

February 22, 2021

To the Board of Supervisors
Kennett Township
Chadds Ford, Pennsylvania

In planning and performing our audit of the financial statements of Kennett Township as of and for the year ended December 31, 2019, in accordance with auditing standards generally accepted in the United States of America, we considered Kennett Township's internal control over financial reporting (internal control) as a basis for designing audit 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 Kennett Township's internal control over financial reporting.

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 and significant deficiencies and, therefore, material weaknesses and 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.

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 a 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 the entity's internal control to be material weaknesses:

- **Investigation Into Activities of Prior Township Manager**

During 2019, an investigation was conducted into the activities of the prior Township Manager. A forensic audit was conducted by the accounting firm Marcum in conjunction with the Chester County Detectives. This forensic audit identified many questionable and suspicious transactions dating back to at least January 1, 2013 and continuing through April 2019. Marcum has issued their findings to the Township and that report should be read in conjunction with the reports issued by Maillie LLP for the year ending December 31, 2019. All identified questionable and suspicious activity has been reported in the 2019 DCED report on line 482.00 Judgements and Losses.

- **Interfund Balance**

During our audit we determined that the initial amounts recorded as transfers between funds did not reconcile. If a transaction is recorded as a transfer in in the receiving fund, it should be recorded as a transfer out in the paying fund.

We recommend that interfund activity be regularly reconciled to ensure the activity balances and nets to zero.

- **Fund Balance**

During our audit we identified differences between the prior year end of year fund balance, and the opening fund balance on the current year books. We identified certain transactions that were recorded directly to fund balance accounts, rather than through a revenue or expense account.

We recommend that activity only be recorded to fund balance in the event that a prior period restatement is necessary. All other activity should be recorded through a revenue or expense account.

- **Cash Disbursements / Expenses**

During our audit we identified a number of issues in regards to expenses and cash disbursements.

During our review of invoices, while many invoices did bear a signature or initials from a management team member indicating the invoice was approved for payment, we did note a significant number of invoices that had no indication that the services were provided or the materials were received and the invoice was approved for payment. We recommend that all invoices should have a signature indicating approval for payment. In the case of several separate invoices being approved concurrently and paid with one check, each individual invoice should have a signoff, not just the one on top.

There were three transactions that were not related to the identified questionable and suspicious activity of the prior Township Manager, for which supporting invoices were requested but those invoices could not be located. Two of these transactions were through a credit card, one was by check. To provide adequate disbursement documentation a copy of the invoice should be retained for each disbursement.

It appears a significant number of checks were signed using a stamp. We strongly suggest that all signatures on checks be original signatures of those authorized to sign and that the use of signature stamps be terminated. While we clearly understand that there are other valid uses of a signature stamp, such as correspondence, we feel that internal controls can be greatly strengthened if its use is removed from the accounting area.

During our testing we noted an instance of a bill being paid twice. This was brought to the attention of management during our audit and it is our understanding that a refund has been received. We recommend that the Township consider devising a method to periodically review cash disbursements over a period of time and investigate any duplicate amounts paid to a vendor.

During our review of checks, we noted that some checks for smaller amounts only had one authorized check signer sign the check. We recommend that at least two signatures are required for all disbursements, which will strengthen internal controls.

During our review of disbursements, we noted that some disbursements are for annually budgeted contributions to local boards and authorities. No invoice was received, but disbursement was made based on budgeted amounts. For example, if an annual budget is for \$100,000 and disbursed quarterly, we would expect the quarterly disbursements to equal \$25,000. However, when we tried to tie these disbursements back to budget, there were unexpected differences. Due to a lack of support accompanying these transactions we were unable to determine if the appropriate amount was distributed to these entities. We recommend that in lieu of an invoice received, the Township print the applicable page of the budget and the calculation used to arrive at the disbursement as support for each check paid to entities based on a predetermined budgeted amount.

- **Journal Entries**

During our review of internal controls over the process of booking manual journal entries, there was no system in place to ensure all manual entries were reviewed and approved. We recommend that management categorize journal entries into recurring journal entries (for example monthly entries for interest income or payroll) and nonrecurring journal entries, where authorization for recurring journal entries is established at the beginning of the year. Nonrecurring journal entries would require individual authorization by management. Journal entries should always be supported by appropriate documentation, which serves as an accounting record and facilitates future follow-up as well as additional insight for other users.

