

Citizens Audit Review & Financial Advisory Committee (CARFAC)

June 14, 2012

7:00PM – Radnor Township Municipal Building, Finance Conference Room

Agenda:

1. Approval of Minutes:
 - a. May 16, 2012
2. Working Group Updates:
 - a. Planning Group: Pension / OPEB Project Update
 - b. Business Process Group: Act 511 Collection Process Review and Action
 - c. Audit Group: Update on 2011 C.A.F.R. (from Township Administration)
3. Committee of the Whole Items:
 - a. Future Meeting Dates
 - b. Terms
 - c. Chair and Secretary positions
4. General Discussion
5. Public Participation
6. Adjourn (the goal will be no later than 9:00PM)

NOTES:

Citizens Audit Review & Financial Advisory Committee
May 16, 2012, 7:00 p.m.
Radnor Township Municipal Building
Finance Department, 2nd Floor
301 Iven Avenue, Wayne, PA 19087

DRAFT

Meeting Minutes

The meeting was called to order by the Committee Chair, Karl Bupp, at 7:00 p.m. The meeting was attended by Karl Bupp, Jim Bowes, Ed Caine (arrived mid-way through the meeting) Laurent Chardonnet and Joe Ellis. Messrs. Blair, Linden and Novak and Ms. Gourmand did not attend due to scheduling conflicts. The meeting was also attended by Bill White, the Township's Finance Director and Bob Tate, Assistant Finance Director. No members of the public attended.

The Committee agenda was as follows:

1. Clifton Larson Allen – 2011 Audit Review – The committee was joined by the Audit staff from Clifton Larson Allen. (Bruce Braunawell, Kristen Diesler and William Loughery) The staff reviewed the management letter attached as Exhibit A. The review included an executive session (w/o management present) between the Committee and the auditors at the end of the presentation. The audit team was complimentary of the professionalism of the management team and the progress being made. The audit staff departed at 8:35 p.m. and Messrs. White and Tate returned.
2. Pension / OPEB – Messrs. Bowes and White reported on organizational efforts with respect to this task.
3. Business Process Group – The group's report was deferred.
4. Finance Department Report – Mr. White discussed the prospect of (a) a utility audit; (b) utilization of a procurement card; and (c) pursuing the i dash boards concept. After discussion, it was agreed these items would be deferred.
5. Approval of Minutes
 - a. April 18, 2012 Meeting – approved.
6. Public Participation – No members of the public attended.

There being no further business, the meeting adjourned at approximately 9:30 p.m.

EXHIBIT A

Board of Commissioners and
Management of Radnor Township
Wayne, Pennsylvania

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Radnor Township as of and for the year ended December 31, 2011, in accordance with auditing standards generally accepted in the United States of America, we considered Radnor 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 Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization'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. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. However, as discussed below, we identified certain deficiencies in internal control that we consider to be 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 a 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 deficiencies in Radnor Township's internal control to be material weaknesses:

Accounting Policy and Procedures Manual

The Township does not have an up-to-date manual of accounting policies and procedures. The purposes of such a manual are to ensure that proper accounting principles are being applied, that similar transactions are treated consistently, and that financial reports are produced in the form desired by management. A well-written accounting manual will aid in the training of new employees and will assist management in delegating and segregating duties. The manual should include:

- An organizational chart.
- Job descriptions, outlining duties and responsibilities.
- Descriptions of methods, procedures and accounting principles to be followed, including explanations and examples of principal transactions.
- A chart of accounts with detailed explanation of the items to be included therein.
- Any other documents or forms for which uniformity of use is desired.

We recommend that management develop a comprehensive accounting policies and procedures manual. In the process of developing the manual, we recommend a comprehensive review of the existing accounting system, offering management the opportunity to eliminate or improve procedures and thereby create a more efficient and effective system. Developing an accounting policies and procedures manual can be a significant undertaking, and will demand considerable resources within your fiscal department.

This was a comment in our 2010 audit. We noted during our 2011 audit that Management has begun to address this issue, and the Manual is a work in progress that will continue to be a focus in 2012.

Wire Transfers

In performing our audit for the year ended December 31, 2010, Staff Accountant/Cash Manager had the ability to make wire transfers between cash and investment accounts. We recommended that management develop a wire transfer policy that would require approval of all wire transfers. Additionally, we recommended that management sets approval parameters and account restrictions of wire transfers with its bank. Such approvals may prevent unauthorized transfers from occurring.

