

THE BOROUGH OF EDDYSTONE

REPORT TO BOROUGH COUNCIL

May 2020

MINGIS, GUTOWSKI & COMPANY, LLP
Certified Public Accountants
Media, Pennsylvania 19063

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May 29, 2020

To the Members of Council
Borough of Eddystone
12th & Saville Avenue
Eddystone, PA 19022

We are pleased to present this report related to our audit of the Municipal Annual Audit and Financial Report (DCED-CLGS-30) of the Borough of Eddystone for the year ended December 31, 2019. This report summarizes certain matters required by professional standards to be communicated to you in your oversight responsibility for the Borough's financial reporting process.

This report is intended solely for the information and use of the Members of Council and management of the Borough of Eddystone and is not intended to be and should not be used by anyone other than these specified parties. It will be our pleasure to respond to any questions you have regarding this report. We appreciate the opportunity to be of service to the Borough of Eddystone.

Very truly yours,

Mingis, Gutowski & Company, LLP

copy Dawn Jones, Borough Manager

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May 29, 2020

Members of Council
Borough of Eddystone
Eddystone, Pennsylvania

We have audited the Municipal Annual Audit and Financial Report of the Borough of Eddystone (the Borough) for the year ended December 31, 2019. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated April 8, 2020. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. No new accounting policies were adopted, and the application of existing policies was not changed during 2019. We noted no transactions entered by the Borough during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Difficulties Encountered in Performing the Audit

It is our understanding that on numerous occasions, the Treasurer declared to Council that the information requested during our audit had been provided, and/or, was in the files located in the Council Chambers. However, we encountered numerous instances in which audit information was not provided. The lack of audit information necessitated additional time and correspondence to obtain the following items in support of our audit:

- General Fund, Liquid Fuels Fund, and Sewer Fund bank reconciliations for each month
- Bank reconciliations for all other Borough bank accounts
- Updated Balance Sheet and Profit & Loss statement for the General Fund, Liquid Fuels fund, and Sewer Fund incorporating prior year audit adjustments
- 2019 police car lease agreement
- Real Estate Tax Ordinance No. 662 – outlining general purpose millage
- Updated current vs. prior year report with prior year audit adjustments incorporated
- December 31, 2019 reconciliation of the 457-pension withholding account
- Report on all Sewer Fund expenses paid out of the General Fund
- Cell Phone Stipend Policy Letter – last updated October 13, 2014. Considering the constant changes in technology, this letter should be updated to reflect the current technological environment.
- All Bid Files over \$11,100
- Supporting documentation (PO's, invoices, grant documentation, etc.) for numerous receipts and disbursements that were not readily available and did not appear in the information provided in the Council Chambers
- Actual supporting documentation supporting Cable & Franchise Fees
- Evidence of issuance of 1099's (see corresponding finding below)
- Evidence that prior year police car lease arrearages have been satisfied
- Plan to pay the remaining balances of the payroll and pension liabilities

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. Please be advised that we accumulated twenty-three adjustments which appear to indicate that the Borough's financial accounts were not properly monitored on a regular basis. See the attached list of adjustments required as a result of our audit procedures.

Members of Council
Borough of Eddystone
May 29, 2020

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether resolved to our satisfaction, that could be significant to the financial report or the auditor's report. We are pleased to report that no such disagreements arose during our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated May 15, 2020.

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 Borough's financial report or a determination of the type of auditor's opinion that may be expressed on that report, 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

Please refer to pages 11 through 17 of this report for our comments regarding the material weakness and significant deficiencies noted during the audit.

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 Borough's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention. This information is intended solely for the use of Members of Council and management of the Borough of Eddystone and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Mingis, Gutowski & Company, LLP

Media, Pennsylvania

Adjusting Entries

Transaction Number		Debit	Credit
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General Fund

-	1		
	Transfer to Sewer Fund	\$ 49,044.00	
285.000	Due to/ Due from Sewer Fund		\$ 49,044.00

To reclass due to/due from Sewer Fund.