- **Cash Receipts – Segregation of Duties**

During our review of internal controls over the process of receipts, it was determined that the accounting clerk received all receipts, entered receipts into the accounting system, prepared the deposit, and took the deposit to the bank. We noted that there was a lack of segregation of duties within the cash receipts area. The objective of internal control over cash receipts is to obtain control over amounts received at the time of receipt. We feel that separating these closely related functions in the cash receipts process will result in much greater internal control in this particular area. To achieve this control, certain duties involving receipts should be handled by more than one member of personnel. The following procedures should be enacted to ensure efficient internal control:

- ❖ One employee, preferably the receptionist, should open the mail, make a control list of all receipts, and restrictively endorse all items received as “for deposit only.” This would prevent any unauthorized endorsement should the checks be misplaced or lost before being deposited.
- ❖ The receipts should then go to another employee for further processing and deposit to the bank on a timely basis.
- ❖ Then, someone who does not otherwise handle receipts should compare the deposit slips to the list of receipts to ensure that all funds reflected on the receipts were deposited.

- **Approved Salary**

While conducting our audit, we noted that approved salary data was not available for Township employees. While the Township approved percentage increases, we do not believe this is sufficient for strong internal controls. The Township should approve a specific salary or hourly pay amount for all employees as part of the annual budgeting process each year. That document should then be maintained as documentation for the rates at which all employees are paid during the year.

- **Escrow Funds**

While reviewing escrow funds, the Township was unable to provide an accounting of individual escrows held. While cash is a known number, we were unable to determine what balances were held for individual payors, or if any individual escrow balances were overdrawn and the Township was actually owed money. Escrows should be tracked by individual payor/project so the Township can make accurate payments of escrow funds at the end of a project and also be made whole if an escrow balance is overdrawn.

In addition, during our audit, we noted certain matters involving the internal control and other operational matters that are presented for your consideration.

This letter does not affect our report dated February 9, 2021, on the financial statements of Kennett Township. We will review the status of these comments during our next audit engagement. Our comments and recommendations, all of which have been discussed with appropriate members of management, are intended to improve the internal control or result in other operational efficiencies. We will be pleased to discuss these comments in further detail at your convenience, perform any additional study of these matters, or assist you in implementing the recommendations.

OTHER RECOMMENDATIONS

- **Purchase Orders**

During our audit, we observed that there is no system of effective review for purchases. This is a weakness of the system of internal controls and this opens the way for the possibility of not only unnecessary or unapproved but also fraudulent purchases. We suggest that purchases be approved prior to the purchase being made, and that this approval be documented by signatures on the purchase order. These purchase orders would then be kept on record and compared to the invoices when the goods or services are actually received and maintained as part of the documentation for the expense.

- **Sewer Billing**

During our audit, we observed areas of potential improvement in regards to sewer billing processes.

Currently, Township personnel manually key in usage volume based on readings from Chester Water Authority and Kennett Borough readings. The Township should put a process into place to ensure that there have been no typographical errors resulting from the manual typing process.

To the Board of Supervisors
Kennett Township

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There is no process currently in place to review customers added or removed from the customer listings, nor is there a process in place to ensure there have been no changes made in the system to previously billed amounts. We recommend the Township look into any change reports that the sewer billing software may be able to produce on a regular basis. Alternatively, the Township should consider other methods to ensure sewer billing data isn't improperly manipulated.

The Township should also ensure adequate procedures are in place to ensure that everyone who should be receiving a bill from the Township is getting billed. This would include determining how all new construction would be accounted for in the customer listings.

- **Documents for Board of Supervisors**

During our review of internal controls, we determined that the Board is receiving copies of checks and invoices and a bill voucher report to review at the board meetings. To improve oversight over revenues, we recommend that the Board also receive a report of receipts. To improve oversight over performance, we recommend that the Board also receive a report of budget v actual revenues and expenses, as well as a report of current year revenues and expenses compared to the prior year.

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

Very truly yours,



MAILLIE LLP
*Certified Public Accountants and
Business Consultants*