The Township lacked a formal policy as discussed above during 2011, **however, during our audit we noted that a formal Wire Transfer Policy was adopted in April 2012.**

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 Radnor Township's internal control to be significant deficiencies:

Segregation of Duties

We noted a lack of segregation of duties in payroll and cash disbursements during our 2010 audit. One employee processes payroll and also has the authority to add employees to payroll. This same employee processes cash disbursements and has the authority to add vendors to the accounting software. Another employee initiates and processes the wire transfers and also prepares the bank reconciliations and journal entries.

We recommended the segregation of duties in a manner which separates the initiating and authorizing of a transaction, from the recording and processing, and the reconciling and reporting.

In performing our 2011 audit, we noted the above examples are still applicable in 2011; **however, we also noted that management has begun to address the segregation of duties over payroll and cash disbursements in 2012. The Township has drafted a segregation of duties chart and has implemented formal policies in February 2012.**

We noted other matters involving the internal control and its operation that are reported as follows:

Stale Checks

We noted during our testing of bank reconciliations that there were approximately 50 outstanding checks that were more than one year old in the general checking account. We recommend that management review Pennsylvania's escheat regulations on unclaimed property, and remove stale outstanding checks from the bank reconciliations accordingly.

Cell Phone Usage Policy

The Township issues cell phones to several of its employees. We recommend that the Township adopt a formal policy that addresses the usage of these cell phones. The policy should establish internal controls that determine authorized users, personal use parameters, and a system of monitor and review of cell phone activity, either monthly or quarterly.

Sewer Reconciliation to General Ledger

During our testing of the sewer billing and collection schedules, we noted that the sewer accounts receivable did not reconcile to the general ledger. However, management did make the appropriate journal entry to reconcile the sewer receivable difference. We recommend that management monitor and reconcile sewer receivables to the general ledger on a monthly basis.

We also noted that in 2011 there were several GL accounts being utilized to track sewer accounts receivable. We recommend that the Township simplify the tracking of sewer accounts receivable into one consistent GL account.

Act 511 Taxes – Recordkeeping of Outstanding Accounts

During our audit, we noted that Management does receive a schedule of outstanding Act 511 taxes (namely Business Privilege taxes and Mercantile taxes) from an outside accountant. However, management had not contemplated and calculated a reasonable estimate of Act 511 taxes collectible as of December 31, 2011 prior to our audit testing. We recommend that Management set up regular meetings with the outside accountant to assess collectability of outstanding Act 511 receivables.

Investment Policy

The Township has not updated the investment policy since 2003. We recommend that the Board of Commissioners, with the assistance of management, update the investment policy to better reflect current economic and investment conditions.

This was a comment in our 2010 audit and remains applicable in 2011, as there have been no updates to the current investment policy.

Cash Receipts Process

During our 2010 audit, while reviewing the Organization's process of collecting cash, we noted that there is no documentation of the physical transfer between departments. It was recommended that when the cash is brought to the fiscal staff, the time dated receipt stub be initialed by the fiscal staff and a copy be kept by the depositing department. This provides documentation that the cash made it to and was acknowledged by the fiscal department for deposit.

This comment is still applicable in 2011; **however, we noted that the Township created, adopted and implemented a Cash receipts Policy in 2012.**

Capital Assets

We noted during our testing of capital assets that although there is a pre-numbered tagging system, certain capital assets have not been assigned a tag number. We recommend that the current tagging system be evaluated and that all capital assets be assigned an appropriate inventory tag number.

This was a comment in our 2010 audit and remains still applicable in 2011.

Inventory

During our audit, we noted that there is no physical inventory is maintained for public works supplies. Supplies should also be evaluated as to whether they should be capitalized on the Township's financial statements. We recommend that supplies on hand should be documented, and that such supplies should be evaluated for potential capitalization.

This was a comment in our 2010 audit and remains still applicable in 2011.

Capitalization Policy

We noted that the Township's current policy is to capitalize assets with an initial individual cost of greater than \$1,000. Based on the size of the township we recommend that the Township review this policy and consider increasing the individual cost basis used for capitalizing assets. Increasing this amount would help reduce the time and cost associated with updating the Townships fixed asset schedule for these items that do not have a material impact on the Township's financial statements. The Government Finance Officers Association recommends a minimum capitalization threshold of \$5,000.

This was a comment in our 2010 audit and remains still applicable in 2011.

