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July 7, 2009

Board of Supervisors
Township of Salford
Salford, Pennsylvania

In planning and performing our audits of the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Township of Salford ("Township") as of and for the years ended December 31, 2008, 2007, and 2006, in accordance with auditing standards generally accepted in the United States of America, 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 opinions 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.

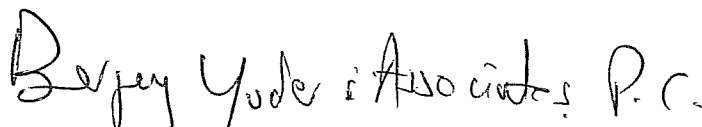
However, during our audits we became aware of certain matters that we feel should be considered in order to strengthen internal control, financial reporting, and/or operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. We understand that each of these suggestions or recommendations has cost-benefit considerations, and you may feel the benefit of a particular recommendation does not warrant the cost.

We understand that some of the accompanying recommendations are duplications of procedures which you have already implemented or are in the process of doing so, resulting in some overlap of our recommendations with your existing procedures or in-process changes.

This letter does not affect our reports dated July 7, 2009 on the financial statements of the Township of Salford.

We will be pleased to discuss these comments in further detail at your convenience, to perform any additional study of these matters, or to assist you with those recommendations you feel should be implemented.

Very truly yours,



BERGEY YODER & ASSOCIATES, P.C.
Certified Public Accountants

Member American Institute of Certified Public Accountants
Member Pennsylvania Institute of Certified Public Accountants

TOWNSHIP OF SALFORD
Points for Management Consideration
Noted During the Audits of the December 31, 2008, 2007 and 2006 Financial
Statements

- 1. Since the Department of Community and Economic Development (“DCED”) requires that state liquid fuels be treated and reported as a special revenue fund in the annual DCED report, consideration should be given to setting this up as a separate fund in the Township’s general ledger.**

Special revenue funds are used to account for the proceeds of revenue sources that are restricted for specified purposes, and the expenditures of those restricted funds. The state liquid fuels payments meet that criterion and are, accordingly, reported as a special revenue fund in the Township’s DCED report and its external financial statements. The general ledger, however, combines the liquid fuels activity with that of the general fund. In order to improve accountability over these funds, establishing a separate fund should be considered.

- 2. To minimize inter-fund accounting and recordkeeping, a separate checking account should be set-up in the Sewer Fund.**

Presently Sewer Fund charges are paid by the General Fund, which results in a journal entry setting up a receivable in the General Fund from the Sewer Fund, and a corresponding entry in the Sewer Fund to reflect the liability to the General Fund. When Sewer Fund loan proceeds are drawn, they are deposited in the General Fund to reimburse it for the payments made on the Sewer Fund’s behalf. This results in an entry in the General Fund to record the cash received from the loan proceeds and the reduction of the inter-fund receivable from the Sewer Fund. The Sewer Fund records an entry to reflect the liability to the bank for the additional loan proceeds and a reduction in its inter-fund liability to the General Fund.

A separate checking account in the Sewer Fund would eliminate the need for the inter-fund entries. The inter-fund accounting will become increasingly complex as construction activity and capital contributions from property owners increase and, eventually, customer billings commence.

- 3. Significant operational and accounting processes should be documented.**

Significant operational and accounting processes should be identified and documented in order to systematize procedures. Processes include activities and procedures involved in repeatable operational or accounting transactions or events, such as paying invoices, processing payroll, performing month-end reconciliations, preparing monthly reports, etc. Accounting processes are procedures to initiate, authorize, record, process, and report transactions.

Documenting a process involves identifying and gaining an understanding of the events or transactions that trigger performance of the process, the automated or manual procedures used in performing the process, those responsible for performing the procedures, the source documents used and/or generated, the procedures for approval and review and correction of any errors detected, and the financial or operational entries or reports summarizing the result of the process.

4. A comprehensive employee personnel manual should be developed.

A comprehensive and up-to-date personnel manual can help communicate Township policies; prevent possible confusion, inconsistent treatment, or misunderstandings among personnel; and provide a measure of liability protection in case of employee legal challenges of Township actions. The manual should include a disclaimer that it does not constitute a contract of employment or grant employees contractual rights.

