

## OTHER COMMENTS & OBSERVATIONS LETTER

City Council  
City of DuBois, PA

In planning and performing our audit of the financial statements of City of DuBois for the year ended December 31, 2023, we considered the Organization'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 Organization's internal control.

However, during our audit we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters.

We reported on the Organization's internal control in a report dated September 27, 2024, which contains our report on significant deficiencies in the Organization's internal control. This letter does not affect our report dated February 4, 2025, on the financial statements of the City of DuBois.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

In conclusion, we would like to thank the Organization's personnel for their outstanding cooperation extended to us during the audit.

WESSEL & COMPANY  
Certified Public Accountants

February 4, 2025

## MEMORANDUM

To: City Council, City of DuBois, PA  
From: Wessel & Company  
Date: February 4, 2025  
Re: Management Letter Comments

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### **Cash Receipts**

#### **Enhanced Utilization of Edmunds**

The Treasurer's Office is responsible for collecting \$30M annually on behalf of the City's various departments. Receipts are processed in Edmunds and are also tracked outside of Edmunds on detailed spreadsheet. We recommend exploring the capabilities of Edmunds to fully track daily deposits which will offer multiple benefits:

- Accuracy & Automation – Accounting systems have built-in validation rules to reduce human error whereas spreadsheets require the user to manually add formulas to check the data entered.
- Efficiency – The accounting system can generate daily deposit reports that would tie to the deposit slips prepared for the bank and eliminate the need to track separately. This would eliminate redundant tasks for employees and improve efficiency.
- Security – More than ever, data security and integrity is under constant scrutiny. Utilizing Edmunds will provide better security in terms of user access, encryption and data backups.
- Audit Trail and Compliance – the system tracks changes by user and date stamp allowing for more detail on each transaction.

#### **Coding Sheets**

For certain receipts, the Treasurer's Office prepares coding sheets which are sent to Finance for the Finance Director to review and enter coding. We recommend that the departments review these items and provide the necessary training and insight to allow the Treasurer's office to fully code all deposits and post these transactions to Edmunds. This will allow the Finance Director to focus on reconciling the activity and provide better segregation of duties between the two departments.

#### **Billing Adjustments**

During our review and testing of water, sewer and garbage billing, it was noted that there are situations in which monthly bills need to be adjusted, however there is no written process for the approval of the adjustments. We recommend the City establish a clear policy that defines clear criteria for when billing adjustments are needed, as well as, limits for the approval authority. Certain adjustments could be made by the billing clerk while other larger adjustments might require supervisor approval. Such a process will improve documentation when questions arise, as well as, improve transparency and help prevent potential unauthorized adjustments.

## **Cash Disbursements**

### **Pennsylvania Department of Revenue – Unclaimed Property**

During the course of the audit, we noted the General Fund operating account included multiple outstanding checks dating back to 2011 and beyond. We recommend reviewing any checks that are outstanding and are dated prior to January 1, 2021. Once the checks have been verified as outstanding, the City should follow the Commonwealth's guidelines for managing unclaimed property. This involves filing a report with the Pennsylvania Bureau of unclaimed property that includes all of the required information for each uncashed check, including the vendor amount and date of the check. After all of the checks are listed on the report, it will calculate the amount to send to the Pennsylvania Department of Revenue. The City should maintain copies of all documentation for audit purposes and generate the appropriate journal entry in Edmunds.

### **Invoice Approval Process**

We recommend that the City Manager work with department heads and Council to establish a clear approval workflow for invoices. The person requesting the purchase or requesting payment of an invoice should never be the approver. If a department head is initiating or requesting payment of an invoice, the City Manager should be reviewing and approving the invoice for Finance to initiate payment. We noted in some cases that there were multiple approval signatures prior to the City Manager's sign off. Once the process is streamlined, we recommend reviewing the purchasing thresholds to ensure the proper level of approval for smaller transactions compared to larger transactions that would require Council approval.

## **Payroll**

### **Personnel File Review**

During our payroll testing, we reviewed the files for documentation supporting authorized pay rates for 2023 and such documentation was not included. It appeared that sheets had been utilized in 2022, but were never updated or utilized. We recommend the City utilize a Human Resource professional to help identify the minimum level of documentation that is needed to retain in personnel files on an annual basis to support pay rates, benefit elections, deduction authorizations, position changes, job performance documentation, termination records and other critical supporting documentation to ensure legal compliance.

### **Workflow of timesheets**

The City is currently using spreadsheets and updating them manually to track employee time for payroll purposes. We recommend the City review the capabilities of Edmunds, or another human resource system, to allow for enhanced workflow for employees reporting their time for payroll purposes. Utilizing the system will not only improve the workflow process, but result in faster data entry, accurate tracking of hours, streamlined approval process for supervisors, centralized documentation and timely processing of payroll.

