

**Citizens Audit Review & Financial Advisory Committee (CARFAC)**

May 16, 2012

7:00PM – Radnor Township Municipal Building, Finance Conference Room

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**Agenda:**

1. Approval of Minutes:
  - a. April 18, 2012
2. Clifton Larson Allen – 2011 Audit Review
3. Working Group Updates:
  - a. Planning Group: Pension / OPEB Project Update
  - b. Business Process Group: Act 511 Collection & VCSP Update
4. Finance Department Review Items:
  - a. Utility Audit
  - b. Procurement Card Review
  - c. iDashboards Concept
5. General Discussion
6. Public Participation
7. Adjourn (the goal will be no later than 9:00PM)

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**NOTES:**

Board of Commissioners and  
Management of Radnor Township  
Wayne, Pennsylvania

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Radnor Township as of and for the year ended December 31, 2011, in accordance with auditing standards generally accepted in the United States of America, we considered Radnor Township's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization'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 significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. 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 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 Radnor Township's internal control to be material weaknesses:

#### **Accounting Policy and Procedures Manual**

The Township does not have an up-to-date manual of accounting policies and procedures. The purposes of such a manual are to ensure that proper accounting principles are being applied, that similar transactions are treated consistently, and that financial reports are produced in the form desired by management. A well-written accounting manual will aid in the training of new employees and will assist management in delegating and segregating duties. The manual should include:

- An organizational chart.
- Job descriptions, outlining duties and responsibilities.
- Descriptions of methods, procedures and accounting principles to be followed, including explanations and examples of principal transactions.
- A chart of accounts with detailed explanation of the items to be included therein.
- Any other documents or forms for which uniformity of use is desired.

We recommend that management develop a comprehensive accounting policies and procedures manual. In the process of developing the manual, we recommend a comprehensive review of the existing accounting system, offering management the opportunity to eliminate or improve procedures and thereby create a more efficient and effective system. Developing an accounting policies and procedures manual can be a significant undertaking, and will demand considerable resources within your fiscal department.

This was a comment in our 2010 audit. We noted during our 2011 audit that Management has begun to address this issue, and the Manual is a work in progress that will continue to be a focus in 2012.

### **Wire Transfers**

In performing our audit for the year ended December 31, 2010, Staff Accountant/Cash Manager had the ability to make wire transfers between cash and investment accounts. We recommended that management develop a wire transfer policy that would require approval of all wire transfers. Additionally, we recommended that management sets approval parameters and account restrictions of wire transfers with its bank. Such approvals may prevent unauthorized transfers from occurring.

The Township lacked a formal policy as discussed above during 2011, **however, during our audit we noted that a formal Wire Transfer Policy was adopted in April 2012.**

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*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 Radnor Township's internal control to be significant deficiencies:

### **Segregation of Duties**

We noted a lack of segregation of duties in payroll and cash disbursements during our 2010 audit. One employee processes payroll and also has the authority to add employees to payroll. This same employee processes cash disbursements and has the authority to add vendors to the accounting software. Another employee initiates and processes the wire transfers and also prepares the bank reconciliations and journal entries.

We recommended the segregation of duties in a manner which separates the initiating and authorizing of a transaction, from the recording and processing, and the reconciling and reporting.

In performing our 2011 audit, we noted the above examples are still applicable in 2011; **however, we also noted that management has begun to address the segregation of duties over payroll and cash disbursements in 2012. The Township has drafted a segregation of duties chart and has implemented formal policies in February 2012.**

We noted other matters involving the internal control and its operation that are reported as follows:

**Stale Checks**

We noted during our testing of bank reconciliations that there were approximately 50 outstanding checks that were more than one year old in the general checking account. We recommend that management review Pennsylvania's escheat regulations on unclaimed property, and remove stale outstanding checks from the bank reconciliations accordingly.