Some of the topics that should be covered include:

- equal employment opportunity and antidiscrimination policies;
- holiday, vacation, disability and sick leave, personal time off, and other attendance and absences policies;
- employee classifications regarding salary and overtime;
- travel and expense reimbursement;
- employee benefits programs;
- employee conduct, including policies on outside employment, conflicts of interest, nepotism, appropriate use of Township assets, harassment, substance abuse, disciplinary actions, etc.
- procedures for making and resolving complaints and reporting harassment, suspected fraud, or violations of Township policies;
- policy on appropriate use, and Township monitoring of, computers, software, and internet resources;
- employment separation and termination procedures.

The handbook should be reviewed by legal counsel prior to being distributed to employees. As the final step, employees should be required to sign an acknowledgment that they have received and read the manual.

5. A formal code of conduct or conflicts-of-interest policy should be established.

A formal, written policy addressing potential conflicts-of-interest arising from possible unethical conduct or transactions and relationships should be developed. Some of the matters the policy should address include situations where one's personal interest could conflict with, or appear to conflict with, the interests of the Township; improper use of Township assets; and requiring any employee with knowledge of improper conduct to promptly report it to a specified person(s).

6. Each invoice should be stamped with spaces to show date received, initials of approving individual, check number, date paid, and account charged. Payments for non-invoice items should have a check request containing the same information as the invoice stamp.

Formalizing the approval process and documenting the date paid, check number and general ledger account charged helps establish responsibility, improves the audit trail between invoice receipt, payment and general ledger recording, and reduces the possibility of duplicate payments. A check request, containing the same information, should be used for non-invoice payments.

7. When used or available, supporting documents such as purchase orders and/or packing slips or receiving reports should be matched and attached to the related invoice.

Attaching supporting paperwork to the invoice provides documentation for a payment transaction in one easily accessible file, thereby improving document retrieval efficiency.

8. Paid invoices should be filed alphabetically by vendor instead of by month of payment.

Filing paid invoices alphabetically makes them easier to access than filing by month paid, particularly if there are multiple invoices of the same vendor being retrieved which were paid in different months. Vendors and payees with higher activity should have their own folders, and a "Miscellaneous" file should be set-up for each letter of the alphabet to be used for vendors and payees used only occasionally.

9. Current and complete personnel files should be maintained for all employees.

Personnel files should contain complete data for all employees in one location. Information in the files should include items such as a signed W-4 form, approved pay rate with history of changes, Form I-9 Employment Eligibility Verification, signed and dated employment application, insurance and other benefits election forms, applicable beneficiary designation forms, current address and telephone number, next of kin's or emergency contact's name, address, and current daytime telephone number, and employee evaluations.

10. After the bank reconciliations are performed using the accounting software (QuickBooks), they should be printed out and reviewed by an individual other than the preparer.

An appropriate person other than the preparer should be charged with the responsibility of formally reviewing and approving the bank reconciliations, with the reviewer signing or initialing the reconciliation to document the procedure was performed. The hard copy of the bank reconciliations and supporting documentation should be preserved. The review should include tests of the arithmetical accuracy of the reconciliation, determination that reconciling items are appropriate, and investigation of old and/or unusual reconciling items.

11. An imprest balance should be established for the payroll account as an aid in the reconciliation of the account and as part of the payroll approval process.

The payroll account should have a low or zero imprest balance, to which the account would be reconciled each month. Payroll transfers to the account should be the exact amount needed to pay the net payroll, taxes, and benefits. The signing of the transfer check should be considered a part of the payroll approval process, as by signing the transfer check the signers are warranting that they have reviewed and approved the underlying payroll.

12. Backup of computer files should be routinely performed, and the backup files stored off-site in a secure location.

Backup of all data files should be done frequently and regularly as part of the office routine. The various available backup methods should be analyzed to determine the process best suited for the Township's situation. Whichever method is selected, the backup files should be stored off-site in a secure location.

