



CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

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To the Borough Council
Borough of Ferndale
Johnstown, Pennsylvania

In planning and performing our audit of the financial statements of the Borough of Ferndale (the Borough) as of and for the year ended December 31, 2014, in accordance with auditing standards generally accepted in the United States of America, we considered the Borough's internal control over financial reporting as a basis for designing our auditing procedures 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 significant deficiencies or material weaknesses, and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses and 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 financial statements will not be prevented, or detected and corrected on a timely basis. We consider the following deficiencies in the Borough's internal control to be material weaknesses:

Preparation of Financial Statements and Account Reconciliations

The preparation of financial statements is the responsibility of the Borough's management and requires internal controls over both recording, processing, and summarizing accounting data (i.e. maintaining internal books and records), and reporting financial statements including the related footnotes (i.e. external financial reporting).

As is the case with many smaller entities, the Borough relies on its independent external auditors to assist in the preparation of the financial statements and footnotes as part of its external financial reporting process. However, the external auditors cannot, by definition, be considered a part of the Borough's internal controls. Although the Borough carefully reviews the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation, management should be able to prepare the financial statements. The Borough's general ledger required several adjusting journal entries to be made during the audit. Without these adjusting journal entries, the Borough would not be able to prepare financial statements in accordance with the modified cash basis of accounting.

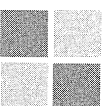
Monthly reconciliations should be prepared in a manner to provide complete, accurate, and timely information of the major general ledger accounts. This will ensure the Council is being provided accurate and reliable interim financial data. The following accounts should be reconciled or reviewed monthly to assist in the preparation of the financial statements:

Johnstown Location:

637 Ferndale Avenue, Suite 100
Johnstown, PA 15905
814.288.1544
Fax: 814.288.4999

Somerset Location:

101 W. Main Street, Suite 200
Somerset, PA 15501
814.445.2030
Fax: 814.445.2370



Cash Accounts

All bank accounts should be reconciled in the accounting system in a timely manner to ensure any errors or fraud are identified quickly. Reconciled cash balances should agree to the trial balance. Bank reconciliations should be reviewed and signed off on by someone that does not have access to the accounting system.

Interfund Transfers/Receivables/Payables

The amount of transfers between funds should be limited to avoid errors. It was discovered that the due to/due from accounts were used incorrectly throughout the year and required adjustments during our audit.

When recording these interfund transfers and interfund receivables/payables, accounting personnel should ensure that the transaction is recorded in both funds being effected. For instance, when the general fund collects sewer maintenance revenue, the cash received and the amount due to the sewer fund should be recorded in the general fund. The revenue and the due from the general fund should be recorded in the sewer fund at that same time. Another example is when salaries are paid from the general fund for the sewer fund. The accounting personnel should record the amount due from the sewer fund in the general fund, and the expense and the amount due to the general fund should be recorded in the sewer fund. There were several instances noted during our audit where these transactions were recorded in the general fund but not the sewer fund.

We recommend that a spreadsheet be maintained to identify the transfers between funds and to track the due to/due from balances. These accounts should be reconciled regularly. We would be more than happy to assist in the recording of these transactions or to provide additional examples of how these transactions should be recorded.

Another example of interfund transactions that must be properly recorded is the collection of real estate taxes by the general fund for the street lighting and recreation fund. This money should be transferred to the appropriate funds as soon as the taxes are collected. When these real estate taxes are not transferred, it results in an interfund payable on the general fund's books, and the taxes are ultimately spent on general fund expenses. The fund balances in the street light and recreation funds are committed for a specific purposes as described in the notes to the financial statements. As of December 31, 2014, the general fund did not have enough cash to pay the amounts due to the other funds.

Revenues and Expenses

Accounting personnel should pay extra attention to posting of revenue and expenses to ensure they are recorded in the proper accounts and funds. All invoices should be coded with the proper expense accounts. When expenses are allocated to various accounts and to different funds, a spreadsheet or other tool should be used to properly document the allocation. The spreadsheet should be maintained with the paid invoice as support for how the expense was recorded. Insurance expense is one example where a spreadsheet may help properly allocate and record the expense. There were several instances noted during our audit where invoices were not coded, invoices were coded but where recorded in different expense accounts, and where allocated expenses were not allocated consistently or correctly. Several reclassifying journal entries were made to record expenses in the proper accounts.

In addition, all deposits should be marked with the appropriate revenue accounts. Although it appears the Borough has improved the way deposits are coded and summarized, there were several instances where the revenue was not entered into QuickBooks correctly, and the deposits in QuickBooks did not match the coding on the deposit. Several reclassifying journal entries were made to record revenue in the proper accounts.

Lack of Segregation of Duties

Key duties and responsibilities need to be divided or segregated among different people to reduce the risk of error or fraud. This should include separating the responsibilities for authorizing transactions, procession and recording them, reviewing the transactions and handling any related assets. No one individual should control all key aspects of a transaction or event. Inadequate segregation of duties may increase the risk that loss of assets would not be detected and prevented in a timely manner and in the normal course of operations.

Cash Receipts

The Secretary/Treasurer is responsible for receiving cash receipts, posting the receipts into the accounting system and reconciling the bank statements. The Secretary/Treasurer also takes the deposits to the bank when the Accounts Payable Clerk is unavailable. We recommend that the Borough separate the cash receipt duties among office staff.