Information Technology: Disaster Recovery Plan

We were informed that the Township has no documented disaster recovery plan to address business continuity issues should access to the Township Building be denied for an extended period of time. We also noted that the Township does not have a backup recovery site targeted in the event of disaster.

We recommend that management create and document a disaster recovery plan that identifies a recovery strategy for all mission critical applications and supporting technical infrastructure including voice communications, network infrastructure, servers, databases and software applications. Once completed, the Township should review and test the operability of the plan on at least an annual basis. We also recommend that Radnor consider implementing a hot, warm or cold site for recovering data in the event of a disaster.

This comment is still applicable in 2011; **however, the Township has created and implemented a Disaster Recovery Plan in 2012.**

Information Technology: Documentation of Procedures

The Township has documented certain policies regarding e-mail and internet use, however, documented policies concerning a wide range of IT administration issues are not documented.

To facilitate IT administration, security and cross-training, we recommend that the Organization develop and document its policies and procedures concerning information systems security, access control (password, remote access and user administration), firewall security, software patch management, change management, anti-virus measures, vendor management, data and application backup procedures, disaster recovery and business continuity planning, and information security incident response procedures.

This comment is still applicable in 2011; **however, the Township has formally documented its IT procedures in 2012.**

Information Technology: User Accounts

The Township currently has working user access procedures upon hiring and termination of employees. However, these procedures are not formally documented.

We recommend that the Township implements a New Hire Checklist and Terminated Employee Checklist to ensure that computer access privileges are appropriate and that Township owned assets provided during the term of employment are disabled and returned at termination.

This comment is still applicable in 2011; **however, the Township IT Department has implemented user accounts controls in 2012.**

Information Technology: Access Control

In the course of our audit work, we noted that policies relating to password structure, password failure lock-outs and forced changes are less robust than industry norms would require. In addition, in certain applications, features that enable compartmentalized user access are not utilized. As a result, the Township's network and data are exposed to elevated risk of unauthorized access.

We recommend that the Township enhance its procedures regarding a forced password change upon initial login and forced password expiration every 30-90 days. Additional password security measures include use of complex passwords which include a mixture of numbers, letters, and symbols and a password history of the ten previous passwords with the inability to reuse these passwords as a current password. We recommend account lockout after three incorrect login attempts and reset of a locked account controlled by the IT department. We also recommend that the Township perform a documented user access review of the Network and their accounting software on a quarterly basis.

This comment is still applicable in 2011; however, the Township IT Department has implemented user access controls in 2012.

Information Technology: Offsite Data Backup

Our review of Information Technology general controls noted that daily application and data backups are performed, the backup media are stored off-site.

We recommend that the Township consider taking the back-up process one step further by engaging a service provider that would perform and archive daily applications and data backups and secure them at a remote site to facilitate the Organization's recovery from a disaster event.

This comment is still applicable in 2011; however, management plans to review in 2012 and determine cost/benefit of implementation.

Prior Year Comments Cleared In 2011 - Material Weaknesses:

Audit Adjustments

Management is responsible for the accuracy and completeness of all financial records and related information. Their responsibilities include adjusting the financial statements to correct material misstatements. Management is responsible for controls over the period-end financial reporting process, including controls over procedures used to enter transaction totals into the general ledger; initiate, authorize, record, and process journal entries into the general ledger; and record recurring and nonrecurring adjustments to the financial statements. During the performance of our 2010 audit engagement procedures, we noted management had not adjusted all account balances to reflect their appropriate year-end balance. This is a necessary step in ensuring that financial statements are fairly stated. The unrecorded amount was, in our judgment, material to the financial statements. Management subsequently recorded the amount. Since the company's control policies and procedures did not prevent or detect a material misstatement of the financial statements, we concluded there is a material weakness in the Township's control policies and procedures required to be reported under professional standards. We recommended that the Township work to adjust all account balances to reflect appropriate year-end balances. This process would ideally occur before the year-end external audit.

This matter was addressed in 2011, as all material adjustments have been made by Management.

Disbursement Approval Process

Review of Disbursement List

We noted during our 2010 audit that the Treasurer received a list of disbursements on a bi-monthly basis and has the ability review the actual invoice and detail before the checks are cut and approved. In addition, the Board reviews the disbursements list before the physical checks were cut and approved. We recommend that the procedure be modified to allow for each board member, on a monthly rotating basis, the opportunity to review the invoice and backup detail for each disbursement. This will afford each member of the board the opportunity to understand the disbursement process, and to raise questions when unfamiliar with a vendor charge.

