



Memorandum

To: Board of Commissioners

From: Cassandra Williams

Date: June 18, 2009

Re: Management's Response to Internal Control Structure Evaluation

Attached is Management's Response to the Internal Control Structure Evaluation performed by Reinsel Kuntz Leshar. This evaluation began in the summer of 2008 with the thought that it could be used to develop formal policies and procedures. It has been almost a year long process to receive a final report that covered the items thought to be of vital significance. Reinsel Kuntz Leshar has rewritten the report several times to provide a satisfactory document. While it is not a template that the Township can simply place a logo on and start using, it provides a foundation to create a formal policy and procedural manual.

Along with management's response to various items, certain sections contain a brief outline of procedures to be included in the finalized procedural manual. This is just an outline of items to consider and is not meant to be an all-inclusive list of things to be covered within a particular area.

Timelines for deliverable written documentation and ultimately an entire manual will be developed with the Township Manager. Any questions regarding those timelines should be discussed with the Township Manager.

Internal Control Structure Evaluation Management Response

Organizational Structure (page 4)

Response: The Township organizational chart was updated in February 2009. Additionally, the Township has hired a consulting firm to provide appropriate job titles with related job descriptions. As part of this process, the organizational chart is being reevaluated to determine the most efficient chain of command. The organizational chart suggested in the report has been used as a guideline, but will not be the final chart to be used in the finance area. The suggested chart has a clerical employee handling both cash receipts and utility billings. This creates a segregation of duties problem because there are residents who hand deliver utility bill payments to the Township. However, the recommendation of hiring an "accounting supervisor" was followed in February with the hiring of a Financial Analyst that is responsible for various bank reconciliations, general ledger reconciliations, monthly closings, and financial statement preparation.

Revenue

Earned Income Tax Revenue (Page 7)

Response: The Township Earned Income Tax Collector is scheduled to retire in September 2009. Given the fact that the State of Pennsylvania has mandated that earned income tax move to a county-wide collection system, we are evaluating whether it is appropriate, at this time, to move to an independent third party. As a result, we are not considering having any payments received via lockbox until other decisions are made in this area.

Charges for Services (page 8)

Response: Leasing of township rental property, with related credit checks, is now being handled by a property management company. An evaluation will need to be performed to determine whether it is appropriate and within the guidelines of the First Class Township Code to obtain security deposits for utility customers. At this time, trash collection cannot be discontinued due to customer nonpayment and the Township is investigating whether there is an ability to initiate cut-off procedures for sewer nonpayment. Consistent pre-numbered receipt procedures will be created for walk-in payments.

Bank reconciliations are being performed and reviewed. Additionally, subsidiary to general ledger account reconciliations are being performed. Currently, the balances for sewer billings must agree to more than just information received from Lehigh County Authority. We will investigate the best procedures to use in reconciling sewer balances to another source document.

Outline of Procedures to Include:

Sewer and Solid Waste Billings

- Update sewer/solid waste residency records
- Generate sewer and solid waste bills
- Collect revenue from lockbox, mail-ins, and walk-ins
- Record revenue receipts
- Generate late notices for delinquent payers
- Follow-up with appropriate procedures for non-payers
- Prepare requested sewer certifications
- Refund any money due as a result of resident moving from township
 - Record refunds and reconcile amounts

Sewer Connection Permits

- Receive and review completed permits

Wastewater Allocation Fee

- Receive and review completed applications
- Record applications received
- Collect and record money
- Reconcile revenue with applications received

Street Lights *

- Obtaining, completing, and submitting petition
- Submission of request to PP&L
 - Determining when streetlights actually installed
- Calculating street light tax rate for each homeowner
- Initial Billing of Residents for streetlight taxes
- Tax Collector Billing and Collections of street light taxes (with School Tax Bill)
- Following up and collecting on Delinquent payers

Permits (Building, Commercial, Electrical, Plumbing, Mechanical, and Zoning – complete list pg. 43)

- Completion of permit application
- Appropriate fees charged and collected
- Record revenue receipts in accounting system
- Reconcile permit applications to revenue receipts
- Record and remit required permit fees to State with necessary paperwork
- Set-up inspections when appropriate
- Collect fees when re-inspections are necessary
 - Record re-inspection fee revenue
 - Reconcile re-inspection fee revenue with amount collected and recorded

Reimbursable Library Expense *

- Calculate summary of expenses to be reimbursed
- Invoice Library for Expenses
- Collect and record revenue in accounting system

Garden Plot Program *

- Completion of Garden Plot Form (ensuring participation requirements are met)
- Collect and record revenue receipts in accounting system
- Reconcile completed forms to revenue receipts

Parking Violations *

- Receipt of list of parking violators
- Tracking revenue receipts collected for violations
- Determining when violations revenue is uncollectible

Bounced Checks

- Obtain information from banks for bounced checks
- Adjust accounting records for bounced checks
- Generate notices to individuals with applicable fees for bounced checks
- Determine when revenue is uncollectible

