

**UPPER UWCHLAN TOWNSHIP**

**ANNUAL AUDIT**

**AND**

**FINANCIAL REPORT**

**DECEMBER 31, 2009**



# Annual Audit and Financial Report

City of: \_\_\_\_\_, \_\_\_\_\_ County

Borough of: \_\_\_\_\_, \_\_\_\_\_ County

Township of: Upper Uwchlan, Chester County

Municipality of: \_\_\_\_\_, \_\_\_\_\_ County

for the year 2009\_\_

**Return to:**  
PA Department of Community and Economic Development  
Governor's Center for Local Government Services  
Commonwealth Keystone Building  
400 North Street, 4th Floor  
Harrisburg, Pennsylvania 17120-0225

Commonwealth of Pennsylvania  
Edward G. Rendell, Governor  
[www.state.pa.us](http://www.state.pa.us)

PA Department of Community and Economic Development  
Dennis Yablonsky, Secretary  
[www.newPA.com](http://www.newPA.com)

**pennsylvania**  
GOVERNOR'S CENTER FOR  
LOCAL GOVERNMENT SERVICES



INDEPENDENT AUDITORS' REPORT

200 Springer Building  
3411 Silverside Road  
Wilmington, Delaware 19810  
302.478.8940

FAX: 302.477.1607  
www.btcpa.com

April 29, 2010

To the Board of Supervisors  
Upper Uwchlan Township  
Chester Springs, Pennsylvania

We have audited the accompanying annual audit and financial report of Upper Uwchlan Township, Downingtown, Pennsylvania as of December 31, 2009 and for the year then ended. This financial report is the responsibility of the Township's management. Our responsibility is to express an opinion on this financial report based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The annual audit and financial report was prepared in conformity with the accounting practices prescribed or permitted by the Department of Community and Economic Development (DCED) of the Commonwealth of Pennsylvania, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

Upper Uwchlan Township, Chester Springs, Pennsylvania prepares its annual audit and financial report on the modified accrual basis of accounting. Under this basis, revenues primarily are recorded when measurable and available. Expenditures are recorded when the liability is incurred. Additionally, in accordance with the prescribed accounting practices permitted by DCED, the Township does not include footnote disclosures.

This audited financial report does not include the financial activities of the Non-Uniformed Pension Fund and Police Pension Fund. The effect on this financial report cannot be determined.

In our opinion, except for the effects of not including all required funds as indicated above, the annual audit and financial report referred to in the first paragraph presents fairly, in all material respects, the financial position of each of the various funds of Upper Uwchlan Township, Chester Springs, Pennsylvania as of December 31, 2009 and the results of its operations for the year then ended, on the basis of accounting described above.

This report is intended solely for the information and use of the governing body and management of Upper Uwchlan Township, Chester Springs, Pennsylvania; for the use of lending institutions; and for filing with the Department of Community and Economic Development and the County Courthouse; and is not intended to be and should not be used by anyone other than these specified parties.

*Barbacane, Thornton & Company*  
BARBACANE, THORNTON & COMPANY

BARBACANE  
THORNTON  
& COMPANY  
CERTIFIED PUBLIC ACCOUNTANTS

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Assets and Other Debits		Proprietary Funds		Fiduciary Fund	Account Groups		Total
		Enterprise	Internal Service	Trust & Agency	General Fixed Assets	General Long Term Debt	Memorandum Only
100-120	Cash and Investments						2,471,101
140-144	Tax Receivable						46,020
121-129	Accounts Receivable (excluding taxes)						217,565
145-149							
130	Due From Other Funds						-
131-139	Other Current Assets						346,284
150-159							
160-169	Fixed Assets						-
180-189	Other Debits					573,532	573,532
<b>Total Assets and Other Debits</b>		\$ -	\$ -	\$ -	\$ -	\$ 573,532	\$ 3,654,502

Liabilities and Other Credits		Proprietary Funds		Fiduciary Fund	Account Groups		Total
		Enterprise	Internal Service	Trust & Agency	General Fixed Assets	General Long Term Debt	Memorandum Only
210-229	Payroll Taxes and Other Payroll Withholdings						27,908
200-209	All Other Current Liabilities						231,014
231-239							
230	Due To Other Funds						-
260-269	Long-Term-Liabilities					573,532	573,532
240-259	Current Portion of Long-Term Debt & Other Credits						-
<b>Total Liabilities and Other Credits</b>		\$ -	\$ -	\$ -	\$ -	\$ 573,532	\$ 832,454