-	2		
	Transfer to Capital Fund	209,371.00	
410.750	Capital Purchases		159,583.00
409.700	Capital Expenditures		21,991.00
493.100	Unpaid Bills Prior Year		27,797.00

To reclass transfer activity per report make-up.

-	3		
	Transfer to General Fund	48,936.00	
280.000	Due to/ Due from General Fund		48,936.00

To reclass due to/due from General Fund.

280.000	4		
	Due to/ Due from General Fund	48,936.00	
-	Transfer to General Fund		48,936.00

To reclass due to/due from General Fund.

285.000	5		
	Due to/ Due from Sewer Fund	49,044.00	
-	Transfer from Sewer Fund		49,044.00

To reclass due to/due from Sewer Fund.

310.500	6		
	Local Services Tax	9,300.00	
310.900	EIT Income Tax		9,300.00

To reclass EIT Tax erroneously posted as Local Services Tax.

Adjusting Entries

Transaction Number		Debit	Credit
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General Fund

	7		
-	Transfer to Debt Service Fund	\$ 240,790.00	
394.100	Tax Anticipation Note	350,000.00	
471.100	Tax and Revenue Anticipation Note		\$ 350,000.00
471.600	Fire House Note		166,000.00
472.100	Fire House Note- Interest		67,898.00
472.600	Tax and Revenue Anticipation Note		6,892.00

To reclass transfer activity per report make-up.

	8		
-	Capital Lease - Asset	50,638.00	
-	Capital Lease - Liability		50,638.00

To record police car leases on the books.

	9		
-	Capital Lease - Liability	54,181.00	
-	Capital Lease - Asset		54,181.00

To record police car lease payments made in 2019.

	10		
471.000	Debt Principal Expense	54,181.00	
-	Transfer to Capital Fund		54,181.00

To reclass capital expenditures @ 12/31/2019.

	11		
380.100	Miscellaneous Revenue	1,109.00	
380.200	Reimbursements		1,109.00

To reclass reimbursements posted as Miscellaneous Revenue.

Adjusting Entries

Transaction Number		Debit	Credit
General Fund			
	12		
400.130	FT- Police	\$ 130,753.00	
410.135	PT – Police	352.00	
410.140	Police Clerk	180.00	
430.140	PT - Maintenance	114.00	
410.122	Police Chief		\$ 600.00
410.137	Police - OT		20,009.00
410.186	Police – Holiday Pay		33,396.00
411.125	Fire Marshall		500.00
411.130	EMT/Driver		425.00
413.130	Inspectors		7,820.00
427.140	Trash Collection		314.00
430.130	FT - Maintenance		381.00
362.100	Special Police Services		67,954.00

To reclass payroll accounts and apply differences to Special Police Services.

	13		
450.130	Recreation	6,051.00	
450.900	Miscellaneous Recreation Expense		6,051.00

To reclass payroll expenses recorded as Miscellaneous Recreation Expense.

	14		
102.000	Sharon Bank – General Fund	779.00	
400.190	Employee Payroll Services		779.00

To reclass payroll services that cleared the bank 1/3/2020.

	15		
409.370	Maintenance & Repairs	6,750.00	
409.700	Capital Expenditures		6,750.00

To reclass mosquito spray services as Maintenance & Repairs.

	16		
-	Cash – Debt Service	13.00	
471.000	Miscellaneous Administrative Expense		13.00

To record expense adjustment @ 12/31/2019.

Adjusting Entries

Transaction Number		Debit	Credit
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General Fund

	17		
301.100	Real Estate Tax – Current Levy	\$ 2,264.00	
301.200	Real Estate Taxes – Prior Year		\$ 2,264.00

To reclass prior year real estate tax collections remitted to the Borough of Eddystone by the County of Delaware.

	18		
301.100	Real Estate Tax – Current Levy	33,940.00	
301.200	Real estate Taxes – Prior Year		33,940.00

To reclass prior year real estate tax collections remitted to the tax collector by the County of Delaware

	19		
410.750	Capital Purchases	107,474.00	
122.000	Equipment Purchase - Asset		107,474.00

To reclass the Borough Fire Truck as a Capital Purchase.

