NEW HANOVER TOWNSHIP

REPORT TO THE BOARD OF SUPERVISORS & TOWNSHIP MANAGER

Year Ended December 31, 2017



NEW HANOVER TOWSHIP

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Communication with Those Charged with Governance at the Conclusion of the Audit

November 29, 2018

To the Board of Supervisors & Township Manager New Hanover Township 2943 North Charlotte Street Gilbertsville, PA 19525

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of New Hanover Township for the year ended December 31, 2017. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter to you dated September 27, 2017. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Matters

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by New Hanover Township are described in Note #1 to the financial statements. No new accounting policies were adopted, and the application of existing policies was not changed during 2017. We noted no transactions entered into by New Hanover Township during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the Sewer Fund's financial statement were:

- Management's estimate of the collectability of receivables is based on subsequent receipts and the Township's policy that outstanding balances are liened after management has exhausted reasonable collection efforts.
- Management's estimate of the estimated lives of fixed assets used to calculate depreciation appears fair and reasonable.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were:

The disclosure of Interfund Receivables/Payables in Note #4 to the financial statements
describes the payments that are owed between funds at December 31, 2017. During the year,
payments of goods or services made from one fund were not reimbursed from the other funds
on a timely basis.

	Interfund	Interfund
	<u>Receivable</u>	<u>Payable</u>
General Fund	\$1,381,668	\$ 36,088
State Highway Aid Fund	0	1,782
Fire Protection Tax Fund	0	194,797
Transportation Impact Fund	345,512	0
Recreation Fund	0	85,499
Open Space Fund	337,802	0
Capital & Road Machinery Fund	0	76,275
Sewer Fund	36,088	1,717,477
Agency Escrow Fund	34,378	23,530
Total	<u>\$2,135,448</u>	<u>\$2,135,448</u>

- The disclosure of Construction-In-Progress in Note #5 explains that \$1,197,957 has been spent on the Interceptor Project by the New Hanover Township Authority (Sewer Fund) but was not completed at the end of 2017.
- Note #6 describes the new debt of the Authority (Sewer Fund), Guaranteed Revenue Note, Series of 2017, issued for \$2,000,000 for the West Branch Interceptor Project. Interest is at 2.67% maturing in various amounts through 2029.
- The disclosure of the Defined Contribution Plan for the non-uniformed employees is described in Note #8. This is for non-uniformed employees hired after June 1, 2016. The Township contributes 5% of an employee's regular wage. Normal retirement follows an employee's 60th birthday and employees will become fully vested following (5) years of service.
- Note #9 describes the Township's policy for compensated absences. The note describes that sick leave above the allowable (30) days may be used for a lengthy illness providing a doctor's statement of such illness accompanies the request and with the approval of the Township Manager. The approximate value of accumulated sick leave for a lengthy illness at December 31, 2017 is \$183,607.
- Commitments that the Township has on contracts at December 31, 2017 are described in Note #9. As of December 31, 2017, \$121,673 is remaining on the \$158,121 contract for Traffic Signal Installation and \$936,822 is remaining on the \$2,064,417 contract for the West Branch Interceptor Upgrade.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

The completion of our audit was delayed because the information that we requested for pre-audit fieldwork on December 14, 2017 and audit fieldwork the week of April 5, 2017 was incomplete and inaccurate. Internally prepared reports did not balance, and the accounting information provided was not reliable.

After performing preliminary analytical procedures and talking with staff on December 14, 2017 and February 2, 2018 and reviewing the internal controls, the Township's risk assessment was performed. The Township's *inherent risk* (the risk that an error or omission in a financial statement most likely to occur when transactions are complex) and *control risk* (the probability that material misstatements will not be detected or prevented on a timely basis by internal control) were documented. The risk of material misstatement was such that additional audit procedures needed to be performed (more persuasive audit evidence for the higher risk assessment). These audit procedures took additional time and inquiry of Township personnel and supporting documentation.