Fund and Account Group Equity		Proprietary Funds		Fiduciary Fund	Account Groups		Total
		Enterprise	Internal Service	Trust & Agency	General Fixed Assets	General Long Term Debt	Memorandum Only
281-284	Contributed Capital						-
290	Investment in General Fixed Assets						-
270-289	Fund Balance / Retained Earnings on 12/31						2,822,048
291-299	Other Equity						-
<b>Total Fund and Account Group Equity</b>		\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,822,048

<b>TOTAL LIABILITIES AND FUND AND ACCOUNT GROUP EQUITY</b>	<b>\$ 3,654,502</b>
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2009 MUNICIPAL ANNUAL AUDIT AND FINANCIAL REPORT | STATEMENT OF REVENUES AND EXPENDITURES

REVENUES		PROPRIETARY FUNDS		FIDUCIARY FUND	TOTAL
Taxes		Enterprise	Internal Service	Trust and Agency	Memorandum Only
301.00	Real Estate Taxes				1,043,050
305.00	Occupation Taxes (levied under municipal code)				-
308.00	Residence Taxes (levied by cities of the 3rd class)				-
309.00	Regional Asset District Sales Tax (Allegheny County municipalities only)				-
310.00	Per Capita Taxes				-
310.10	Real Estate Transfer Taxes				440,774
310.20	Earned Income Taxes/Wage Taxes				2,304,782
310.30	Business Gross Receipts Taxes				-
310.40	Occupation Taxes (levied under Act 511)				-
310.50	Local Services Tax**				-
310.60	Amusement/Admission Taxes				-
310.70	Mechanical Device Taxes				-
310.90	Other Local Tax Enabling Act/Act511/Taxes (Please List)				-
<b>Total Taxes</b>		\$ -	\$ -	\$ -	\$ 3,788,606

Licenses and Permits					
320-322	All Other Licenses and Permits				123,528
321.80	Cable Television Franchise Fees				199,276
<b>Total Licenses &amp; Permits</b>		\$ -	\$ -	\$ -	\$ 322,804

Fines & Forfeits					
330-332	Fines and Forfeits				79,714
<b>Total Fines &amp; Forfeits</b>		\$ -	\$ -	\$ -	\$ 79,714

Interest, Rents & Royalties					
341.00	Interest Earnings				19,274
342.00	Rents and Royalties				5,518
<b>Total Interest, Rents &amp; Royalties</b>		\$ -	\$ -	\$ -	\$ 24,792

\*\* This tax was known as the Occupational Privilege Tax (OPT) prior to 2005 and the Emergency and Municipal Services Tax prior to 2008.

DCED-CLGS-30 (9-09)  
 2009 MUNICIPAL ANNUAL AUDIT AND FINANCIAL REPORT | STATEMENT OF REVENUES AND EXPENDITURES

INTERGOVERNMENTAL REVENUES		PROPRIETARY FUNDS		FIDUCIARY FUND	TOTAL
Federal		Enterprise	Internal Service	Trust and Agency	Memorandum Only
351.03	Highways and Streets				-
351.09	Community Development				-
351.00	All Other Federal Capital and Operating Grants				-
352.01	National Forest				-
352.00	All Other Federal Shared Revenue & Entitlements				-
353.00	Federal Payments in Lieu of Taxes				-
<b>Total Federal</b>		\$ -	\$ -	\$ -	\$ -

State					
354.03	Highway and Streets				-
354.09	Community Development				-
354.15	Recycling/Act 101				-
354.00	All Other State Capital and Operating Grants				60,150
355.01	Public Utility Realty Tax (PURTA)				5,283
355.02-355.03	Motor Vehicle Fuel Tax (Liquid Fuels Tax) and State Road Turnback				199,209
355.04	Alcoholic Beverage Licenses				200
355.05	General Municipal Pension System State Aid				103,224
355.00	All Other State Shared Revenues & Entitlements				85,450
356.00	State Payments in Lieu of Taxes				-
<b>Total State</b>		\$ -	\$ -	\$ -	\$ 453,516