13. Consideration should be given to establishing a finance committee.

Some of the general duties of the finance committee could include:

- Review of interim financial statements and budget reports.
- Meet with the auditor prior to the commencement of the audit to provide an update on results of internal testing and procedures the committee performed or provided oversight for during the year, and discuss issues or concerns that the committee has regarding internal control or the financial reporting process as well as matters the auditor feels should be considered.
- Review the draft audited financial statements with the auditor prior to finalizing.

- At the conclusion of the audit, review and discuss auditor comments regarding internal control matters and financial reporting matters.
- Assist the Supervisors in determining whether corrective action should be taken on any internal control and financial reporting matters raised by the auditor and, if so, monitoring such corrective action.
- Be a resource available to the Supervisors to strengthen internal controls and provide offsetting controls in those areas where segregation of duties is desirable but not feasible due to the Township's limited number of employees.

14. Various testing procedures should be established to offset the concentration of duties in the Township's handling of cash transactions.

Concentration of duties in the cash and other financial areas is an unavoidable result of the Township having only a limited number of employees who can be used in the segregation of duties. To offset this concentration, certain testing procedures could be performed by the Supervisors, Finance Committee members, or appointed residents. These testing procedures could include steps such as the following:

- Periodically take samples of disbursements from the various funds and agree the information in the general ledger with that of the invoices or other supporting documentation and the related cancelled check, endorsement and bank statement entries.
- Review bank reconciliations to determine balances agree to the general ledger, reconciling items appear reasonable, and old outstanding checks are followed-up.
- Review budget reports and on a periodic basis, such as quarterly, formally document explanations for significant variances or, in some cases, lack thereof. This should be performed for both revenues and expenditures.
- Disbursement journals could be periodically reviewed for unfamiliar vendors or payees, which should be followed-up to determine that payments are for bona fide purposes.
- Endorsements on cancelled checks or bank facsimiles should be reviewed on a test basis for any unusual endorsements.
- Reports from outside parties such as Berkheimer Associates or Comcast should be reconciled to amounts recorded in the general ledger.
- A sample selection of remittances as reported on the monthly tax collector's reports should be traced to the bank deposit and bank statement and to appropriate posting in the general ledger.

The above is a listing of possible procedures which could be used; it is by no means all inclusive.

- 15. The schedule of property, plant and equipment presently maintained for financial statement reporting should be expanded to incorporate information for insurance purposes.**

Property, plant and equipment items are presently being tracked for financial statement reporting purposes, and therefore only include items which exceed the financial reporting capitalization thresholds. Accordingly, items such as a computer or road department tools could be purchased which are under the threshold, and therefore are not recorded in the financial reporting property records, but are nevertheless insurable. A set of property records for insurance purposes should be established which would be more comprehensive than that used for financial reporting.

- 16. The tax collector's monthly reports should be reviewed, approved and reconciled to the general ledger by each type of tax. Interim assessment changes from the County should be reconciled with the collector's interim billing activity.**

The monthly tax collector's reports should be reconciled to the general ledger each month to ensure that the type of tax (current real estate, interim, per capita) per the report has been recorded in the correct general ledger accounts. Uncollected real estate taxes reflected in the year-end report should be agreed to tax lien sheets signed by the appropriate County official. Also, interim assessments received from the County should be reconciled with the collector's interim billing activity.

- 17. Consideration should be given to reconciling zoning permits issued with revenue received.**

The feasibility of developing a method to reconcile approved permits with revenue received should be considered. The process should start from the point an application is received through the issuance of the permit and collection of the fee.

- 18. All payees should be reviewed to determine which should be sent a Form 1099 at the end of the year. A clear understanding should be established with such payees that a Form 1099 will be issued and a copy filed with the Internal Revenue Service.**

It is common for 1099 reporting requirements to be inadvertently overlooked. All existing payees should be reviewed to determine which meet the criteria of receiving a Form 1099, and their files updated as necessary for the information necessary to prepare the form, such as correct name and address and tax identification number. Prior to being accepted as a Township business relationship, each new vendor or other payee should complete a form identifying the type of business entity they are along with name, address and tax identification number.