**Cell Phone Usage Policy**

The Township issues cell phones to several of its employees. We recommend that the Township adopt a formal policy that addresses the usage of these cell phones. The policy should establish internal controls that determine authorized users, personal use parameters, and a system of monitor and review of cell phone activity, either monthly or quarterly.

**Sewer Reconciliation to General Ledger**

During our testing of the sewer billing and collection schedules, we noted that the sewer accounts receivable did not reconcile to the general ledger. However, management did make the appropriate journal entry to reconcile the sewer receivable difference. We recommend that management monitor and reconcile sewer receivables to the general ledger on a monthly basis.

We also noted that in 2011 there were several GL accounts being utilized to track sewer accounts receivable. We recommend that the Township simplify the tracking of sewer accounts receivable into one consistent GL account.

**Act 511 Taxes – Recordkeeping of Outstanding Accounts**

During our audit, we noted that Management does receive a schedule of outstanding Act 511 taxes (namely Business Privilege taxes and Mercantile taxes) from an outside accountant. However, management had not contemplated and calculated a reasonable estimate of Act 511 taxes collectible as of December 31, 2011 prior to our audit testing. We recommend that Management set up regular meetings with the outside accountant to assess collectability of outstanding Act 511 receivables.

**Investment Policy**

The Township has not updated the investment policy since 2003. We recommend that the Board of Commissioners, with the assistance of management, update the investment policy to better reflect current economic and investment conditions.

This was a comment in our 2010 audit and remains applicable in 2011, as there have been no updates to the current investment policy.

### **Cash Receipts Process**

During our 2010 audit, while reviewing the Organization's process of collecting cash, we noted that there is no documentation of the physical transfer between departments. It was recommended that when the cash is brought to the fiscal staff, the time dated receipt stub be initialed by the fiscal staff and a copy be kept by the depositing department. This provides documentation that the cash made it to and was acknowledged by the fiscal department for deposit.

This comment is still applicable in 2011; **however, we noted that the Township created, adopted and implemented a Cash receipts Policy in 2012.**

### **Capital Assets**

We noted during our testing of capital assets that although there is a pre-numbered tagging system, certain capital assets have not been assigned a tag number. We recommend that the current tagging system be evaluated and that all capital assets be assigned an appropriate inventory tag number.

This was a comment in our 2010 audit and remains still applicable in 2011.

### **Inventory**

During our audit, we noted that there is no physical inventory is maintained for public works supplies. Supplies should also be evaluated as to whether they should be capitalized on the Township's financial statements. We recommend that supplies on hand should be documented, and that such supplies should be evaluated for potential capitalization.

This was a comment in our 2010 audit and remains still applicable in 2011.

### **Capitalization Policy**

We noted that the Township's current policy is to capitalize assets with an initial individual cost of greater than \$1,000. Based on the size of the township we recommend that the Township review this policy and consider increasing the individual cost basis used for capitalizing assets. Increasing this amount would help reduce the time and cost associated with updating the Townships fixed asset schedule for these items that do not have a material impact on the Township's financial statements. The Government Finance Officers Association recommends a minimum capitalization threshold of \$5,000.

This was a comment in our 2010 audit and remains still applicable in 2011.

**Information Technology: Disaster Recovery Plan**

We were informed that the Township has no documented disaster recovery plan to address business continuity issues should access to the Township Building be denied for an extended period of time. We also noted that the Township does not have a backup recovery site targeted in the event of disaster.

We recommend that management create and document a disaster recovery plan that identifies a recovery strategy for all mission critical applications and supporting technical infrastructure including voice communications, network infrastructure, servers, databases and software applications. Once completed, the Township should review and test the operability of the plan on at least an annual basis. We also recommend that Radnor consider implementing a hot, warm or cold site for recovering data in the event of a disaster.

This comment is still applicable in 2011; **however, the Township has created and implemented a Disaster Recovery Plan in 2012.**

**Information Technology: Documentation of Procedures**

The Township has documented certain policies regarding e-mail and internet use, however, documented policies concerning a wide range of IT administration issues are not documented.

