for Government-Wide Financial Statements: A few of the principal adjustments involved will be removing capital outlays from the operating statement, removing long-term debt proceeds and debt service principal and interest from the operating statement and reporting depreciation and amortization expense in the operating statement. There are many other conversions that will also need to be considered.

Conversion to the new reporting requirements will require the Township to make considerable changes. Based upon the magnitude of the changes presented by GASB Statement No. 34, adequate planning is essential for the proper and efficient implementation of this accounting standard. We recommend that the Township begin addressing some of these changes now.

Current Status - No change in status.

PRIOR YEAR COMMENTS

IV. Fixed Assets

During our review of the Township's fixed assets, we noted that there were no fixed asset ledgers providing supporting documentation for not only the historical costs, but also an actual inventory listing of assets held. The Township's fixed assets are not being accounted for in accordance with U.S. generally accepted accounting principles. We also observed that the Township has not adopted a formal fixed asset capitalization policy.

We recommend that the Township maintain a fixed asset ledger or some other accepted form of support for the values of the fixed assets in accordance with U.S. generally accepted accounting principles, and a fixed asset capitalization policy be developed and implemented.

Current Status - No change in status.

V. Escrow Funds

The Township is maintaining numerous escrow accounts for individuals and contractors required to place funds in escrow with the Township. During our audit, we noted numerous debit balances, which represent money due to the Township. Township payments on behalf of the respective escrow funds should not exceed the funds held in escrow. We recommend that Township management review the activity posted to these funds on a monthly basis to verify that the activity posted to these funds is proper.

Current Status - During 2010, we noted that the Township still maintains numerous escrow accounts containing debit balances. We recommend that these accounts be reviewed to ensure the balances are correct. We recommend that Township management review the status of each escrow account. For accounts that have been inactive for more than one year, we recommend contacting the individual or contractor that established the escrow account in order to obtain an updated status or refund the balance. Escrow accounts that have been inactive for a period of five (5) years must be reported and submitted to the Commonwealth of Pennsylvania, Bureau of Unclaimed Property annually.

VI. Payroll Register Approval

We noted that the payroll department presents the payroll register to the accounting department for posting into the general ledger. We noted that there is no evidence that a manager has reviewed or approved the bi-weekly payroll register. We recommend that the Township Manager or the Accounting Supervisor review and approve the each bi-weekly payroll register.

Current Status - No change in status. Performing a careful review of the payroll register can highlight several types of payroll fraud. We recommend that the Township Manager or the Accounting Supervisor make such a review and approval of the payroll register to improve internal payroll controls.

CURRENT YEAR COMMENTS

I. Board Approval of Interfund Transfers

We noted that the interfund transfers did not contain proper approval by the Board of Supervisors prior to the transfer(s) being executed. We recommend that all interfund transfers, as well as the repayment of Interfund receivables/payables, be approved by the Board of Supervisors and documented in the board minutes prior to execution of the transfer.

II. Investigate Old Outstanding Checks

During our cash audit procedures, we noted that the outstanding checklist for the operating checking account at December 31 contained checks dating from as early as 2003. We recommend that checks and other reconciling items that are over one year old be investigated.

Property that is unclaimed by the owner for a specified period of time, usually five years, is deemed abandoned under the law and is subject to the custody of the Commonwealth of Pennsylvania's Unclaimed Property requirements. Examples of unclaimed property are uncashed checks, credit balances, gift certificates, etc. The Association is required to report property without activity or contact for a period of about five years (two years for uncashed payroll checks) to the Pennsylvania Treasury Department every year, even if it has no property to report. The annual deadline for filing this report is April 15.

III. Accounting Manual

We noted that the Township does not have a comprehensive accounting procedures manual. Written procedures, instructions and assignments of duties will prevent or reduce misunderstandings, errors, inefficient or wasted effort, duplicated or omitted procedures, and other situations that can result in inaccurate or untimely accounting records. A well-devised accounting manual can also help to ensure that all similar transactions are treated consistently, that accounting principles used are proper, and that records are produced in the form desired by management. A good accounting manual should aid in the training of new employees and possibly allow for delegation to other employees of some accounting functions management performs. It will take some time and effort for management to develop a manual; however, we believe this time will be more than offset by time saved later in training and supervising accounting personnel. Also, in the process of the comprehensive review of existing accounting procedures for the purpose of developing the manual, management might discover procedures that can be eliminated or improved to make the system more efficient and effective.

IV. Accounts Payable Recording

During our cash disbursement procedures, we tested the Township's recording of vendor payables at December 31, 2010. Our audit found two invoices totaling \$62,321 that were not reflected as liabilities at December 31, 2010. We recommend that invoices be scrutinized by both the accounts payable clerk as well as the clerk's direct supervisor (Accounting Manager) to ensure proper recording. This will help ensure that all material expenses and the related liabilities are recorded properly in the Township's financial statements as of the balance-sheet date.

CURRENT YEAR COMMENTS

V. Approve Journal Entries

Our review of the general journal entries revealed that many entries lack proper approval by a responsible employee. We recommend the adoption of a policy whereby all journal entries will be approved by the Accounting Manager or other designated member of management. All entries should be initialed by the preparer and the individual approving them in order to attribute responsibility to the appropriate individuals. We also noted that the explanations accompanying the entries were inadequate in many instances. All journal entries should be accompanied by full explanation and by reference to adequate supporting data. This data should be maintained in a separate journal entry binder for future reference, as necessary.