Local Governmental Units					
357.03	Highways and Streets				-
357.00	All Other Local Governmental Units Capital and Operating Grants				-
358.00	Local Governmental Unit Shared Payments for Contracted Intergovernmental Services				-
359.00	Local Governmental Units, Authorities Payments and Payments in Lieu of Taxes				-
<b>Total Local Government Units</b>		\$ -	\$ -	\$ -	\$ -

<b>TOTAL INTERGOVERNMENTAL REVENUES</b>	\$ 453,516
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REVENUES		PROPRIETARY FUNDS		FIDUCIARY FUND	TOTAL
		Enterprise	Internal Service	Trust and Agency	Memorandum Only
<b>Charges For Service</b>					
361.00	General Government				644,820
362.00	Public Safety				2,192
363.20	Parking				-
363.00	All Other Charges for Highway & Streets Services				-
364.10	Wastewater/Sewage Charges				-
364.30	Solid Waste Collection & Disposal Charge (trash)				1,002,101
364.60	Host Municipality Benefit Fee for Solid Waste Facility				-
364.00	All Other Charges for Sanitation Services				-
365.00	Health				-
366.00	Human Services				-
367.00	Culture and Recreation				14,345
368.00	Airports				-
369.00	Bars				-
370.00	Cemeteries				-
372.00	Electric System				-
373.00	Gas System				-
374.00	Housing System				-
375.00	Markets				-
377.00	Transit Systems				-
378.00	Water System				-
379.00	All Other Charges for Service				-
<b>Total Charges for Service</b>		\$ -	\$ -	\$ -	\$ 1,663,458

Unclassified Operating Revenues					
383.00	Assessments				-
386.00	Escheats (sale of personal property)				-
367.00	Contributions & Donations from Private Sectors				101,915
388.00	Fiduciary Fund Pension Contributions				-
389.00	All Other Unclassified Operating Revenues***				1,823
<b>Total Unclassified Operating Revenues</b>		\$ -	\$ -	\$ -	\$ 103,738

Other Financing Sources					
391.00	Proceeds of General Fixed Asset Disposition				-
392.00	Interfund Operating Transfers**				-
393.00	Proceeds of General Long-Term Debt				-
394.00	Proceeds of Short-Term Debt				-
395.00	Refunds of Prior Year Expenditures				10,764
<b>Total Other Financing Sources</b>		\$ -	\$ -	\$ -	\$ 10,764

<b>TOTAL REVENUES</b>	\$ -	\$ -	\$ -	\$ -	\$ 6,447,392
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\*\*The total of line 392.00 must match the total of line 492.00

\*\*\* This amount cannot be greater the 1% of the total revenue within the same fund

EXPENDITURES		PROPRIETARY FUNDS		FIDUCIARY FUND	TOTAL
General Government		Enterprise	Internal Service	Trust and Agency	Memorandum Only
400.00	Legislative (Governing) Body				73,538
401.00	Executive (Manager or Mayor)				445,804
402.00	Auditing Services/Financial Administration				7,150
403.00	Tax Collection				86,584
404.00	Solicitor/Legal Services				38,827
405.00	Secretary/Clerk				-
406.00	Other General Government Administration				-
407.00	IT-Networking Services-Data Processing				31,714
408.00	Engineering Services				712,966
409.00	General Government Buildings and Plant				80,903
<b>Total General Government</b>		\$ -	\$ -	\$ -	\$ 1,477,466

Public Safety					
410.00	Police				1,560,822
411.00	Fire				293,211
412.00	Ambulance/Rescue				29,715
413.00	UCC and Code Enforcement				307,040
414.00	Planning and Zoning				1,463
415.00	Emergency Management & Communications				2,419
416.00	Militia and Armories				-
417.00	Examination of Licensed Occupations				-
418.00	Public Scales (weights and measures)				-
419.00	Other Public Safety				5,280
<b>Total Public Safety</b>		\$ -	\$ -	\$ -	\$ 2,199,950