To facilitate IT administration, security and cross-training, we recommend that the Organization develop and document its policies and procedures concerning information systems security, access control (password, remote access and user administration), firewall security, software patch management, change management, anti-virus measures, vendor management, data and applications backup procedures, disaster recovery and business continuity planning, and information security incident response procedures.

This comment is still applicable in 2011; **however, the Township has formally documented its IT procedures in 2012.**

**Information Technology: User Accounts**

The Township currently has working user access procedures upon hiring and termination of employees. However, these procedures are not formally documented.

We recommend that the Township implements a New Hire Checklist and Terminated Employee Checklist to ensure that computer access privileges are appropriate and that Township owned assets provided during the term of employment are disabled and returned at termination.

This comment is still applicable in 2011; **however, the Township IT Department has implemented user accounts controls in 2012.**

**Information Technology: Access Control**

In the course of our audit work, we noted that policies relating to password structure, password failure lock-outs and forced changes are less robust than industry norms would require. In addition, in certain applications, features that enable compartmentalized user access are not utilized. As a result, the Township's network and data are exposed to elevated risk of unauthorized access.

We recommend that the Township enhance its procedures regarding a forced password change upon initial login and forced password expiration every 30-90 days. Additional password security measures include use of complex passwords which include a mixture of numbers, letters, and symbols and a password history of the ten previous passwords with the inability to reuse these passwords as a current password. We recommend account lockout after three incorrect login attempts and reset of a locked account controlled by the IT department. We also recommend that the Township perform a documented user access review of the Network and their accounting software on a quarterly basis.

This comment is still applicable in 2011; **however, the Township IT Department has implemented user access controls in 2012.**

**Information Technology: Offsite Data Backup**

Our review of Information Technology general controls noted that daily application and data backups are performed, the backup media are stored off-site.

We recommend that the Township consider taking the back-up process one step further by engaging a service provider that would perform and archive daily applications and data backups and secure them at a remote site to facilitate the Organization's recovery from a disaster event.

This comment is still applicable in 2011; however, management plans to review in 2012 and determine cost/benefit of implementation.

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**Prior Year Comments Cleared In 2011 – Material Weaknesses:**

**Audit Adjustments**

Management is responsible for the accuracy and completeness of all financial records and related information. Their responsibilities include adjusting the financial statements to correct material misstatements. Management is responsible for controls over the period-end financial reporting process, including controls over procedures used to enter transaction totals into the general ledger; initiate, authorize, record, and process journal entries into the general ledger; and record recurring and nonrecurring adjustments to the financial statements. During the performance of our 2010 audit engagement procedures, we noted management had not adjusted all account balances to reflect their appropriate year-end balance. This is a necessary step in ensuring that financial statements are fairly stated. The unrecorded amount was, in our judgment, material to the financial statements. Management subsequently recorded the amount. Since the company's control policies and procedures did not prevent or detect a material misstatement of the financial statements, we concluded there is a material weakness in the Township's control policies and procedures required to be reported under professional standards. We recommended that the Township work to adjust all account balances to reflect appropriate year-end balances. This process would ideally occur before the year-end external audit.

This matter was addressed in 2011, as all material adjustments have been made by Management.

### **Disbursement Approval Process**

#### *Review of Disbursement List*

We noted during our 2010 audit that the Treasurer received a list of disbursements on a bi-monthly basis and has the ability review the actual invoice and detail before the checks are cut and approved. In addition, the Board reviews the disbursements list before the physical checks were cut and approved. We recommend that the procedure be modified to allow for each board member, on a monthly rotating basis, the opportunity to review the invoice and backup detail for each disbursement. This will afford each member of the board the opportunity to understand the disbursement process, and to raise questions when unfamiliar with a vendor charge.