## **General Ledger Accounting System**

### **Chart of Accounts**

The accounting system utilizes a detailed chart of accounts for each fund (General, Water, etc..) to code transactions to accurately report them by type (asset, liability, revenue, etc.) as well as by department and line item detail. The Pennsylvania Department of Community and Economic Development (DCED) provides municipalities with a recommended chart of accounts to comply with the reporting elements utilized by the State. It appears that Edmunds was setup initially to follow DCED's structure, however, over time, the City has added accounts for various grants or projects that has resulted in significantly more general ledger accounts to maintain than is necessary. We understand the City is utilizing a third party to assist in revising the chart of accounts. We support that effort and recommend the following be considered during that process:

- Cash accounts – at 12/31/23, the City had 33 cash accounts with balances in the general ledger. This does not include cash accounts in the general ledger with zero balances because grants or projects were completed in prior years.
- Discontinue the practice of setting up new cash, revenue and expense accounts specific to each grant or project for all funds. There are other fields in Edmunds that can be utilized to track the specific grant or project detail.
- Map the new chart of accounts to DCED's Annual Financial Report template to ensure that everything can flow in an organized manner and reconciles.

### **Fund Reporting**

The accounting system is currently setup to track most funds that the City utilizes and reports on throughout the year and as part of the annual audit. We recommend the City consider adding the following fiduciary type funds to Edmunds:

- Non-Uniform Pension Plan
- Police Pension Plan
- Fire Escrow Fund
- Sewer Tap Escrow Fund
- Treasurer's Account Custodial Fund

Each one of the above funds have separate accounts for the activity that occurs during the year or is being tracked by the Treasurer's office, but they are not included in the system.

### **Bank Reconciliations**

During the audit, we noted that the system is not being fully utilized to assist in reconciling the monthly bank reconciliations. As a result, there were a number of accounts with ending balances that did not agree to the general ledger. As noted in our audit report, there were many accounts that were not previously recorded in the general ledger. If the general ledger had been matched up to all accounts opened in the City's employer identification number, this would have been detected sooner.

## **Other Recommendations**

### **Annual Budgets**

As part of our requirement to document our understanding of the entity, we obtained the City's annual budget for the General Fund. We also include a budget to actual schedule for the General Fund as part of the financial statements and required supplementary information. In reviewing the results of this statement, we have the following recommendations to enhance the budget process, increase accountability and oversight to assist in Council and Management's decision making.

#### **Water and Sewer Funds**

The budget document we received did not include budgets specific to the Water or Sewer funds. These funds represent significant operating components for the City of DuBois both at the fund level and when reviewing the financial statements at the entity wide level. We recommend Management consider adding detailed budgets for these funds as part of the budget development process. Both funds need to be self-sustaining. Since the City reports on the modified cash basis of accounting, it's important to note that depreciation expense is not reflected. Depreciation expenses recognizes that long term assets and capital investments will lose value over time. It's important that this be factored into the budget so that the City can meet its current operating costs while simultaneously planning for the future replacement of long-term assets.

#### **Line-Item Detail Budgets**

The budget document we received and was posted on the City's website included budget detail at a summary level by department. It's unclear whether management prepares a detailed line-item budget. We recommend that line-item budgets are prepared in a manner that align with the general ledger account structure to aid in budgetary monitoring and oversight. After the budget is approved, the account level budgets can be entered into Edmunds and included in financial reports for Management and Council's review.

#### **Budget Restrictions**

With the budget recommendations above, we also recommend that management utilize budgetary controls within Edmunds to help keep expenses in line with budgeted amounts. If line items will be over budget, we recommend the department head in charge of the line item provide detailed justification on the purchase will be funded or what budget transfers (from another department line item) can be made to stay within the total department budget.

#### **Financial Projections**

As part of the budget development, review and approval process, we recommend that Management develop a financial projection model that looks 2-3 years beyond the current budget. Such a model helps support decision making in the present as well as considers the impact of budget assumptions on future periods. These projections could also be updated once the audit is complete so that actual numbers can replace budgeted amounts and provide a more accurate picture for that particular period.

## Fund Balance Policy

The City does not appear to have a formal fund balance policy to compliment decision making as part of the budget review and approval process. Such a policy would establish target ranges for the General Fund's unassigned fund balance which is available for operational use. The [Government Finance Officer's Association](#) (GFOA) recommends governments maintain a minimum of 2 months of operating expenditures.

<b>Fund</b>	<b>12/31/23 Unassigned Fund Balance</b>	<b>GFOA Recommended Fund Balance (2 mo.)</b>	<b>Difference</b>
General <sup>(1)</sup>	\$ 3,675,359	\$ 2,392,071	\$ 1,283,288
Water <sup>(2)</sup>	\$ 227,964	\$ 997,064	(\$ 769,100)
Sewer <sup>(2)</sup>	\$ 76,898	\$ 659,168	(\$ 582,270)

- (1) While it is a positive that the General Fund Fund Balance exceeds the GFOA recommended amount in 2023, its important to remember that the General Fund experienced a deficit of (\$3,319,677) in 2022 and a deficit of (\$4,356,983) in 2023.
- (2) Had the Water and Sewer Funds included depreciation expense in the calculation of the GFOA recommended amounts, the deficit would be significantly larger than what is shown.