Signatures on Disbursement Checks

During our 2010 audit, we noted that two signatures were required for all disbursement checks (treasurer and township manager). However, one signature was computer generated and the other was a signature stamp. Not requiring a live signature could lead to override and unauthorized disbursements by personnel that process the disbursements and related backup.

We recommended that management evaluate the disbursement check signing process, and set thresholds whereby live signatures would be required.

These cash disbursement related matters were addressed in 2011.

Payroll Record Keeping and Approvals

We also noted that in 2010 there was no consistent formal review of the payroll register that is generated by the fiscal department.

We also noted during our review of employee timesheets that the Interim Township Manager was approving his own timesheet during the year ended December 31, 2010. We recommended that in the future, a report be submitted to the Board of Commissioners on a quarterly basis summarizing the Interim Township Manager or Township Manager's time allocations.

This payroll related matter was addressed in 2011.

Expense Allocations

In performing our audit for the year ended December 31, 2010, we noted that the township does not have a written plan for allocating expenses among departments and funds. We recommended that management develop and formalize a cost allocation plan.

This comment was addressed in 2011, as the Township initiated and documented an allocation plan for salaries and related expenses.

Prior Year Comments Cleared In 2011 – Significant Deficiencies:

Audit Committee

In 2010, the Township did not have a designated Audit Committee. The Audit Committee (or equivalent) would be responsible for engaging the independent auditors, reviewing the overall audit plan, reviewing the audited financial statements and the related management letter, creating a summary and conclusion, and reporting the resulting summary and conclusion to the Board of Commissioners. It is recommended that the audit committee consist of at least one individual with a financial background, when available.

This comment has been cleared, as on February 14, 2011, The Township Board passed Resolution 2011-01 to establish the Citizens Audit & Financial Advisory Committee.

Approval of Credit Cards and Expense Reimbursements

We reviewed the expense reimbursements, as well as corresponding backup, submitted by the Assistant Township Manager and former Chief of Police for the year ended December 31, 2010 and noted that they each approved their own credit card and expense reimbursement.

We recommended that the credit card and expense reimbursement activity of the Township Manager be reviewed by the Treasurer and that he sign and date the statement to document performance of that review. In addition, the Township Manager should approve the credit card and expense reimbursement activity of the Finance Director by signing and dating the statement.

This comment has been cleared in 2011. The credit card payments and the expense reimbursements now flow through the automated purchase order system, which was established in 2011.

Purchase Order System

We noted that although there are purchase orders that are issued on a regular basis, there are certain expenses that are paid without a purchase order and that purchase order numbers are not always accounted for. We recommend that a formal purchase order system be implemented, which would include the maintenance of a purchase order log to account for issued and open purchase orders. We also noted that blanket purchase orders were issued every six months and approved by the finance director. We recommended that blanket purchase orders be reviewed and approved not only by the finance director, but also by the Board of Commissioners.

We noted that on April 11, 2011, the Board authorized the purchase of additional functionality features for the Township's financial software. This software feature will automate the purchase order process and replace the paper system.

Prior Year Comments Cleared In 2011 – Control Deficiencies/General Comments:

Conflict of Interest Policy

We noted that the Township does have formal policies within their administrative code and an employee handbook from 1990 that would cover the Board of Commissioners, management and employee conflicts of interest. We recommended the Township review their current policies and revise as needed. This policy should identify all business relationships and other dealings between the Township and its Board of Commissions, management, key employees and other such parties with whom the Township conducts business. In addition, all key employees should annually sign a statement to that effect.

This matter has been addressed, as the Board of Commissioners approved and adopted an official Conflict of Interest Policy. The updated policy addresses the items referenced in the preceding paragraph.

Review of Bank Reconciliations

While reviewing the Organization's bank reconciliations prepared by a member of the fiscal staff, we noted that the reconciliations bore no evidence of formal review and approval. We recommended that all bank reconciliations are signed and dated on a monthly basis to denote approval. We noted that the finance director began initialing reconciliations as documentation of review in early 2010, however, other reconciliations that were viewed from later in 2010 bore no approval.

This matter has been addressed in 2011, as the Finance Director now reviews and signs off on all bank reconciliations.

Timeliness of Expense Reimbursements

We noted during our audit that an expense report submitted by the former Police Chief contained expenses from several months prior to the report date. We recommend that the township establish a policy for submitting expense reports in a timely manner (monthly or quarterly).

