

# **Maulo & Company, Ltd.**

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April 9, 2019

To the Board of Directors  
West Chester Business Improvement District Authority  
137 North High Street  
West Chester, PA 19380

In planning and performing our audit of the financial statements of the West Chester Business Improvement District Authority as of and for the year ended December 31, 2018, in accordance with auditing standards generally accepted in the United States of America, we considered the West Chester Business Improvement District Authority'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 West Chester Business Improvement District Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the West Chester Business Improvement District Authority'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 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 the West Chester Business Improvement District Authority's internal control to be material weaknesses:

## **Prior Year's Material Weaknesses**

### ***Financial Control***

During our audit, we noted numerous clerical errors in the recording of disbursements and the reconciliation of the bank account. At the beginning of our audit process when these issues were noted, it took the bookkeeping staff repeated attempts to correct the issues. We have also noted that the working schedule of the bookkeeping staff has changed significantly. Additionally, there has been a change of Treasurer; and, it appears that the bookkeeping function now receives significantly less support and supervision than in the past.

We recommend that the situation be examined closely and necessary changes in procedures and/or personnel be made so that, should errors be made, they are discovered and corrected early in the process. We also recommend that a system of cross-training and cross-checking

be implemented, such that, if someone is not available, there is another person available to perform their duties. Also, the results of critical tasks — payroll, billings, bank reconciliations, etc.— need to be checked on a regular basis by a person not performing the task.

Update 2017 – There has been improvement in the bookkeeping function. However, there was a material mis-posting of benefits and no one recognized that the benefits accounts were overstated and significantly overbudget. The monthly QuickBooks reports need to be thoroughly reviewed for budgetary compliance.

Update 2018 – These issues have been corrected

### ***Computer Security***

Prior to our audit, we noted that the computer systems including the QuickBooks® database had been compromised by viruses and that significant amounts of information had been corrupted and/or lost. At the conclusion of our field work, we became aware that the computers had again been attacked by a virus. Because of these virus attacks, the staff had to spend a significant amount of time rebuilding the information that had been compromised. From an audit standpoint, these computer issues raise serious concerns about the financial reporting integrity of the West Chester Business Improvement District Authority.

We recommend that computer security processes be thoroughly reviewed to determine how these viruses are getting into the system and to determine why they are not being detected earlier and stopped before they corrupt the financial records. The security procedures should also provide for adequate backups so that transactions do not need to be repeatedly re-input, which introduces still more chances for errors.

Update 2018 – From discussions with management and from observation, the computer security has been upgraded.

### ***Assessments Receivable***

During our review of the assessments billing and collection process we noted that the balances of the QuickBooks assessments receivable and the Excel worksheet maintained by the administration did not balance. It appears that when the computer system was compromised by a virus, both the QuickBooks listing of receivables and the separately maintained Excel worksheet listing of assessments receivable were damaged. During the rebuilding process these listings were not reconciled.

We recommend that a review of the assessments receivable be undertaken for the purpose of establishing the correct balances of the assessments receivable.

Update 2018 – Our review of the assessments receivable shows that the assessments have been reconciled to the general ledger. This issue has been corrected.

### ***Computer Security***

During our review of internal controls, we inquired if there were procedures in place to computer remove the access for former employees, consultants, and treasurers. After discussions with the staff and with the BID's computer consultant we were told that there were no such procedures in place. This is a significant internal control issue.

We recommend that you undertake a thorough review of computer procedures, access, and interplay with the Chamber of Commerce in order to improve controls and to insure system integrity.

Update 2018 – Our review of the computer controls shows that procedures have been put in place to remove access once employees have left. This issue has been corrected.

### ***Downtown Dollars Program***

The BID had a program called Downtown Dollars where the BID sold certificates redeemable at various establishments in the downtown area. This program was terminated several years ago. There are still a significant number of certificates outstanding. No certificates have been redeemed recently.

We recommend that you review the requirements for continuing to hold the unclaimed funds or, if required, escheating the funds to the state.

Update 2018 – The board of directors has passed a resolution to reclassify the balance of the Downtown Dollars from a liability to revenue as of December 31, 2018. This issue has been resolved.

### **Current Year's Material Deficiency**

#### ***Vendor Invoice Payment Procedures***

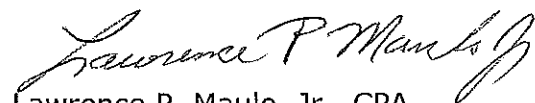
During our review of expenditures, we noted that several vendor invoices did not contain the required approval by two officials and that most invoices did not contain the account number for the account to which the expense was to be posted. By paying invoices with only one authorized signature, internal controls were circumvented. The lack of account numbers on invoices has resulted in several expenditures being posted to an incorrect account.

We recommend that you review the procedures for authorizing the payment of vendor invoices with the personnel authorizing payments emphasize that they follow the procedures. We also recommend that you revise the vendor invoice authorization procedures to require the authorizing personnel to put the expenditure account code on the vendor invoice before forwarding it to the bookkeeper for payment.

If these matters are addressed and the problems corrected, internal controls should be improved and the risk of fraud and/or material misstatement of the financial statements should be greatly reduced.

Sincerely,

MAULO & COMPANY, LTD.



Lawrence P. Maulo, Jr., CPA  
President