Health and Human Services					
420.00-425.00	Health and Human Services				-

Public Works - Sanitation					
426.00	Recycling Collection and Disposal				-
427.00	Solid Waste Collection and Disposal (trash)				854,405
428.00	Weed Control				-
429.00	Wastewater/Sewage Collection & Treatment				-
<b>Total Public Works - Sanitation</b>		\$ -	\$ -	\$ -	\$ 854,405

EXPENDITURES		PROPRIETARY FUNDS		FIDUCIARY FUND	TOTAL
		<i>Enterprise</i>	<i>Internal Service</i>	<i>Trust and Agency</i>	<i>Memorandum Only</i>
<b>Public Works - Highways &amp; Streets</b>					
430.00	General Services - Administration				812,725
431.00	Cleaning of Streets and Gutters				-
432.00	Winter Maintenance - Snow Removal				102,951
433.00	Traffic Control Devices				4,289
434.00	Street Lighting				40,519
435.00	Sidewalks and Crosswalks				-
436.00	Storm Sewers and Drains				-
437.00	Repairs of Tools and Machinery				-
438.00	Maintenance & Repairs of Roads & Bridges				196,603
439.00	Highway Construction and Rebuilding Projects				75,178
<b>Total Public Works - Highways &amp; Streets</b>		<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 1,232,265</b>

<b>Public Works - Other Services</b>					
440.00	Airports				-
441.00	Cemeteries				-
442.00	Electric System				-
443.00	Gas System				-
444.00	Markets				-
445.00	Parking				-
446.00	Storm Water and Flood Control				-
447.00	Transit System				-
448.00	Water System				-
449.00	Water Transport and Terminals				-
<b>Total Public Works - Other Services</b>		<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

<b>Culture and Recreation</b>					
451.00	Culture-Recreation Administration				-
452.00	Participant Recreation				-
453.00	Spectator Recreation				-
454.00	Parks				278,561
455.00	Shade Trees				-
456.00	Libraries				3,000
457.00	Civil and Military Celebrations				-
458.00	Senior Citizens' Centers				-
459.00	All Other Culture and Recreation				4,880
<b>Total Culture and Recreation</b>		<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 286,441</b>

<b>Community Development</b>					
461.00	Conservation of Natural Resources				150,000
462.00	Community Development and Housing				-
463.00	Economic Development				-
464.00	Economic Opportunity				-
465.00-					
469.00	All Other Community Development				1,474
<b>Total Community Development</b>		<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 151,474</b>

EXPENDITURES		PROPRIETARY FUNDS		FIDUCIARY FUND	TOTAL
		Enterprise	Internal Service	Trust and Agency	Memorandum Only
<b>Debt Service</b>					
471.00	Debt Principal (short-term and long-term)				5,416
472.00	Debt Interest (short-term and long-term)				21,331
475.00	Fiscal Agent Fees				-
<b>Total Debt Service</b>		\$ -	\$ -	\$ -	\$ 26,747

Employer Paid Benefits & Withholding Items					
481.00	Employer Paid Withholding Taxes and Unemployment Compensation				-
482.00	Judgments and Losses				-
483.00	Pension/Retirement Fund Contributions				85,450
484.00	Worker Compensation Insurance				12,000
487.00	Group Insurance and Other Benefits				-
<b>Total Miscellaneous Expenditures</b>		\$ -	\$ -	\$ -	\$ 97,450

Insurance					
486.00	Insurance, Casualty, and Surety				3,597

Unclassified Operating Expenditures					
488.00	Fiduciary Fund Benefits and Refunds Paid				-
489.00	All Other Unclassified Expenditures***				5,886
<b>Total Unclassified Operating Expenditures</b>		\$ -	\$ -	\$ -	\$ 5,886

Other Financing Uses					
491.00	Refund of Prior Year Revenues				-
492.00	Interfund Operating Transfers**				-
493.00	All Other Financing Uses				-
<b>Total Other Financing Uses</b>		\$ -	\$ -	\$ -	\$ -

<b>TOTAL EXPENDITURES</b>	\$ -	\$ -	\$ -	\$ -	\$ 6,335,681
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<b>EXCESS / (DEFICIT) OF REVENUES OVER (UNDER) EXPENDITURES</b>	\$ -	\$ -	\$ -	\$ -	\$ 111,711
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\*\* The total of line 492.00 must match the total of line 392.00

\*\*\* This amount cannot be greater than 1% of the total expenditures within the same fund



200 Springer Building  
3411 Silverside Road  
Wilmington, Delaware 19810  
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April 29, 2010

To the Board of Supervisors  
Upper Uwchlan Township  
Chester Springs, Pennsylvania

We have audited the Annual Audit and Financial Report (financial statements) of Upper Uwchlan Township for the year ended December 31, 2009 and have issued our report thereon dated April 29, 2010. In our report, our opinion was qualified due to the omission of the Non-Uniformed Pension Fund and Police Pension Fund. Professional standards require that we provide you with the following information related to our audit.