This comment has been addressed in 2011, as there has been a policy in place since 2007. The Finance Director has created awareness of the policy throughout the Township employees to follow in the future.

Journal Entry Approval

We noted that the journal entries posted by the finance staff or the Finance Director in 2010 did not indicate any review or approval from either the Finance Director or the Township Manager. We recommend that all significant non-recurring, non-standard and/or non-budgeted entries posted by the finance staff be approved by the Finance Director, and all entries posted by the Finance Director be approved by the Township Manager or a member of the Board of Commissioners. We also recommend that management create a policy that determines what defines a recurring entry and what is deemed a significant entry.

This comment has been addressed in 2011, as the Finance Director now reviews and approves all journal entries.

Information Technology: Criminal Background and Credit Checks for Accounting, IT Staff and IT Consultants

We noted that the Township does not always perform credit and criminal background checks upon hire, or with IT Consultants servicing the Township.

To further ensure the integrity of personnel accessing proprietary operational and financial systems and data, we recommend that the Township performs a background and credit check on all new employees, and that IT consultants should perform credit and criminal background checks on all of their personnel serving the Township. In addition, we recommend that credit and criminal background checks for both Township employees and IT consultants get refreshed on a regular periodic basis not to less frequently than once every three years.

This has been addressed in 2011, as all Township employees have completed a criminal background check. The township's legal counsel advised against obtaining credit checks.

Information Technology: Intrusion Vulnerability Monitoring and Testing

In the course of our audit, we were informed that the Township uses a CheckPoint firewall, which is monitored by Delaware County via a VPN connection. It was noted that firewall logs are reviewed on a bi-weekly basis and is configured to notify Steve of Medium and High Risk events. However, Radnor has not had a vulnerability assessment, penetration testing or a risk assessment performed within the last year.

We recommend that Radnor Township consider installing an intrusion detection system to assist in the detection of unauthorized attempts at accessing, manipulating or disabling the Organization's computer systems. In addition, we suggest that Radnor Township consider engaging a third party to perform periodic internal and external vulnerability assessments not less frequently than once every two years. We also recommend that the Township a formal policy surrounding Information Security Incident Response. The policy would include incident definition, handling procedures, logs, notification of appropriate personnel and post incident analysis.

The Township began testing in December 2011 and since then outsourced testing to a third party company.

Information Technology: Physical Security of Servers

The Township's network servers and telecommunications equipment are secured in a locked room with limited access to the room, uninterruptible power supply equipment, and a temperature sensor alert to notify IT personnel of adverse conditions.

To further safeguard the Township's information technology infrastructure, we recommend that the Township consider 1) adding portable fire extinguishers (inspected annually), 2) installing a smoke detector in the server room and 3) installing humidity and water sensors to provide real-time alerts to the Organization's IT personnel should abnormal conditions develop.

This comment has been addressed in 2011, as we noted a fire extinguisher in the server room, as well as a smoke detector. We also noted that the server room contains a humidity sensor that provides real time alerts to IT personnel should abnormal conditions develop.

Radnor Township's written response to the material weaknesses, significant deficiencies and other control and operational matters identified in our audit has not been subjected to the audit procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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

CliftonLarsonAllen LLP

Plymouth Meeting, Pennsylvania
May XX, 2012

DRAFT



MEMORANDUM

TO: Members of CARFAC Committee
FROM: Bob Tate
DATE: June 11, 2012
RE: Business Process Group Sub-Committee Meeting of June 8th, 2012

On Friday, June 8, 2012, members of CARFAC's business process group met with members of the Finance department to discuss and review the department's recommendations for managing the Act 511 business tax enforcement, compliance and collections. A copy of the report is included for your review.

At the request of Finance Director Bill White, the finance staff evaluated the current system for processing business taxes and compared the in-house process with several options for outsourcing. The evaluation compared the labor and expense for each of the following options:

1. Maintain the entire process in-house
2. Outsource 100% of the business tax collection and auditing
3. Outsource the administration and collection of the LST only

At Friday's meeting the CARFAC members and the Finance department staff reviewed the report and the recommendations presented in the report. The members supported the staff recommendation for Option #3 to outsource the administration and collection of the LST only. The committee members discussed with staff their recommendations to further improve the enforcement and compliance with the business tax ordinances. Staff will review with the Director and develop a timeline for implementing the suggested improvements.

In the short-term, the recommendations made by staff, with support of the full CARFAC committee, will be presented to the Manager and then to the Commissioners to consider at their meeting in July. The proposed changes, if adopted, will be effective immediately and changes will be implemented that will impact the next tax reporting cycle.