#### *Signatures on Disbursement Checks*

During our 2010 audit, we noted that two signatures were required for all disbursement checks (treasurer and township manager). However, one signature was computer generated and the other was a signature stamp. Not requiring a live signature could lead to override and unauthorized disbursements by personnel that process the disbursements and related backup.

We recommended that management evaluate the disbursement check signing process, and set thresholds whereby live signatures would be required.

These cash disbursement related matters were addressed in 2011.

### **Payroll Record Keeping and Approvals**

We also noted that in 2010 there was no consistent formal review of the payroll register that is generated by the fiscal department.

We also noted during our review of employee timesheets that the Interim Township Manager was approving his own timesheet during the year ended December 31, 2010. We recommended that in the future, a report be submitted to the Board of Commissioners on a quarterly basis summarizing the Interim Township Manager or Township Manager's time allocations.

This payroll related matter was addressed in 2011.

### **Expense Allocations**

In performing our audit for the year ended December 31, 2010, we noted that the township does not have a written plan for allocating expenses among departments and funds. We recommended that management develop and formalize a cost allocation plan.

This comment was addressed in 2011, as the Township initiated and documented an allocation plan for salaries and related expenses.



**Prior Year Comments Cleared In 2011 – Significant Deficiencies:**

**Audit Committee**

In 2010, the Township did not have a designated Audit Committee. The Audit Committee (or equivalent) would be responsible for engaging the independent auditors, reviewing the overall audit plan, reviewing the audited financial statements and the related management letter, creating a summary and conclusion, and reporting the resulting summary and conclusion to the Board of Commissioners. It is recommended that the audit committee consist of at least one individual with a financial background, when available.

This comment has been cleared, as on February 14, 2011, The Township Board passed Resolution 2011-01 to establish the Citizens Audit & Financial Advisory Committee.

**Approval of Credit Cards and Expense Reimbursements**

We reviewed the expense reimbursements, as well as corresponding backup, submitted by the Assistant Township Manager and former Chief of Police for the year ended December 31, 2010 and noted that they each approved their own credit card and expense reimbursement.

We recommended that the credit card and expense reimbursement activity of the Township Manager be reviewed by the Treasurer and that he sign and date the statement to document performance of that review. In addition, the Township Manager should approve the credit card and expense reimbursement activity of the Finance Director by signing and dating the statement.

This comment has been cleared in 2011. The credit card payments and the expense reimbursements now flow through the automated purchase order system, which was established in 2011.

**Purchase Order System**

We noted that although there are purchase orders that are issued on a regular basis, there are certain expenses that are paid without a purchase order and that purchase order numbers are not always accounted for. We recommend that a formal purchase order system be implemented, which would include the maintenance of a purchase order log to account for issued and open purchase orders. We also noted that blanket purchase orders were issued every six months and approved by the finance director. We recommended that blanket purchase orders be reviewed and approved not only by the finance director, but also by the Board of Commissioners.

We noted that on April 11, 2011, the Board authorized the purchase of additional functionality features for the Township's financial software. This software feature will automate the purchase order process and replace the paper system.

**Prior Year Comments Cleared In 2011 – Control Deficiencies/General Comments:**

**Conflict of Interest Policy**

We noted that the Township does have formal policies within their administrative code and an employee handbook from 1990 that would cover the Board of Commissioners, management and employee conflicts of interest. We recommended the Township review their current policies and revise as needed. This policy should identify all business relationships and other dealings between the Township and its Board of Commissions, management, key employees and other such parties with whom the Township conducts business. In addition, all key employees should annually sign a statement to that effect.

This matter has been addressed, as the Board of Commissioners approved and adopted an official Conflict of Interest Policy. The updated policy addresses the items referenced in the preceding paragraph.