	20		
410.750	Capital Purchases	27,797.00	
493.100	Unpaid Bills – Prior Year		27,797.00

To reclass Police Car Lease Expenses posted as Unpaid Bills – Prior Year.

	21		
410.165	Police Pension MMO	6,097.00	
255.000	457 Pension Withholding		6,097.00

To record 2019 pension withholding match payments.

	22		
410.900	Miscellaneous Police Expense	4,937.00	
255.000	457 Pension Withholding		4,937.00

To record 2019 pension withholding loan payments.

	23		
255.000	457 Pension Withholding	317.00	
410.900	Miscellaneous Police Expense		317.00

To adjust 457 Pension Withholding to correct 12/31/2019 balance.

Adjusting Entries

Transaction Number		Debit	Credit
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Sewer Fund

	1		
210.000	Due to/ Due from General Fund	\$ 49,044.00	
-	Transfer to General Fund		\$ 49,044.00

To reclass due to/due from Sewer Fund.

	2		
-	Transfer to General Fund	49,044.00	
210.000	Due to/ Due from Sewer Fund		49,044.00

To reclass due to/due from Sewer Fund.

Adjusting Entries

Transaction Number		Debit	Credit
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Liquid Fuels Fund

	1		
210.000	Due to/ Due from General Fund	\$ 48,936.00	
-	Transfer to General Fund		\$ 48,936.00

To reclass due to/due from Liquid Fuels Fund.

	2		
-	Transfer to General Fund	48,936.00	
210.000	Due to/ Due from General Fund		48,936.00

To reclass due to/due from Liquid Fuels Fund.

Adjusting Entries

Transaction Number		Debit	Credit
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Supplemental Journal Entries

		1	
409.700	Capital Expenditures	\$ 21,991.00	
410.750	Capital Purchases	159,583.00	
493.100	Unpaid Bills – Prior Year	27,797.00	
-	Transfer to Capital Fund		\$ 209,371.00

To record capital expenditures transferred to Capital Fund @ 12/31/2019.

		2	
-	Transfer to Capital Fund	54,181.00	
471.000	Debt Principal (car lease)		54,181.00

To reclass capital expenditure at 12/31/2019 and adjust transfer to Capital Fund.

		3	
472.600	Tax and Revenue Anticipation Note	6,892.00	
472.100	Fire House Note Interest	67,898.00	
471.100	Fire House Note	166,000.00	
471.600	Tax and Revenue Anticipation Note	350,000.00	
394.000	Tax Anticipation Note		350,000.00
-	Transfer to Debt Service Fund		240,790.00

To reclass transfer activity per report make-up.

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May 29, 2020

Members of Council
Borough of Eddystone
12th & Saville Avenue
Eddystone, PA 19022

Dear Members of Council:

In planning and performing our audit of the Municipal Annual Audit and Financial Report of the Borough of Eddystone (the Borough) 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 the Borough's internal control over financial reporting (internal control) as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Borough's internal control. Accordingly, we do not express an opinion on the effectiveness of the Borough's internal control.

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

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

Members of Council
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May 29, 2020

Lack of Segregation of Duties

The absence of or inadequate segregation of duties within the accounting function represents a material weakness in internal control. Due primarily to the size of the Borough's staff, the same individual that is responsible for processing accounting transactions is also responsible for reconciliation and monitoring procedures. To address this deficiency, the Borough hired a fee accountant. However, the fee accountant is responsible for processing transactions and performing monitoring activities.

We recommend that staffing within the Borough be evaluated to determine whether adequate segregation of duties can be achieved. We would be pleased to discuss and assist in this evaluation.

Bank Reconciliations should be performed timely

We were unable to determine if bank reconciliations were performed timely and approved timely. The monthly reconciliations we were furnished with omitted the date in which the reconciliations were prepared and approved.

We strongly recommend that bank reconciliations for all bank accounts be performed monthly in accordance with established procedures.

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 the Borough's internal control to be significant deficiencies:

Prior-year Payroll Tax and Pension Liabilities not paid

During our analysis of the Borough's payroll tax liabilities as of December 31, 2019, we noted that Earned Income Tax and Local Services tax withheld from Borough employees in the amount of \$52,596 and \$11,970, respectively, had not been paid to the agency responsible for their collection as of the commencement of our engagement in May 2020.