Recreation Activities

Swimming Pool *

- Pool membership applications and issuance of badges
- Collection and recording of money for memberships

- Issuance of Daily Pool Passes, collection, and recording of money

Snack Bar *

- Establishing summer inventory
- Maintaining inventory through purchases from designated vendors
- Collection and recording of snack bar money
- Cash register closing procedures
- Deposits of revenue proceeds procedures
- Reconciling cash register proceeds with deposit
- Recording revenue into accounting system

Gym Rental Agreements and Scheduling

- Collect Money
- Reconcile and record gym revenue in accounting software

Community Center Room Rentals and Recreation Hall rentals * (includes Kitchen Rentals, set-up charges and Snack Bar)

- Community Center/Rec. Hall Agreements
- Collect Money (including security deposits)
- Reconcile and record rental revenue in accounting software
- Issue refunds of security deposits

Parks/Playground Programs *

- Sign-ups for programs
- Collection of money
- Reconcile and record revenue in accounting software

Deposits to the Community Center:

Response: In the absence of a suggested improved procedure, the security deposit checks will continue to be deposited into the Township bank account with refunds issued from that same account. After an established period of time of inactivity, the individual or organization name will be purged from the accounts payable vendor listing.

Intergovernmental Revenues (page 9)

Response: We have begun the process of completing paperwork required to have funds received via electronic wire transfer where the option has been offered.

Outline of Procedures to Include:

State-Aid Volunteer Fire *

- Determine allocation of state funding
- Money received from state
- Generate check requests and payment approvals for check distribution to local fire companies (there is a designated time frame established by the state)

PURTA (Pennsylvania Utility Real Estate Tax Act) *

- Complete required PA state forms by established deadline
- Outline steps required for completion and submission of forms
- Check received from state in 4th Quarter and recorded in the accounting system

Liquid Fuels *

- Completion of state forms by required deadlines
- Receipt of check and recording of revenue in accounting system
- Outline when liquid fuels money can be used, conformity to state requirements

Recycling Grants *

- Complete required forms
- File required documents by specified date
- Record receipt of revenue

Pension Plan *

- Complete Pension Plan Provider Employee Census Form
- Based on census data, remit township pension contribution
- Complete State of PA Pension Plan Eligibility Form by due date
- New plan participants, complete Beneficiary Designation Form
- Beneficiary Notification Procedures upon death of participant
- Quarterly inform employees of Opportunity to Change Investment Elections
 - Investment Election Changes Forwarded to Fulton Financial Advisors
- Quarterly meeting of Pension Committee

457 Plan *

Note: There are no intergovernmental revenues included in this area, but it is included to provide continuity of information related to employee benefits.

- Employees complete enrollment forms and select investment elections
- New plan participants, complete form to Designate Beneficiary
- Beneficiary Notification Procedures upon death of participant

Purchases and Accounts Payable (page 11)

Response: Invoices continue to be processed in the accounts payable system while previously submitted invoices are waiting for Board of Commissioner Approval. The Township implemented new purchase order procedures in the summer 2008. At this time, there is no way to change the bi-weekly review and approval procedures, so the only way to avoid late fees and past due bills is to approve manual checks between meetings and subsequently submit the bill to be approved. Bank reconciliations, subsidiary ledger to general ledger reconciliations, and follow-up of open purchase orders are being performed. Additionally, determining whether the proper account is charged, review of documents showing receipts of goods as well as the appropriateness of the charge is also part of the review and approval process.

Although the Township has a formal written policy and procedure in this area, we will continue to evaluate these procedures to look for ways to improve the current system.

Outline of Additional Procedures to Include:

Establishing a Vendor

- Approving vendor to be entered in accounting software
- Request completion of W-9 Forms
- Mail 1099's to appropriate businesses

Bill Payment Procedures

- Reconcile bill list to bills approved for payment
- Verify that checks generated match bill list
- Photocopying of any information required to be maintained in the files
- Security of checks until signed and mailed
- Time frame for required signatures
- Time frame for mailing of checks
- Filing of all necessary documents

Reimbursable Employee Expenses *

- Summary of expenses that are reimbursable
- Complete appropriate forms requesting reimbursement **
 - Mileage reimbursement rate

- Verification of mileage (when possible)
 - Attendance at classes and seminars
 - Verification of attendance with copy of certificate
 - Dues and membership
- Supervisory approval for reimbursement

Debt Service

Bond Payments

- Outline time frames for bond payments
- Ensure appropriate funds available to make payments
- Make payments on schedule

Developers' Escrow (page 13)

Response: Informal procedures exist in this area. Past due notices are being sent for delinquent payments and we have begun the process of asking developers to reestablish their escrow balances. However, to ensure that these procedures are consistently followed, formal written policies and procedures will be developed as part of the process of creating a procedural manual.