During our audit, the Finance person, who was hired in June 2017, was terminated in January 2018. The previous accounting staff left in June of 2017. The only employee remaining in the accounting department was hired in August 2017, did not have previous government accounting experience and was exposed to limited accounting transactions of the Township due to the Finance person's control. This also created difficulties in performing the audit, due to the lack of continuity of the accounting staff during the year being audited.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. The following material misstatements detected as a result of audit procedures were corrected by management:

General Fund

- BB&T Checking was increased by \$17,390 for uncleared checks/payments appearing on the bank reconciliation.
- BB&T Checking was decreased by \$95,516 to remove uncleared deposits on the bank reconciliation (from as far back as 6/27/17).
- Health Insurance withheld from employees' pay totaling \$28,224 was removed from expenses and reduced the Section 125 liability by \$28,224.
- Earned Income Tax revenue was reduced by \$39,036 and recorded as Due to Open Space Fund.
- Sewer Revenue Note 1998 and Sewer Revenue Note 2002 expenses was zeroed out as this should have been adjusted on the Sewer Capital Fund for \$13,297.
- Proceeds of General Long-Term Debt for \$76,300 was removed from revenue. \$70,000 was recorded against the Due from Sewer Fund Loan and \$6,300 was recorded as Interest Income.

Open Space Fund

- BB&T Savings was increased by \$51,816 to agree to the bank reconciliation.
- Earned Income Tax revenue was increased by \$39,036 and recorded as Due from General Fund.

Sewer Operating Fund

- EDU Rental Billings and Sewer Cert Fees were reduced by \$16,015 and recorded as Due to Sewer Capital Fund.
- Capital purchases totalling \$205,046 were removed from expenses and recorded as Due to Sewer Capital Fund.

Sewer Capital Fund

- BB&T Savings was reduced by \$28,597 to remove uncleared deposits on the bank reconciliation from 6/21/17.
- Revenue was reduced by \$20,716 for payments received on sewer connection receivables.
- 2006 Reserve Capacity revenue was increased by \$16,015 for payments received for the Phase II Stage II Agreement and for the EDUE at 2375 Villa Drive and Due from Sewer Operating Fund increased.
- Sewer Revenue Note 1998 expense decreased by \$351,000 for the principal amount paid on the Note. The related liability account also decreased by \$351,000.
- Sewer Revenue Note 2002 expense decreased by \$141,000 for the principal amount paid on the Note. The related liability account also decreased by \$141,000.
- Expenses decreased by \$70,000 and the Note Payable to the General Fund decreased by \$70,000.

Escrow Fund

- \$63,491 of uncleared checks from as far back as 6/26/17 were removed from the BB&T bank reconciliation.
- Miscellaneous Revenues decreased by \$31,332, Engineering Services decreased by \$13,199 and Legal decreased by \$2,883 while the Developer Escrow Liabilities were adjusted.
- Legal expenses decreased by \$10,498 and Due from Developer was also adjusted.
- Engineering Services decreased by \$38,162 and Due from Developers was adjusted accordingly.
- Highway Supplies and Highway Construction & Rebuilding was reduced by \$14,053 and Developer Escrow Liabilities were adjusted.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated November 29, 2018.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to New Hanover Township's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as New Hanover Township's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We were engaged to report on the budgetary comparison schedule for the general fund and pension plans schedule of funding progress and employer contributions, which accompany the financial statements but are not required supplementary information (RSI). With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

In our professional judgment, the following are significant and relevant to those charged with governance in overseeing the financial reporting process:

- 1. Interest income earned on the Transportation Impact Fund Certificate-of-Deposit was deposited into the General Fund instead of the Transportation Impact Fund.
- 2. Invoices for legal and engineering services that are paid by the Township should be billed immediately to the Developers. During the audit, we noted \$23,865 of invoices paid by the Township in 2017 but were not billed to the Developers until 2018.
- 3. The General Fund had Cell Tower Rent on the Profit & Loss rather than on the Profit & Loss for the Capital Fund. Mispostings such as this should be corrected when being reviewed by someone other than the person preparing the financial statement.
- 4. On April 25, 2014, the Township deposited \$25,000 from a Comcast EG Capital Support Grant "to be used in support of the production of local EG (Educational and Government) programming". \$11,500 of the grant money was spent as of December 31, 2017. The remaining \$13,500 was spent as of the date of this report.