**Review of Bank Reconciliations**

While reviewing the Organization's bank reconciliations prepared by a member of the fiscal staff, we noted that the reconciliations bore no evidence of formal review and approval. We recommended that all bank reconciliations are signed and dated on a monthly basis to denote approval. We noted that the finance director began initialing reconciliations as documentation of review in early 2010, however, other reconciliations that were viewed from later in 2010 bore no approval.

This matter has been addressed in 2011, as the Finance Director now reviews and signs off on all bank reconciliations.

**Timeliness of Expense Reimbursements**

We noted during our audit that an expense report submitted by the former Police Chief contained expenses from several months prior to the report date. We recommend that the township establish a policy for submitting expense reports in a timely manner (monthly or quarterly).

This comment has been addressed in 2011, as there has been a policy in place since 2007. The Finance Director has created awareness of the policy throughout the Township employees to follow in the future.

**Journal Entry Approval**

We noted that the journal entries posted by the finance staff or the Finance Director in 2010 did not indicate any review or approval from either the Finance Director or the Township Manager. We recommend that all significant non-recurring, non-standard and/or non-budgeted entries posted by the finance staff be approved by the Finance Director, and all entries posted by the Finance Director be approved by the Township Manager or a member of the Board of Commissioners. We also recommend that management create a policy that determines what defines a recurring entry and what is deemed a significant entry.

This comment has been addressed in 2011, as the Finance Director now reviews and approves all journal entries.

**Information Technology: Criminal Background and Credit Checks for Accounting, IT Staff and IT Consultants**

We noted that the Township does not always perform credit and criminal background checks upon hire, or with IT Consultants servicing the Township.

To further ensure the integrity of personnel accessing proprietary operational and financial systems and data, we recommend that the Township performs a background and credit check on all new employees, and that IT consultants should perform credit and criminal background checks on all of their personnel serving the Township. In addition, we recommend that credit and criminal background checks for both Township employees and IT consultants get refreshed on a regular periodic basis not to less frequently than once every three years.

This has been addressed in 2011, as all Township employees have completed a criminal background check. The township's legal counsel advised against obtaining credit checks.

**Information Technology: Intrusion Vulnerability Monitoring and Testing**

In the course of our audit, we were informed that the Township uses a CheckPoint firewall, which is monitored by Delaware County via a VPN connection. It was noted that firewall logs are reviewed on a bi-weekly basis and is configured to notify Steve of Medium and High Risk events. However, Radnor has not had a vulnerability assessment, penetration testing or a risk assessment performed within the last year.

We recommend that Radnor Township consider installing an intrusion detection system to assist in the detection of unauthorized attempts at accessing, manipulating or disabling the Organization's computer systems. In addition, we suggest that Radnor Township consider engaging a third party to perform periodic internal and external vulnerability assessments not less frequently than once every two years. We also recommend that the Township a formal policy surrounding Information Security Incident Response. The policy would include incident definition, handling procedures, logs, notification of appropriate personnel and post incident analysis.

The Township began testing in December 2011 and since then outsourced testing to a third party company.

**Information Technology: Physical Security of Servers**

The Township's network servers and telecommunications equipment are secured in a locked room with limited access to the room, uninterruptible power supply equipment, and a temperature sensor alert to notify IT personnel of adverse conditions.

To further safeguard the Township's information technology infrastructure, we recommend that the Township consider 1) adding portable fire extinguishers (inspected annually), 2) installing a smoke detector in the server room and 3) installing humidity and water sensors to provide real-time alerts to the Organization's IT personnel should abnormal conditions develop.

This comment has been addressed in 2011, as we noted a fire extinguisher in the server room, as well as a smoke detector. We also noted that the server room contains a humidity sensor that provides real time alerts to IT personnel should abnormal conditions develop.

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Radnor Township's written response to the material weaknesses, significant deficiencies and other control and operational matters identified in our audit has not been subjected to the audit procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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

**CliftonLarsonAllen LLP**

Plymouth Meeting, Pennsylvania  
May XX, 2012

**DRAFT**