**Our Responsibility under Auditing Standards Generally Accepted in the United States of America**

As stated in our engagement letter dated January 14, 2010, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with the accounting practices prescribed or permitted by the Department of Community and Economic Development (DCED) of the Commonwealth of Pennsylvania which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of Upper Uwchlan Township. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

**Planned Scope and Timing of the Audit**

We performed the audit according to the planned scope and timing previously communicated to you in our planning memo dated January 14, 2010.

**Significant Audit Findings**

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. No new accounting policies were adopted and the application of existing policies was not changed during 2009. We noted no transactions entered into by Upper Uwchlan Township during the year for which there is a lack of authoritative guidance or consensus.

**BARBACANE  
THORNTON  
& COMPANY**  
CERTIFIED PUBLIC ACCOUNTANTS

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. There were no significant accounting estimates found for the year ended December 31, 2009.

#### Difficulties Encountered In Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

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#### Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. The audit adjustments in the attached schedule indicate matters that, in our judgment, could have a significant effect on the Township's financial reporting process. These adjustments were recorded by management and are reflected in the financial statements.

#### Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' 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 April 29, 2010.

#### 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 the Township's financial statements or a determination of the type of auditors' 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 the 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.

To the Board of Supervisors  
Upper Uwchlan Township  
page 3

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

Very truly yours,

*Barbacane, Thornton & Company*  
BARBACANE, THORNTON & COMPANY

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April 29, 2010

To the Board of Supervisors  
Upper Uwchlan Township  
Chester Springs, Pennsylvania

In planning and performing our audit of the Annual Audit and Financial Report (financial statements) of Upper Uwchlan Township for the year ended December 31, 2009, in accordance with auditing standards generally accepted in the United States of America, we considered Upper Uwchlan 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.

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. However, as discussed below, we identified certain deficiencies in internal control 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 Township's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies in the Township's internal control described below as items #09-1, #09-2, #09-4, #09-5, and #09-7 constitute material weaknesses.

A significant deficiency is a deficiency, or a combination of control 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 deficiencies described below as items #09-1, #09-2, #09-3, #09-4, #09-5, #09-6, #09-7, and #09-8 to be significant deficiencies in the Township's internal control.

## CURRENT YEAR FINDINGS AND RECOMMENDATIONS

### JOURNAL ENTRY CONTROLS

#### 09-1 Finding

According to the Statement on Auditing Standards No. 115 requirement, "Communicating Internal Control-Related Matters Identified in an Audit," a control deficiency exists when the auditor identifies a material misstatement in the financial statements that was not initially identified by the Township's internal control.

We noted that the journal entries that we proposed and management posted are material in the aggregate and represent a material misstatement in the financial statements for the period under audit that was not identified by the Township's internal control.

During our audit, we noted there were several journal entries that were inaccurate and/or lacked supporting documentation.

Recommendation

We recommend that the Township implement procedures requiring journal entries to be reviewed as part of the monthly reconciliation of transaction activity by management. This will help to identify problems or errors as they occur, reducing the amount of time and effort required to research issues at year end.

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BANK RECONCILIATION PROCEDURES

09-2 Finding

During our current year audit, we noted four instances in which the reconciled book balance did not agree to the general ledger balance. During our review of the general ledger and bank reconciliations, we noted transactions which were recorded in the general ledger as of December 31, 2009 that did not appear on the reconciliation as cleared or outstanding transactions. Upon further investigation, we noted these transactions occurred in January and February 2010 but were backdated to December 2009 because they were for costs incurred and services provided during 2009. We further noted that the bank reconciliations are prepared by an employee responsible for entries in the receipts and disbursements records and the reconciliations are not reviewed by another employee of the Township.

