

**Management Letter**

**Township of Newtown,**  
**Delaware County**

**December 31, 2013**

*Rainer*  
& Company

A Professional Corporation  
Certified Public Accountants



A Professional Corporation  
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, 2013, 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 October 20, 2014 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.

A handwritten signature in cursive script that reads "Rainer &amp; Company".

Rainer & Company

October 20, 2014

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 no longer utilizes the check stamp and that all checks are hand signed by authorized signers.

II. 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 2011, the Township began reconciling each escrow account to verify if any payments are due to the Township or if any of the escrow balances are required to be refunded. We recommend that Township management continue to 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.

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;

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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 - No change in status.

IV. 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,

PRIOR YEAR COMMENTS

- 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 has obtained a fixed asset appraisal, which is currently in the process of being reviewed. The Township also needs to obtain an appraisal related to accrued costs for OPEB (Other Postemployment Benefits), as required under GASB No. 45.

V. 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 – The Township is integrating the information obtained from the fixed asset appraisal, as well as the current year fixed asset additions, to maintain a comprehensive fixed asset listing. It is important that this list is continually reviewed and updated for such items as deletions or omission, as well as items no longer in service.

VI. 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.

Current Status - No change in status.

CURRENT YEAR COMMENTS

VII. Management Review and Approval of Bank Reconciliations

At present, accounting personnel perform bank reconciliations. We recommend that management open the bank statements and review them for any unusual checks or other transactions before giving them to accounting to perform the reconciliation. Management's review of the bank statement will ensure that unusual items are investigated on a timely basis. It is important for management to document their review and approval of the bank reconciliations on a monthly basis.

Current Status – Management is now reviewing and approving the bank reconciliations, yet they are not documenting this process. We recommend the reconciliations be signed as an indication of approval.

I. Establish a Fund Balance Policy

As the Township prepares to issue their financial statements in accordance with GASB 34 (See Note 4), 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."

II. 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.