

Management Letter

Township of Newtown,
Delaware County

December 31, 2015

Rainer
& Company

A Professional Corporation
Certified Public Accountants

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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 as of and for the year ended December 31, 2015, in accordance with auditing standards generally accepted in the United States of America, we considered the Township of Newtown's internal control over financial reporting (internal control) as a basis for designing our auditing procedures that are appropriate in the circumstances 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 and suggestions regarding those matters. This letter does not affect our report, dated xxxxxxxx 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.

This communication is intended solely for the information and use of management, the Board of Supervisors, and others within the Township, and is not intended to be, and should not be, used by anyone other than these specified parties.


Rainer & Company

Newtown Square, PA
October 24, 2016

PRIOR YEAR COMMENTS

I. 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 efforts, 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.

Current Status - During 2016, the Township finance department has now formalized accounting procedure policies and started the process of preparing a comprehensive accounting manual.

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 Township 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.

Current Status - The Township finance department now researches all old outstanding checks, including sending notices if the checks have not yet been cleared. After the research process concludes, checks are then either re-issued or submitted to the Commonwealth of Pennsylvania's Unclaimed Property division.

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 was designed to provide financial information from the perspective of the total government, which is an entirely new concept in government finance.

PRIOR YEAR COMMENTS

III. GASB Statement No. 34 (Continued)

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 - The Township issued full accrual financial statements for the year ended December 31, 2015.

PRIOR YEAR COMMENTS

IV. Establish a Fund Balance Policy

As the Township prepares to issue their financial statements in accordance with GASB 34 (See Note 3), it is important that the Township establish and approve a formal fund balance policy. GASB 54 establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The five classifications are as follows: nonspendable fund balance, restricted fund balance, committed fund balance, assigned fund balance, and unassigned fund balance. The total of the last three categories, which include only resources without a constraint on spending or for which the constraint on spending is imposed by the government itself, is termed unrestricted fund balance.

It is essential that governments maintain adequate levels of fund balance to mitigate current and future risks (e.g., revenue shortfalls and unanticipated expenditures) and to ensure stable tax rates. Fund balance levels are a crucial consideration, too, in long-term financial planning. In most cases, discussions of fund balance will properly focus on a government's general fund.

Credit rating agencies monitor levels of fund balance and unrestricted fund balance in a government's general fund to evaluate a government's continued creditworthiness. Likewise, laws and regulations often govern appropriate levels of fund balance and unrestricted fund balance for state and local governments. Those interested primarily in a government's creditworthiness or economic condition (e.g., rating agencies) are likely to favor increased levels of fund balance. Opposing pressures often come from unions, taxpayers and citizens' groups, which may view high levels of fund balance as "excessive."

Current Status - In December 2015, the Township approved a formal fund balance policy.

V. Bond Proceeds

During 2010, the Township issued a \$500,000 General Obligation Bond, for the purpose of building judicial courtrooms on the second floor of the administration building. To date these funds have not yet been expended. The Township needs to establish a plan, with guidance from their solicitor, on which projects these funds can be expended.

Current Status - The Township is utilizing the bond proceeds for the renovation of the second floor administration building.

VI. Review and Approval of 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 Township Manager or other designated member of management. All entries should be initiated by the preparer and the individual approving them in order to attribute responsibility to the appropriate individuals. All journal entries should be accompanied by full explanation and by reference to adequate supporting data.

Current Status - The Township finance department has now segregated the process in which the journal entries are initiated by a preparer and approved by a reviewer.

PRIOR YEAR COMMENTS

VII. Proper Classification of Real Estate Tax Revenue

We noted during the 2014 audit that the real estate tax revenue, as well as penalties and discounts, were not being properly recorded. We recommend that the proper general ledger accounts be utilized in order to properly reflect real estate tax revenue, as well as related penalties and discounts. This will also assist with reconciling real estate tax revenue during the year.

Current Status - The Township finance department now properly records real estate tax revenue, and related penalties and discounts, to the proper general ledger account.

VIII. Establish a Purchase Order System

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. For example, under the system, purchases of fixed assets in excess of a specified dollar limit might require board of supervisors' action; items purchased relatively infrequently, such as insurance policies and long-term service contracts, would be approved by the board or Township management; and materials or subcontractor arrangements would be approved by department heads. 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. Purchase orders should be matched to vendor invoices to assure that only agreed upon prices are paid.

Current Status - The Township finance department is now in the process of implementing new software, which includes a purchase order system.

CURRENT YEAR COMMENTS

No current year comments