Recommendation

We recommend the employee preparing the bank reconciliations should not have related cash receipts or disbursements duties if bank reconciliations are to serve as an effective control over cash accounts. We further recommend that the bank reconciliations be reviewed for accuracy and completeness on a timely basis by someone who has the necessary skills to perform oversight to the accounting function of the Township.

INVESTIGATE OLD OUTSTANDING CHECKS

09-3 Finding

During our audit, we noted several old outstanding checks and other uncleared reconciling items, dating back to May 31, 2006, are being carried on monthly bank reconciliations. This causes additional time to be spent by personnel to reconcile the bank accounts each month and results in inaccurate cash balances reported in the financial statements. We further noted that the Township does not have a formal, clearly defined policy for disposition of uncashed checks.

Recommendation

We recommend that management establish a formal, written policy concerning uncashed checks based on current State escheat laws. Such a policy should specify aging milestones with required actions.

IMPROVE CONTROLS OVER NONROUTINE TRANSACTIONS

**09-4 Finding**

During our current year audit, we noted that the Township does not have adequate controls over the initiating, authorizing, recording and processing of non-routine journal entries in the general ledger. There was no schedule of non-routine journal entries that should be recorded and many of the entries recorded lacked sufficient supporting documentation. This lack of controls over non-routine transactions resulted in transactions incorrectly recorded throughout the year.

Recommendation

We recommend the Township establish policies and procedures to ensure that all non-routine transactions are properly recorded, reviewed and reported in its monthly financial statements. Furthermore, we recommend that the Township avoid posting general journal entries to cash.

IMPROVE SEGREGATION OF DUTIES OF CASH RECEIPTS FUNCTION

**09-5 Finding**

During our current year audit, we noted that a single employee was responsible for preparing the deposit slip, posting payments to the general ledger and preparing the monthly bank reconciliations. Allowing these functions to be controlled by the same person increases the risk that errors or misappropriation could occur and go undetected.

Recommendation

Internal controls are designed to safeguard assets and help or detect losses from error or misappropriation. A fundamental concept in a strong system of internal control is the segregation of duties. Although the size of the Township's accounting staff prohibits complete adherence to this concept, we believe that the following practices could be implemented to improve existing internal control without impairing efficiency:

- Mail should be opened by an employee not responsible for accounting, such as the receptionist. Cash receipts could be recorded and the deposit slip prepared by this person. The cash receipts journal, supplemented by remittances, could be forwarded to the accounting staff for postings to the general ledger and detail customer accounts.
- Cash receipts should be deposited intact daily. Holding receipts for a weekly deposit exposes the Township to loss.
- Bank statements, canceled checks and appropriate advices should be received by someone other than employees maintaining cash records. Such items could be periodically reviewed prior to turning them over for reconciliation. Unusual items noted during the review should be investigated promptly.

**LIQUID FUEL REPORTING**

**09-6 Finding**

During our current year audit, we noted that the Township has not been properly reporting expenditures on the liquid fuels report. This process can lead to inaccurate liquid fuel reporting. Furthermore, Department of Transportation Regulation 449.12 requires the timely filing of particular documents and information, including a report indicating the manner in which Liquid Fuels Tax Funds were expended in the preceding year, by January 31. During our current year audit, we noted that the Township did not file in accordance with Department of Transportation Regulation 449.12.

**Recommendation**

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We recommend that the Township review liquid fuels account activity to ensure all checks issued during the year are properly reported on the liquid fuels report. Additionally, we recommend that the Township comply with Department of Transportation Regulation 449.12 and file the required documents and information as outlined above.

**TAX COLLECTOR REPORTING**

**7-7 Finding**

During our current year audit, we noted that the Tax Collector is not submitting monthly financial reports to the Township. All reports must be made on the form approved by the Department of Community and Economic Development (DCED), which includes a reconciled Tax Collector's report. The reconciled report must include each type of tax collected for the Township, reconciled from the tax duplicate to the amount of taxes remaining to be collected. It also must include the amount of real estate taxes collected at discount, face and penalty.

**Recommendation**

We recommend that the Township require the Tax Collector to use the form approved by the DCED and to submit this form to the Township on a monthly basis.