Outline of Procedures to Include

Conditional Use Hearings *

- Outline of procedures involved to obtain a conditional use hearing
- Collection of money for conditional use hearing
- Advertising in newspaper
- Hiring and paying stenographer for attendance at hearing
- Payment of bills related to hearing
- Reconcile file information to accounting records

Developers' Escrow *

- Initial escrow deposit and signed contractual documents
- Receipt of bills from engineering, solicitor, and geologists related to development
- Payment of developers' bills
- Receipt of money from developers
- Periodically review agreements to ensure that developers are paying required amounts within the appropriate time frames
- Escrow releases processed based on completed work recommendations from township engineers
- Verify insurance certificates and letters of credit properly maintained

Close-Out Procedures *

- Recommendation of project close-out from township engineers
- Send final billings and invoices
- Review developer files to ensure all contractual obligations have been fulfilled
- Refund any money due developer

Treasury (page 14)

Response: The Township has more than 30 bank accounts, but more than half of those accounts are developers' escrow bank accounts. A review will be performed to determine which projects are completed and whether accounts can be closed. Bank reconciliations are being prepared by and reviewed by someone independent of the cash disbursement process, all checks require two signatures, wire transfers require more than one person to initiate, and utility deposits are received at a lockbox. Cash receipt and register procedures will be changed with a change in the organizational structure to include a cashier. Checks returned for insufficient funds are being followed up, but procedural changes may occur as we look for ways to streamline our processes.

Investments (page 15)

The Township is currently following a very conservative investment strategy, as required by the First Class Township Code. Investment activity is recorded, authorized by the proper bonded individuals, and reconciled. Formalized procedures will be developed.

Outline of Procedures to Include:

Investment Policy

- Evaluate cash needs and funds available for investment
- Evaluate investment options and rates of return

Capital Assets (page 18)

Response: The Township will develop a formal Capital Assets Policy to account for acquisitions, disposals, depreciation, and impairment. An updated inventory listing was created for 2008 to allow for required depreciation for financial statement preparation. This listing was cross-referenced to the listing of assets included on the insurance policy. The capital asset listing is no longer on an Excel Spreadsheet, but has been placed on a database. An attempt was made to record the fixed asset information in the accounting software, but calculation problems were discovered that lead to inaccurate depreciation values.

Payroll (page 20)

Response: Time sheets are submitted and approved for processing in the payroll system. Written procedures for hiring, terminating, and payroll processing will be developed. Payroll registers and budget to actual analysis are prepared and reviewed. The procedures for recording compensated absences exist because there is a need to properly track vacations, sick, holiday, birthday, and unpaid time. The third party payroll provider does not provide enough system fields to adequately reflect the number of required payment types.

Outline of Procedures to Include:

Procedures for Hiring New Employees

- Completed Application Form
- Job Offer Letter (includes salary and other pertinent information)
- Creation of a Payroll File
- Physical and Drug Testing (Required for Certain Positions)
- Checklist of Forms to be Completed
 - Forms include W-4, I-9, Direct Deposit, Insurance Beneficiary Form
- Background Checks and Verifications
- Review of benefits
 - Health Insurance, Life Insurance, Pension Plan, 457 Plan
 - Form signed by Employees declining health insurance **
- Receipt of Employee Handbook
 - New Employee Handbook Required
- Security Access
 - Access Code and Key
- Security of Personnel Files and Payroll Records
- Ensuring that personnel receive appropriate uniforms

Procedures for Terminated Employees

- Exit Interview Checklist **
- Formally Informing Payroll Clerk of Termination
- Security Access Denial
- Review of Benefits
 - Cobra, Pension Plan, 457 Plan

Payroll Submission

- Submission and approval of time sheet by established deadline
 - Input of payroll information into AD Computer Database
 - Members of boards and commissions
 - Update compensated absence information
 - Update database for changes
 - Payroll submission to AD Computer
 - Receipt of Payroll Records from AD Computer and Paychecks
 - Recording payroll information in accounting system
 - Security of information
 - Reconcile payroll bank account
 - Determining vendors that should receive 1099's*
 - Generating 1099's and mailing to appropriate individuals
 - IRS Tax Filings
 - File 1099 Report with IRS
 - Note: Quarterly and year-end payroll tax filings handled by AD Computer
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Budgeting (page 22)

Response: Formal written procedures to be established.

Outline of Procedures to Include:

Budget Procedures

- Providing Department Heads with historical budget data
- Establishing a time line for submission of budget requests
- Summarizing requests
- Budget meetings discussing appropriateness of budget requests
- Advertising budget and availability for public review
- Adoption of budget by statutory deadline
- Mid-year budget review
- Capital budget planning

Financial Reporting (page 10)

Response: Monthly closings and monthly financial reporting are underway. However, at this time it is not efficient to utilize the typical accounting time frame of closing within ten days of an accounting period. Under modified accrual accounting, expenses are not recorded when incurred, thus closing within such a short time frame could misrepresent monthly account expenditures. Additionally, the accounting software is

date driven with invoices posting based on invoice dates. Because invoices related to a particular period may be received after the end of the period, it is necessary to allow adequate time to ensure items are properly recorded in the correct accounting period.

* Procedure not formally discussed in Internal Control Evaluation report

** A form does not currently exist and needs to be created