

Lower Macungie Township 2010 Summary of Audit Findings and Management's Responses

(Prepared by Cassandra Williams, Director of Finance)

Significant Deficiency

Finding: Deferred Revenue: Developer Fee Fund – In 2010, the Township did not record deferred revenue in the Developer Fee Fund for traffic impact fees received in accordance with ACT 209 and recreation fees received in accordance with Article 503 of the Municipalities Planning Code. These fees are returnable to the developer if the Township does not spend the funds within specified time frames and, therefore, should be recorded as deferred revenue until such time as the funds are spent or the time restriction expires. The Township recorded the fees received in 2010 as current year revenue. An audit adjustment was required to properly record deferred revenue at December 31, 2010.

Response: During audit fieldwork, accounting staff made the necessary changes to properly record traffic impact fees and recreation payments as deferred revenue. The funds will be recognized as revenue at the appropriate time.

Control Deficiency

Finding: Escrow Activity - The Township recorded escrow activity in QuickBooks, and then posted summary transactions of the activity into the Township's accounting software via a general journal entry. Recording activity in this manner could lead to a lack of consistency between QuickBooks and the accounting software and, therefore, could lead to financial statement misstatement. The use of a separate accounting package is not the preferred approach from both workflow and control considerations. We noted that effective January 1, 2011, the Township will no longer use QuickBooks and all transactions will be accounted for in the Caselle Accounting Software.

Response: In 2010, the Township purchased new accounting software and implemented modules of the software in phases. Developers' escrow activity was one of the last phases to be integrated into the new accounting system. At the beginning of 2011, developer escrow activity was recorded in the new accounting software.

Finding: Permit Applications - The Township uses pre-printed application forms that require the calculation of fees owed based upon the type of permit being issued. The current application forms do not included a pre-printed sequential number. The Township does not use a sequential numbering system when issuing permits. The permit department's master log of the permits issued during the year is not integrated with the

general ledger. Also, there is no reconciliation process in place to reconcile the master log of permits issued with cash received and unused or missing applications. We noted that in 2011, the Township has purchased “Permit-n-Force” software and Township staff have received training and are inputting current year (2011) information into the software. A process has also been implemented in 2011 to reconcile permits issued with cash received and unused or missing applications.

Response: Previously, the Township established new procedures for accepting permit payments to increase the segregation of duties in the application, issuance and payment of permits. Permit Department personnel are now using “Permit-n-Force” which is integrated with the new accounting software and provides a system generated permit numbering system. Township personnel will also be reconciling permit information to cash received.

Constructive Suggestions

Finding: Accounts Receivable Collection Policies: Sewer and Solid Waste – During our analysis of sewer and solid waste accounts receivable, we noted that the Township has an increasing number of delinquent customer account balances. Although steps have been taken to improve collections, collections remain lower than expected. Balances in excess of 90 days as a percentage of total accounts receivable are as follows:

Year Ending December 31 st	% of Account Receivable Balance in Excess of 90 Days
2007	28%
2008	37%
2009	31%
2010	45%

Recommendation: We recommend the Township continue to improve its collection efforts. Improved collections will in turn increase the availability of funds to support the cost of operations in the sewer and solid waste funds.

Response: The Township has passed the necessary ordinances required to increase delinquent collections including the use of water shut-off procedures.

Finding: Municipal Pension State Aid - During the audit process, it was determined that the Township was not in compliance with the Act 205 requirement to remit funds received to the pension plan within 30 days. The Township received the funds from the Commonwealth of Pennsylvania in September 2010 and did not remit the funds into the pension plan until February 2011.

Recommendation: We recommend that the Township remit the funds to the plan timely to maintain compliance with Act 205.

Response: This error resulted from a series of miscommunications with the pension plan provider. In the future, the state-aid portion of the pension funding will be remitted to the plan within 30 days after receipt of the state's contribution.

Finding: Capital Asset Records - Audit procedures in the area of capital assets disclosed that the Township has not implemented the capital asset module of its accounting software. Information concerning historical cost and depreciation of capital assets are maintained in Microsoft Access Database. Maintaining records in this manner makes the asset cost, as well as accumulated depreciation, susceptible to misstatement due to potential errors in calculating formulas that may go undetected.

Recommendation: We recommend that management implement the capital asset module of its accounting software that is integrated with the general ledger. This will provide more accurate information regarding capital assets.

Response: At the end of 2010, design modifications to the capital assets module were not completed and the software provider was not able to provide an alternative in a timely manner. In 2011, the fixed asset information will be recorded in the capital asset module.

Finding: New Accounting and Financial Reporting Requirements for Fund Balances In summary, the Governmental Accounting Standards Board (GASB) issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, with the objective of enhancing the usefulness of fund balance information. The new categories for fund balance classifications are nonspendable, restricted, committed, assigned, and unassigned. Additionally, clarification of definitions for the general fund, special revenue fund type, capital projects fund type, debt service fund type and permanent fund type are also provided.

Recommendation: We recommend that management familiarize itself with GASB Statement No. 54 to prepare for its implementation.

Response: Accounting personnel have already started attending seminars aimed at providing training and a better understanding of this new accounting standard and requirements for its implementation.