We look forward to discussing the report and the recommendations discussed in further detail at our meeting Thursday, June 14, 2012 at 7:00 PM.



Radnor Township Act 511 Business Tax Collections Business Process Options June 1, 2012

Radnor Township will collect approximately \$34M in revenue in 2012 with 74%, or approximately \$25M, under the direct administration, control and processing by the finance department. Of the \$25M, approximately \$17M will be collected for real estate taxes and sewer rents and over \$8M in Act 511 taxes.

This report focuses on the Act 511 taxes, specifically the Business Privilege Tax (BPT), the Mercantile Tax (MT), and the Local Services Tax (LST). The Amusement Tax, a de minimus portion of the Act 511 taxes, is not considered in this report.

The report will outline the current processes and costs to administer the Act 511 taxes and will present options for consideration that may better serve the Township and the businesses and provide a most efficient process for this program ensuring compliance and enforcement.

OVERVIEW

Background

Under the current procedures, the Township administers the Act 511 licensing, billing and collection processes in house and, with the support of outside audit and legal professionals, will approve and authorize selected taxpayers for audit. The audit component of the Act 511 process has been largely directed and administered by an independent CPA for close to 20 years with support from a legal team well versed in Act 511 regulations.

In reviewing the in-house process it is important to note some significant changes in the past year. Up until the Fall of 2011, the in-house processes were administered primarily by one employee with support from the Finance staff. The system used by this employee to manage the population of taxpayers and related Act 511 tax information was an Access database. As of the end of 2011, the employee is no longer with the Township and the Act 511 database was converted to Integritax, a web based software program designed for business tax processing which the Township utilizes under an agreement with the provider.

The Finance staff has begun processing BPT licenses and tax returns and LST quarterly filings as of the beginning of 2012 in the new system. As part of the business process options, this report includes the identification of system modifications that would be required to better utilize the software, however there are likely more that have yet to be identified that may be needed to make the system more efficient. In addition, the cost assumptions used in our analysis include a combination of actual costs incurred over the past six months and a projection of future costs based on estimates of what we know and understand as to how the new system performs and our ability to process returns timely and efficiently.

Current Process

The primary business processes undertaken by the Finance department to administer Act 511 taxes include:

1. Mailing BPT License applications to business taxpayers
2. Mailing LST forms
3. Processing LST returns
4. Receiving and processing/printing licenses and applying/depositing \$10 per license fee
5. Mailing printed licenses to respective filers
6. Mailing of BPT tax forms
7. Receive and process tax forms and extensions and apply/deposit payments due by May 15th
8. Identify deficient and potential audit candidates for review with outside auditor
9. Mailing MT License applications to business taxpayers
10. Receiving and processing/printing licenses and applying/depositing \$10 per license fee
11. Mailing printed licenses to respective filers
12. Mailing of MT tax forms
13. Receive and process tax forms and extensions and apply/deposit payments due by August 31st
14. Identify deficient and potential audit candidates for review with outside auditor

In addition to the above, the ancillary and supporting processes for the Act 511 administration include:

1. Opening and sorting the mail
2. Forms printing, folding, envelope stuffing and mailing
3. Preparing spreadsheets for recording of cash receipts
4. Issuing refunds
5. Set-up of new business folders and files
6. Filing of license and tax paperwork
7. Corresponding/meeting with taxpayers to address questions or problems
8. Coordination of information with outside audit/legal team

Costs

In estimating annualized costs to the Township for maintaining the Act 511 processes in-house with the current software capabilities, we considered the actual and estimated times to perform the above functions. The respective rates of pay (adjusted for benefits) were assigned to the above tasks and corresponding times required to complete. The attached schedule titled ATTACHMENT 1 lists the costs in detail. The in-house costs, coupled with the budgeted audit, legal, and software support fees paid to our outside professionals, is as follows:

Finance Department	-	\$ 42,000
Audit Support	-	105,000
Legal Support	-	116,070
Software Support	-	<u>18,000</u>
Total		\$281,070

Although in prior years the Township employed one full time person who managed the Act 511 tax processing, it is difficult to anticipate and estimate, based on the limited experience and involvement of the current Finance department staff with Act 511, to what extent the estimated time and expense will increase over a full year cycle. It would be prudent to consider revising and updating the estimated in-house costs once we have experienced a full cycle of tax processing and can better estimate the time and resources that would have to be dedicated to this process. Given this constraint we are confident that the business options presented below provide the Township some alternatives for improving the process and ensuring enforcement and compliance with our tax ordinances.