## **Development of Centralized Indirect Cost Allocation Plan**

As noted in our comment below related to interfund transfers, there are instances when funds can directly reimburse each other for specific expenses, however there are shared costs incurred by the General Fund that could be allocated across other departments or funds. The City does not currently have a centralized indirect cost allocation plan developed. We recommend that the City engage a third party to assist in the development of such a plan that complies with Uniform Guidance (2 CFR Part 200) and will provide a consistent methodology and application to how costs are allocated. This would also allow the City to charge indirect costs to federal programs.

## **Fire Department Accounting and Reporting**

During the 2023 audit, multiple cash accounts associated with the fire departments were added to the General Fund's general ledger so that all financial activity can be properly accounted for and reflected in financial reports. We recommend that this practice continue for future accounting periods and that monthly bank statements and other supporting documentation for revenue and expenses be provided to the City's finance director so that the appropriate journal entries can be posted in Edmunds.

During conversations with the prior interim city manager, we discussed best practices in terms of budgeting, paying invoices and reporting with respect to these accounts. There was also conversation that the various fire departments were seeking to establish 501c3 tax exempt status with the IRS and operate as stand alone entities. We've not been included in any further conversations that may have occurred, however we do specialize in assisting nonprofit organizations with these type of matters and are available to assist as needed.

## **Interfund Transfers to General Fund from Water/Sewer Funds**

During the audit, we noted significant cash transfers to the General Fund that lacked documentation to support the amount of funds being transferred. After further inquiry and review of the current and prior year general ledgers, we were able to determine that these transfers were to reimburse the General Fund for operational expenses (payroll, benefits, supplies, etc.), debt service payments and for capital project expenses.

We recommend that the City discontinue the practice of recording these transactions in the General Fund throughout the year and properly record the transactions in the Water or Sewer Fund. Since all three funds should be self-sustaining, it's important that revenue and expenses are recorded separately to give an accurate picture of the financial results of these funds. As part of our audit, we provided management with the necessary adjusting entries to move these amounts to the proper fund. After these entries were made, a final balance of \$2.1 million of transfers remained from the Sewer Fund in the General Fund. Its unclear if these funds should be transferred back to the Sewer Fund or in fact belong to the General Fund.

## **Non-Uniform Pension Plan**

During our review and testing of the City's Non-Uniform Pension Plan and preparation of the financial statement disclosures for the financial statements, we noticed that this plan assumes an 8% investment return as part of its actuarial assumptions in determining the City net pension liability. From our experience with other governmental plans, this is a higher rate of return used than other similar non-uniform pension plans. We recommend management meet with the actuarial specialist to review all assumptions utilized to ensure that they are appropriate and updated to ensure that the plan is utilizing current methodology to calculate is net pension liability.

## **Procurement Policy**

We recommend the City formally adopt a purchasing policy that aligns the thresholds for federal and state procurements to be in-line with the micro-purchase threshold (\$10,000) and simplified acquisition threshold (\$250,000). In addition, it was noted that the City does not have a person designated to oversee all procurements. We recommend that a single person be tasked with overseeing all pre-award procurement functions. Such functions would include: documenting the nature of the procurement and most suitable method of procurement (e.g. competitive bid, sole source, etc.), maintaining all bids and responses, maintaining documentation relating to cost analysis or sourcing decisions, maintaining council resolutions with the contracts, and assigning contract numbers with all awards.

## **Retention of Vendor Documentation**

Since the City receives federal and state grants for various needs, its important to understand that both the Commonwealth of Pennsylvania and the Federal government require the City to perform inquiries and verification checks for vendors it plans to use and are being paid with federal or state funds. The federal government verification can occur by reviewing Sams.gov and the state government verification can occur by visiting the PA Department of State's website. Once the verifications are completed, the results of the verification should be retained either electronically or in a vendor file as proof of verification results. Subsequent verification checks can be performed annually to ensure legal compliance as well as mitigate risk.



## **Unauthorized Closure of Bank Accounts**

As noted above in our comment related adding the cash accounts to the general ledger that were associated with various fire departments, there were accounts that were subsequently closed without obtaining Council's approval. We recommend retroactive approval by Council since those accounts were in the City's employer identification number.

## **Year-end Closing Checklist**

As noted in our letter to those charged with governance, we encountered significant difficulty in obtaining requested information for the audit in a timely manner. We recommend that management develop a year-end closing checklist of key year-end processes that need to be completed for both operational and for audit purposes. Some of the items that would be mutually beneficial to complete include, but not limited to:

- Verification that all cash accounts reconcile between the bank statement and general ledger. This could also include copies of the year-end bank statements.
- Preparation of a reconciliation schedule for all interfund due to/from accounts.
- Preparation of a reconciliation schedule for all interfund transfer in/out accounts.
- Preparation of a reconciliation schedule for all long term debt principal and interest payments made during the year.