Restrictions on Use

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

Very truly yours,

BARBARA A. AKINS, CPA

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Letter Communicating Significant Deficiencies and Material Weaknesses

Board of Supervisors & Township Manager New Hanover Township 2943 North Charlotte Street Gilbertsville, PA 19525

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of New Hanover Township as of and for the year ended December 31, 2017, in accordance with auditing standards generally accepted in the United States of America, we considered New Hanover Township's internal control over financial reporting (internal control) as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of New Hanover Township's internal control. Accordingly, we do not express an opinion on the effectiveness of New Hanover Township's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the following deficiencies in internal control to be *material weaknesses*:

- 1. Properly prepared Fund Balance Sheets as of December 31, 2017 were not provided by the Township. On a properly prepared Balance Sheet, Total Assets equal Total Liabilities plus Equity.
- 2. None of the (13) December 31, 2017 bank reconciliations for the BB&T bank accounts agreed to the account balances on the Fund Balance Sheets. Some of the bank reconciliations had old uncleared checks and deposits dating back to June 2017.
- 3. None of the (7) December 31, 2017 bank reconciliations for the PLGIT bank accounts agreed to the account balances on the Fund Balance Sheets.

- 4. The Fund Profit & Loss Reports were not properly prepared for the year ending December 31, 2017. For example, earned income taxes that should have been recorded in the Open Space Fund were included in the General Fund; funds that had payroll expenses did not have any workers compensation insurance allocated to it; and the Sewer Fund did not have any vehicle insurance allocated to it.
- 5. During our audit, we noted a lack of segregation of duties. The following procedures are ALL performed by the Township Finance Clerk:
 - a. Prepares deposit (usually weekly).
 - b. Takes deposit to bank.
 - c. Records deposit in QuickBooks.
 - d. Reconciles bank statements.

Good internal controls dictate that a different person should be preparing the deposit slip and taking it to the bank from the person who is recording it in the accounting records.

Also, the person preparing the bank reconciliation should be different from the person recording the deposit in the accounting records and taking the deposit to the bank.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiencies in internal control to be significant deficiencies:

- 1. The Township's *Control Environment* including the attitudes, awareness, and actions of management, as well as those charged with governance, does not appear to demonstrate a commitment to accurate accounting and financial reporting.
- 2. It appears that management has not developed a *Risk Assessment* for the Township which identifies and responds to risks that may affect accounting or financial reporting.
- 3. The Township's *Information and Communication* does not appear to be operating effectively. Management should be communicating financial reporting roles and responsibilities and significant financial reporting matters to employees and those charged with governance and exceptions should be brought to the attention of persons at the appropriate level to take corrective action. Relevant, quality information should support financial reporting.
- 4. The Township's *Monitoring* should make sure that internal controls are operating as intended and changes to internal controls are made when necessary. *Monitoring* should also include reports and other information (such as budget variances, reconciliations, monthly financial reports) to ensure that financial information is reliable. It appears that in 2017, there was a lack of monitoring.
- 5. Items not clearing the bank, especially deposits, should be investigated immediately. Deposits could be recorded twice or recorded in error, thus overstating revenue. For example, the BB&T General Fund checking account had a deposit-it-transit for \$23,179 from 6/26/17. This was due to the deposit being recorded twice. Per the audit work and audit adjusting journal entries made, bank reconciliations were not being reviewed.

- 6. Invoices for legal and engineering services that are paid by the Township should be billed immediately to the Developers. During the audit, we noted a \$12,229 invoice paid by the Township that was never billed to the Developer. Additional audit adjusting journal entries were made to correct various mispostings of deposits made by Developers and expenses that should have been applied against Developer Escrows.
- 7. Per a review of the Township's insurance policy, we did not see the following covered:
 - a. Case DV36 Double Drum Roller purchased for \$50,847 on 4/20/17
 - b. Pavilion purchased for \$10,350 on 2/22/17
 - c. (2) Pavilions purchased for \$17,600 on 10/23/17
- 8. Income and Expenses appearing on the Escrow Fund should have raised questions as to the reliability and accounting for Developer deposits and expenses. The Escrow Fund had Miscellaneous Income totaling \$15,250 because the invoice to the Developer was never created by the Township to apply the \$15,250 payment against.
- 9. General Journals made by the Township during the year did not always include supporting documentation as to why the entry was made. The supporting documentation to every general journal should be kept in a binder and approval by someone other than the person making the entry.

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

BARBARA A. AKINS, CPA Bechtelsville, Pennsylvania

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November 29, 2018