BUSINESS PROCESS OPTIONS

The options we propose and will discuss in further detail are as follows:

- Maintain process in-house
- Outsource business tax processing, collection and auditing 100%
- Outsource local services tax (LST) only

A fourth option for consideration is a long term objective which would be incorporated with the finance department's current plan to upgrade to an enterprise wide resource planning software. This option could be considered while acting on any one of the first three options as detailed below.

Option 1 – Maintain Process In-House

Currently the Township has substantially all of the resources and IT structure to continue administering the Act 511 taxes in the same manner as has been performed in past years. The Integritax software had numerous data conversion issues which have been and continue to be addressed by our provider. Modifications have been made to simplify the data entry process and more changes will be recommended to give users greater flexibility and expanded reporting capabilities.

With software improvements, maintaining the process in-house does have certain advantages:

1. Township maintains a connection with the business community
2. Continued 3rd party audit and legal services helps provide a separation between the Township (good guys) and the auditor/lawyer (bad guys)
3. Audit and legal team are established and well versed in Radnor's Act 511 tax collection processes
4. Relatively cost effective option when measured against the audit tax collections in prior years

Some disadvantages include:

1. LST tax collection process is time and paper intensive, processing each quarter high volume, small dollar value transactions
2. BPT & MT tax processing primarily a time intensive data entry function with heavy reliance on sophisticated IT systems to remain efficient
3. Increased clerical needs required to keep up with document filing and maintenance of taxpayers files

Option 2 – Outsource business tax processing, collection and auditing 100%

In evaluating outsourcing options, staff met with representatives from two established service companies providing tax collection services in Pennsylvania. Quotes for services ranged from 1.65% to 2.25% of gross revenues collected, translating to fees that would have to be budgeted each year ranging between \$136K and \$176K, based on current revenue levels.

While virtually all of the processes for billing and collecting the revenue are very similar across both companies, we focused on each company's deficient account follow-up and auditing procedures. We learned that the lower cost provider had greater emphasis on the enforcement and compliance with the tax ordinance and an increased focus on the auditing aspect of the process. The advantages and disadvantages of outsourcing are presented with the assumption of selecting the lower cost provider.

Some advantages we identified by outsourcing the entire tax collection process are as follows:

1. Burden and responsibility for overall administration, collections and communication with the business taxpayers now resides with third party contracted professional
2. Current finance department staff able to absorb other duties and responsibilities as may be assigned
3. Overall cost would be partially offset by anticipated reduction in fees paid to current audit and legal team

Some disadvantages are as follows:

1. Township gives up some control and hands-on involvement/connection with the business community
2. Negative perceptions of the business owners that the Township is less involved in the business affairs of the community
3. Staff concerns over job security when department functions are outsourced

Option 3 – Outsource the administration and collection of the LST only

LST collections are budgeted at just under \$1M for 2012 and of all of the revenue collection processes, administering the LST is the most labor intensive process whereas compared to the BPT and MT tax filings, LST is a high volume/low dollar transaction process. Based on quoted prices from the service providers, outsourcing LST would cost less than \$16,000 annually.

In addition to the same advantages as listed under Option 1, some additional advantages of outsourcing just the LST are as follows:

1. Significant time savings for Finance staff, freeing up resources that could be devoted to the BPT and MT process
2. Nominal savings in paper and postage costs helps offset nominal fee for collecting
3. Preferred low-cost provider is already the recognized collector in Delaware County for Earned Income Tax, therefore businesses are already familiar and likely have an established relationship

Based on our analysis and review of this process, we have not identified any significant disadvantages to outsourcing the LST administration.

AUDIT PROGRAM

In our opinion the Township will continue to be best served by utilizing the independent CPA and legal team for conducting the audits of the Township businesses. By implementing the recommendations noted below, coupled with the modifications to the Integritax software, the Finance department will be better positioned to efficiently process tax returns in a timely manner and better focus our efforts to direct and administer the work of the outside professionals in conducting the business audits.

RECOMMENDATIONS

In light of the above options, there are several recommendations for the Township to consider that will help streamline the process, reduce expenses and eliminate redundant data entry. In our opinion, these recommendations will serve to improve the enforcement of and compliance with Radnor's tax ordinance regardless of the business process implemented.