Please be advised that the unpaid delinquent liabilities above include \$52,596 in Earned Income taxes and \$11,970 in Local Service taxes that were payable as of December 31, 2017. In addition, no payments were made to reduce these delinquent balances during the year ended December 31, 2019. When asked what the Borough's plan was to address these remaining payroll and pension liabilities, we received the following responses:

Members of Council
Borough of Eddystone
May 29, 2020

Response to payroll liabilities inquiry

“Discussions regarding this issue were brought to the attention of Keystone Collections in 2015 but nothing came of it. Do you feel we should circle back and begin discussions again?”

Response to pension liabilities inquiry

No response was provided.

As a result, the Borough may be assessed fines, late payment penalties and interest on the delinquent balances. We re-affirm our prior recommendation that payroll taxes and all other payroll related liabilities be paid in a timely manner in accordance with established procedures.

Invoices were approved after the required due date

We observed numerous instances in which vendor invoices were approved by Council Members after the required due date for payment. We recommend that invoices be provided to Council Members well in advance of the required due date to ensure that they approved in accordance with established procedures.

Lease agreements not paid timely

We observed payment of the 2015 Dodge Charger Lease on May 22, 2019 totaling \$19,653 to fulfill the 2016, 2017, and 2018 debt obligations with Ally Financial.

We observed payment of the 2016 Dodge Charger Lease on April 4, 2019 and July 7, 2019 totaling \$21,427 to fulfill the 2017, 2018, and 2019 debt obligations with Ally Financial.

We observed payment of the 2017 Ford Police Interceptor on September 8, 2019 totaling \$11,614 to fulfill the 2019 debt obligation with Ford Motor Credit Company. Per our analysis of the lease agreements, we observed the lease payment due date for the 2019 obligation was August 30, 2019.

We strongly encourage that lease payments for all leases be paid off in accordance with established procedures as to avoid late fees and penalties for untimely lease payments.

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WSFS Bank account signers not updated.

During our analysis of the WSFS Bank authorized signers list as of April 13, 2020, we observed that five former Borough officials appeared as authorized signers on the various bank accounts.

Since these individuals are no longer Borough officials, they should have been removed at the end of their respective terms of service.

The inclusion of these individuals as authorized signers is a significant deficiency in that it allows unauthorized persons to access the Borough bank accounts.

We recommend that these former Borough officials be removed from the authorized signers list.

It is our understanding that the Borough Manager was in the process of deleting these former officials from the authorized signers list upon notification by WSFS Bank.

Cash disbursements were not properly approved/ supported

During our test of cash disbursements processed during the year ended December 31, 2019, we observed numerous instances in which documentation supporting the respective payments tested were incomplete or not provided as follows:

- Approval(s) by the respective Council chairperson(s) were not documented.
- General ledger account numbers were not entered on the respective internal purchase orders in accordance with established procedures.

We also noted that on numerous occasions, cash disbursements were posted to an account other than the account authorized by the respective Council chairperson(s).

We recommend that documentation supporting the issuance of cash disbursements be processed to include, at a minimum, the approved vendor invoice, and the completed internal purchase order containing the Council member's approval, the date approved, the amount paid and the corresponding general ledger account number in accordance with established procedures.

Members of Council
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Outstanding checks from prior periods not analyzed/reissued

During our analysis of the bank reconciliations provided as of December 31, 2019, we observed forty-five uncleared transactions amounting to \$78,296 of old outstanding checks covering the period 3/31/2016 to 12/30/2018 listed on the December 31, 2019 bank reconciliation for Sharon Savings Bank General Fund. These items should have been addressed during the performance of the monthly bank reconciliations. It is possible that certain checks included in the total represent bookkeeping errors (such as voided checks that were reissued). It is imperative that this account is reviewed and adjusted.

One employee alone is responsible for eight uncleared transactions of outstanding checks during the period 3/3/2016 to 12/30/2018 totaling \$8,316. The employee is also responsible for eleven uncleared transactions of outstanding checks during the period 12/31/2018 to 12/05/2019 totaling \$11,755.