**CAPITAL LEASE**

**09-8 Finding**

During our current year audit, we noted that the Township did not properly record capital leases it entered into in prior years.

**Recommendation**

We recommend that the Township record another source of funds and an expenditure for the net present value of all lease payments.

To the Board of Supervisors  
Upper Uwchlan Township  
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The preceding comments and recommendations are intended solely for the information and use of the Board of Supervisors, management and others within the Township, and should not be used by anyone other than these specified parties.

*Barbacane, Thornton & Company*  
BARBACANE, THORNTON & COMPANY

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April 29, 2010

Board of Supervisors  
Upper Uwchlan Township  
Chester Springs, Pennsylvania

In planning and performing our audit of the basic financial statements of Upper Uwchlan Township for the year ended December 31, 2009, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on internal control. However, we noted certain matters that provide opportunities for strengthening internal controls and operating efficiencies.

This letter does not affect our report dated April 29, 2010 on the basic financial statements of Upper Uwchlan Township, Chester Springs, Pennsylvania. Our comments are summarized as follows:

#### CURRENT YEAR RECOMMENDATIONS

##### ACCOUNTING POLICIES MANUAL

During our current year audit, we noted that the Township does not have an 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 also can 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.

We recommended that the Township develop an accounting policies manual that is accessible to everyone in the accounting office.

##### FRAUD RISK ASSESSMENT

In light of the spate of notorious frauds involving large organizations in the last decade, there may be a misperception that fraud affects only large organizations. However, fraud occurs in organizations of all sizes, and almost any employee may be capable of perpetrating a fraudulent act given the right set of circumstances. In fact, fraud may be a more significant problem for small organizations.

We noted during our audit that the Township has recognized the importance of oversight and has hired a part-time individual to assist in risk assessment and monitoring of certain activities. However, we further noted that there is no clear documentation of the responsibilities of this position and the relationship between other employees and the Board of Supervisors.

For small organizations, one of the primary fraud risks is the ever-present risk of misappropriation of assets (theft), particularly fraudulent cash disbursements. The opportunity to commit and conceal fraud exists where there are assets susceptible to misappropriation and inadequate controls to prevent or detect the fraud.

We recommend that the Township perform a risk assessment to identify, analyze and manage the risk of asset misappropriation. Risk assessment, including fraud risk assessment, is one element of internal control. Thus, ideally, the Township's internal control should include performance of this assessment, even though our annual financial statement audits include consideration of fraud.

The fraud risk assessment can be informal and performed by a management-level individual who has extensive knowledge of the Township that might be used in the assessment. Ordinarily, the management-level individual would conduct interviews or lead group discussions with personnel who have extensive knowledge of the Township, its environment (including industry and country-specific characteristics) and its processes. The fraud risk assessment process should consider the Township's vulnerability to misappropriation of assets. When conducting the self-assessment, questions such as the following can be considered:

- *What Individuals in the Township Have the Opportunity to Misappropriate Assets?* These are individuals who have access to assets susceptible to theft and to records that can be falsified or manipulated to conceal the theft.
- *Are There Any Known Pressures That Would Motivate Employees with the Opportunity to Misappropriate Assets?* Pressures may relate to financial stress or dissatisfaction. In assessing whether these pressures may exist, the assessor should consider whether there is any information that indicates potential financial stress or dissatisfaction of employees with access to assets susceptible to misappropriation.
- *What Assets of the Township Are Susceptible to Misappropriation?*
- *Are There Any Known Internal Control Weaknesses That Would Allow Misappropriation of Assets to Occur and Remain Undetected?*
- *How Could Assets Be Stolen?* Assets can be stolen in many ways besides merely removing them from the premises. For example, cash can be stolen by writing checks to fictitious employees or vendors and cashing them for personal use. Inventory or other assets can be stolen through sales to fictitious customers. Assets also can be stolen by unauthorized trading in securities.
- *How Could Potential Misappropriation of Assets Be Concealed?* Because many frauds create accounting anomalies, the perpetrator must hide the fraud by running through an adjustment to another account. Generally, fraud perpetrators may use accounts that are not closely monitored (for example, fixed assets, inventory and consulting expenses).
- *What Factors Might Indicate That the Township Has a Culture or Environment That Would Enable Management or Employees to Rationalize Committing Fraud?*

### CODE OF CONDUCT/CONFLICT-OF-INTEREST POLICY

During our current year audit, we noted that the Township does not have a written code of conduct or conflict-of-interest policy.