The recommendations are as follows:

1. Amend tax ordinance to switch the Mercantile Tax filing year from a fiscal to calendar year cycle and set the tax filing deadline at April 15th for BPT and MT
 - aligns with Federal & State tax reporting cycle
 - easier to track and accumulate business revenue & expense on a calendar year cycle
 - ease of reporting and providing documentation to substantiate taxable gross receipts
2. Amend tax ordinance to provide payment of license fee with tax return
 - eliminate time and cost of separate mailings for business license application
 - save time by combining processing of license and fee with tax return
3. Amend tax ordinance to reference Home Rule Charter
 - In addition to acknowledging authority under State of PA to implement taxing ordinance, include reference to authority under Home Rule Charter to set tax rate at 3 mills
 - Avoid potential challenges by businesses claiming Township regulations being inconsistent with State statute

The above recommendations in our opinion will help streamline and simplify the tax reporting process and ideally serve to better promote compliance and make enforcement easier. This we recommend in conjunction with any of the business process options presented for consideration.

Further, in considering a recommendation for a particular option, it is our consensus that Option 3 would be the best possible option to not only maintain, but to improve upon an efficient system for administering the Act 511 tax processes.

Prepared by: Finance Department Planning Group
Members: Amy Lacey, Ben Cooper, Bob Tate

**Radnor Township
Act 511 Business Taxes
Business Process Options**

ATTACHMENT 1

OUTSOURCING ESTIMATES

Vendors:

Taxes >>	BPT	LST	MT
Berkheimer	2.25%	2.25%	2.25%
Centax	1.75%	1.65%	1.75%

Estimated Revenue	\$ 7,837,325	\$ 5,665,074	\$ 920,853	\$ 1,251,398
Estimated Annual Fees - High End >>>	\$ 176,340	\$ 127,464	\$ 20,719	\$ 28,156
Estimated Annual Fees - Low End >>>	\$ 136,232	\$ 99,139	\$ 15,194	\$ 21,899
Estimated Annual Fees - Avg rate of >>> 2.00%	\$ 156,747	\$ 113,301	\$ 18,417	\$ 25,028

COSTS TO PROCESS IN-HOUSE

	Total	BPT License	BPT Return	LST Forms	MT Return
Estimated # of Taxpayers/Forms >>	5,301	1,651	1,651	1,699	300

	Est'd Hours	Avg Rate w/Benefits\$\$	-----Allocated Costs based on Quantity-----				
			Total	BPT License	BPT Return	LST Forms	MT Return
Step 1 - Township Mailing to Taxpayers/Businesses							
Labor efforts	21	\$ 29.40	\$ 617	\$ 192	\$ 192	\$ 198	\$ 35
	28	\$ 51.80	1,450	452	452	465	82
	18	\$ 19.60	353	110	110	113	20
	16	\$ 37.80	605	188	188	194	34
	14	\$ 16.80	235	73	73	75	13
Postage	Allocation based on		2,250	701	701	721	127
Paper	number of forms mailed		231	72	72	74	13
Envelopes	annually		340	106	106	109	19
Step 2 - Taxpayer/Business Responses							
Open/Sort Mail	20	\$ 44.80	\$ 896	\$ 279	\$ 279	\$ 287	\$ 51
Scan / Deposit / Enter on spreadsheet	5	\$ 44.80	224	70	70	72	13
Process licenses	140	\$ 67.20	9,408	9,408	-	-	-
Process refunds	40	\$ 39.20	1,568	488	488	503	89
Process exemptions	5	\$ 51.80	259	81	81	83	15
Process BPT returns	100	\$ 67.20	6,720	-	6,720	-	-
Process MT returns	20	\$ 67.20	1,344	-	-	-	1,344
Process LST Quarterly Returns	160	\$ 30.80	4,928	-	-	4,928	-
Filing	520	\$ 15.00	7,800	2,429	2,429	2,500	441
Postage	Allocation based on		2,250	701	701	721	127
Paper	number of forms mailed		231	72	72	74	13
Envelopes	annually		340	106	106	109	19
			-	-	-	-	-
			\$ 42,050	\$ 15,528	\$ 12,840	\$ 11,226	\$ 2,456
			-	36.9%	30.5%	26.7%	5.8%

ACT 511 PROFESSIONAL SERVICES

Estimated Legal Fees	\$ 116,070.00
Estimated Audit Fees	\$ 105,000.00
Annual License Fees - Integritax	
Year 1	\$ 18,000.00
Year 2	\$ 19,800.00
Year 3	\$ 21,600.00