We recommend that the Borough develop a process to review old outstanding checks on an annual basis to decide whether to void the checks or void and reissue the checks.

1099's were not issued to all unincorporated vendors

Form 1099-MISC, Miscellaneous Income (1099) is to be filed for each person/unincorporated vendor or attorney in the performance of a trade or business to whom the Borough has paid at least \$600 during the year.

It appears that 1099's were not issued to approximately forty unincorporated vendors that performed services for the Borough in 2019 – in violation of Internal Revenue Service regulations.

However, we were provided with one 1099 issued to the part-time code inspector, which appeared to be generated January 20, 2020.

We recommend that the Borough comply with Federal Law regarding the annual issuance of Form 1099-MISC.

Members of Council
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May 29, 2020

Real Estate Tax Ordinance No. 662 was not signed

The Borough's Real Estate Tax Ordinance No. 662 was not signed for the year 2019.

In addition, the ordinance did not designate the millage to be provided for debt service in 2019.

We recommend that all ordinances be signed by the applicable Council official and Borough Manager upon being enacted by the Borough Council.

Bid Files not obtained in violation of Borough Code

In accordance with the PA Department of Labor & Industry under Act 90 of 2011, the thresholds for public bidding by Pennsylvania state authorities and municipalities in 2019 were as follows:

- Purchases and contracts below \$11,100 require no formal bidding or written/telephonic quotations.
- Purchases and contracts between \$11,100 and \$20,599 require three written/telephonic quotations.
- Purchases and contracts of \$20,600 and more require formal bidding.

We observed that the mold remediation contract with ProAction Restoration, in the amount of \$24,970, and the plumbing installation contract with Centrum Mechanical, in the amount of \$12,800, did not follow the bid requirements set forth by the PA Department of Labor & Industry in 2019.

ProAction Restoration

We observed payment in the amount of \$24,970 to ProAction Restoration made on July 7, 2019 for mold remediation in the Borough's Firehouse. Based on our analysis of the corresponding vendor file, it appears that no formal public bidding process occurred.

The Borough Treasurer, Possenti Consulting, noted that no formal bidding process was necessary due to Borough Council approval of the mold remediation expense as an emergency expenditure.

Members of Council
Borough of Eddystone
May 29, 2020

Per our review of the 2019 Eddystone Borough Council meeting minutes, there was no confirmation/evidence that the mold remediation project was approved as an emergency expenditure.

Centrum Mechanical

We observed a proposal sent to the Borough from Centrum Mechanical on January 29, 2019 for plumbing installation in the Borough in the amount of \$11,000. Per our review of the corresponding vendor file, payment was made to Centrum Mechanical on March 26, 2019 in the amount of \$12,800. However, no change order/new proposal appeared in the case file to corroborate the additional \$1,800 paid to Centrum Mechanical. Based on our analysis of the corresponding vendor file, it appears that no formal public bidding process occurred.

Violation of the Pa Department of Labor & Industry bid guidelines may result in a 10% surcharge of the full amount of the contract or purchase for all council members who know that the transaction upon which they so vote is or ought to be part of a larger transaction and that it is being divided in order to evade the bidding requirements.

Salary Resolution 1-19 was not signed

The Borough's Salary Resolution 1-19 was not signed by the President of Council for the year 2019.

We recommend that all resolutions are signed by the applicable Council official upon being enacted by the Borough Council.

Members of Council
Borough of Eddystone
May 29, 2020

Other Matters

We do not consider the following items as significant deficiencies; however, we feel they warrant the attention of management.

Invoices were not paid timely

We observed several instances in which invoices were paid after the required due date. As a result, the Borough may be missing opportunities to take advantage of vendor discounts or could incur a late payment penalty. We recommend that vendor invoices be paid by the due date in accordance with established procedures.

Significant Bank Charges

We observed that the Borough incurred bank charges of \$5,270 for 2018 and \$3,242 for 2019. We recommend that management research why these costs were incurred, and if necessary, engage a financial institution that charges lower fees.

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

Very truly yours

Mingis, Gutowski & Company, LLP

Media, Pennsylvania