Transfers

There should be a segregation of duties over the transfer of money between bank accounts. The accounting personnel responsible for initiating the transfer should not perform the transfer. Another employee or Council member should approve all transfers before they are made by the Accounts Payable Clerk.

Payroll

During the course of our audit, we noted several instances of lack of segregation of duties regarding payroll and payroll taxes.

All timesheets should be approved prior to payroll being processed. Supervisor's timesheets should be approved by a Council member. This is especially true for employees being paid overtime. To ensure overtime is approved before it is paid, all timesheets should be reviewed and approved prior to payroll being processed.

The Accounts Payable Clerk prepares and processes payroll. That individual also prepares her own paycheck which she also signs. Although a second signature is obtained, the Borough should not allow the payee of a check to also sign that check. Another authorized check signer should review and sign the check.

It was noted during our audit that the Accounts Payable Clerk keeps record of the Secretary/Treasurer's hours. The Borough's Secretary/Treasurer should keep a timesheet tracking their time. Also, the Accounts Payable Clerk's and the Secretary/Treasurer's wages should be allocated based on their timesheet and the actual number of hours they spend working on each department.

Payroll tax reports should be reviewed and signed by someone other than the Accounts Payable Clerk.

We consider the following deficiencies in the Borough's internal control to be significant deficiencies:

Journal Entries

In order to avoid erroneous or unauthorized journal entries being posted, we recommend that the Accounts Payable Clerk or a Council member review and approve all journal entries and their supporting documentation before they are posted. Also, supporting documentation should be maintained for all

journal entries. The Borough may want to consider using a journal entry voucher to document all journal entries and their approval.

Payroll Processing

Payroll reports should be reviewed and approved. The following errors were identified during our payroll testing:

- The wrong pay rate was used when calculating an employee's payroll.
- The number of hours reported on an employee's time sheet were less than the hours they were paid per review of their paystub.
- The number of hours of overtime reported on an employee's time sheet were higher than the hours they were paid.
- Time sheets were missing.
- Time sheets were not properly dated.
- Pennsylvania unemployment compensation taxes were not withheld from employee's paychecks.
- Payroll was not properly allocated. Timesheets should be summarized and used to allocate payroll to the proper accounts and funds. All employee's wages, including accounting personnel's wages, should be allocated based on their timesheets. Spreadsheets used to allocate payroll, payroll taxes, and employee benefits should be maintained for every payroll.

Invoice Processing

There were several instances identified during the audit where the invoice was not entered into QuickBooks until the Accounts Payable Clerk cut the check. It is the Borough's common practice to record invoices as accounts payable when they are received. The accounts payable function is used throughout the year so that the Borough is able to track invoices that need paid. Although the financial statements are prepared on the modified cash basis and accounts payable balances are eliminated for financial statement purposes, invoices should be processed consistently throughout the year and should be recorded when received.

Also, all invoices received by the Borough should be maintained. Several invoices selected for testing were not able to be located by accounting personnel. A filing system should be used to file all invoices once they are paid.

Lastly, all cash disbursements should be supported with an invoice. If an invoice is not provided, there should be written documentation of the expense and the approval.

The following are descriptions of other identified control deficiencies that we determined did not constitute significant deficiencies or material weaknesses:

Check Signers

Authorized check signers should be updated for all bank accounts. Past employees and council members should be removed. All accounts should have at least two authorized check signers.

2015 Bank Reconciliations

Once the bank accounts have been reconciled for all of 2015, management should examine the outstanding checks and the deposits in transit. Outstanding checks that have been issued but not cashed may need to be reissued or submitted to the Pennsylvania Treasury as unclaimed property. Deposits in transit that are not true deposits should be corrected in the accounting records and removed from the bank reconciliations.

Internal Financial Statements

We noted that very limited financial information appears to be given to the Council on a monthly basis. This may leave the Council without enough information about the financial status of the Borough to make important decisions affecting the future of the Borough on an ongoing basis. The availability of financial information enhances the Council's ability to exercise financial oversight and enhance the internal control over financial reporting.

A selected Council member should review and approve the monthly internal financial statements. This review should consist of inspecting the general ledger detail trial balance, significant journal entries and the reconciliations of significant account balances. As part of this review, all entries which are unusual as to amount, posting reference or timing should be investigated. Financial statement balances should be analytically reviewed for unusual relationships, such as balances which are out of line with expectations or any other unusual items which come to the reviewer's attention. All questions should be resolved promptly.

We noted several balance sheet accounts were not reconciled at year-end. In addition, numerous audit adjusting journal entries were required. Due to these deficiencies, the monthly internal financial statements may not be reliable. We recommend that further assistance be provided to the accounting personnel and mandatory procedures be implemented so that internal financial statements can be relied upon.

The Council has not been provided interim financial statements to review, and reconciliations have not been prepared since December 2014. The accounting records should be updated with all 2015 activity and accounts should be reconciled as soon as possible. This is important so that the Council knows the financial position of the Borough.

When improving internal controls and record keeping, Council should ensure staff responsible for these duties have adequate training. Outsourcing accounting functions to an external accounting firm can be a cost effective solution to the deficiencies identified in this letter. We would be more than happy to assist the Borough in implementing these changes.

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

Barnes & Co. Company, P.C.

Johnstown, Pennsylvania
September 14, 2015