We recommend that it is in management's best interests to establish a formal, written policy and procedures covering unethical conduct or transactions and relationships that may involve potential conflicts of interest. Among other matters, the policy should provide the following:

- Employees should avoid situations in which their personal interests could conflict with the interests of the Township.
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- The use of Township assets for any unlawful or improper purpose is strictly prohibited.
  - No undisclosed or unrecorded asset is to be established for any purpose.
  - No false entries are to be made in the books for any reason and no employees shall engage in any arrangement that results in such prohibited act.
  - No payments are to be approved or made with the intention that any part is to be used for any purpose other than that described in the supporting documents.
  - Any employee who knows of any unrecorded assets or any prohibited act must promptly report it to specified management or the Board of Supervisors.
  - Each administrator is responsible for enforcing the policy.

### ESTABLISH A WHISTLEBLOWER POLICY

During our current year audit, we noted that the Township does not have a written whistleblower policy.

The existence of a whistleblower policy would serve as a deterrent to misconduct by creating among employees a perception that fraud would be detected and reported. It also would demonstrate the Foundation's serious intent to prevent and detect fraud. In addition, a whistleblower policy could be used to report incidents of harassment, unsafe working conditions, violence or violations of laws and regulations. This would allow the Township to address such situations in a timely manner and could help to prevent or minimize fines, lawsuits or legal liability by demonstrating that the Township has procedures for receiving and addressing complaints.

### DEVELOP AN ORGANIZATIONAL CHART

During our current year audit, we noted the Township does not have an organizational chart. Without an organizational chart, there may be confusion about who is really accountable for particular areas and to whom employees are responsible. The result could be that some areas of operations do not receive

adequate attention or that duplicative or contradictory actions are taken. A good organization chart can prevent such misunderstandings and also increase administrative efficiency and control in the following ways:

- Indicate whether there is appropriate allocation of operating and supervisory responsibility.
- Indicate whether there is adequate segregation of duties.
- Inform management, new employees and others of the Township's management and operating style.
- Provide information for management to monitor and inquire into operations and procedures, assign new duties or responsibilities that may arise, or make reassignments when employee turnover, promotion, operation needs, desire for better segregation of duties or other circumstances call for it.

We recommend that management prepare and maintain an organization chart in sufficient detail to indicate the Township's major areas of operations, the person responsible for each area and who each supervisor reports to as well as which employees report to each supervisor. The chart should be updated whenever there is significant employee turnover or change in operations.

#### REORGANIZE CHART OF ACCOUNTS

During our current year audit, we noted the Township's chart of accounts is not consistent with the Chart of Accounts for Pennsylvania Municipalities issued by the Department of Community and Economic Development. We believe the Township would benefit from a revised chart of accounts, especially in preparing monthly and year end financial statements.

We recommend the Township consider reorganizing its current chart of accounts to be consistent with the Chart of Accounts for Pennsylvania Municipalities issued by the Department of Community and Economic Development.

#### PERSONNEL FILES

During our current year audit, we observed three instances where personnel files were missing I-9 forms. The Township should maintain complete and current personnel files for all employees.

We recommend that the following items be maintained in the employee personnel files.

- Signed and dated application of employment.
- Form I-9 Employment Eligibility Verification.
- Date of hire.
- Approved pay rate (updated as changes occur).
- Signed W-4 form.
- Emergency contact's name, address and current daytime phone number.
- Employee evaluations.

To the Board of Supervisors  
Upper Uwchlan Township  
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**CASH DEPOSITS**

During our current audit, we noted that the Township held the majority of its deposits with a single banking institution.

We recommend that the Township diversify their cash holdings to mitigate the risk of loss in the event of the failure of the banking institution.

The preceding comments and recommendations are intended solely for the information and use of the Board of Supervisors, management and others within the Township, and should not be used by anyone other than these specified parties.

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*Barbacane, Thornton & Company*  
BARBACANE, THORNTON & COMPANY