

BOROUGH OF HARVEYS LAKE
AUDIT RESULTS
DECEMBER 31, 2021

Prociak &
Associates, L.L.C.
CERTIFIED PUBLIC ACCOUNTANTS

Borough of Harveys Lake
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Required Communications

To the Borough Council
 Borough of Harveys Lake

We have audited the combined financial statements of the Borough of Harveys Lake for the year ended December 31, 2021 and have issued our report thereon dated January 12, 2023. Professional standards require that we provide you with the following information related to our audit:

Area	Comments
Auditors' Responsibilities Under United States Generally Accepted Auditing Standards and Government Auditing Standards In order for those charged with governance to understand the nature of assurance provided by an audit, the auditor should communicate their responsibilities under United States Generally Accepted Auditing Standards.	As stated in our engagement letter dated November 8, 2021, our responsibility as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with the prescribed form required by the Pennsylvania Department of Community and Economic Development. Our audit of the financial statements does not relieve you or management of your responsibilities. As part of our audit, we considered the internal control of the Borough of Harveys Lake. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Borough of Harveys Lake's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.
Significant Auditing Findings <i>Qualitative Aspects of Accounting Practices</i> Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement contract, we will advise management about the appropriateness of accounting policies and their application.	The Borough's significant accounting policies are described in the notes to the financial statements. As part of our audit, we reviewed the accounting policies followed by management in preparing the financial statements. We believe the accounting policies of the Borough are consistent with industry practice and are in accordance with the prescribed form required by the Pennsylvania Department of Community and Environmental Development.

Accounting estimates are an integral part of the consolidated financial statements that require management's judgments based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive due to their significance to the consolidated financial statements and the possibility that future events affecting them may differ significantly from management's expectations.

Audit Adjustments

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report.

Other Information in Documents Containing Audited Financial Statements

The auditor has a responsibility with respect to information in a document prepared by the Borough that contains the audited financial statements.

No new accounting policies of significance were adopted and the application of existing policies was not changed during 2021. We noted no transactions entered into by the Borough during 2021 for which there is a lack of authoritative guidance or consensus. In addition, we noted no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

There are no sensitive estimates in the financial statements.

Appendix A, Summary of Audit Adjustments, summarizes misstatements detected as a result of audit procedures that were corrected by management.

Appendix B, Summary of Proposed but Unrecorded Journal Entries, summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both in individually and in the aggregate, to the financial statements taken as a whole.

We are pleased to report that no such disagreements arose during the course of our audit.

Our responsibility with respect to information in a document that contains the audited financial statements does not extend beyond the financial information identified in our report. We do not have an obligation to perform any procedures to corroborate other information contained in these documents.

Planned Scope and Timing of the Audit

It is the auditor's sole responsibility to determine the overall audit strategy and the audit plan, including the nature, timing, and extent of procedures necessary to obtain sufficient appropriate audit evidence. However, communication with those charged with governance may assist in understanding better the consequences of the auditor's work for their oversight activities.

We performed the audit according to the planned scope and timing previously communicated to you in our letter dated October 21, 2021.

Consultation with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. If a consultation involves application of an accounting principle to the Borough's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts.

To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

The auditor is required to inform those charged with governance of any major issues, including any discussions regarding the application of accounting principles or auditing standards that were discussed with management in connection with the initial or recurring retention of the auditor.

There were no such matters discussed with management prior to our initial or recurring retention as the Borough's auditors.

Difficulties Encountered in Performing the Audit

The auditor should inform those charged with governance of any difficulties encountered in dealing with management related to the performance and completion of the audit.

We encountered no significant difficulties in dealing with management in performing and completing our audit. Management of the Borough was readily available to provide all schedules and documents necessary to complete the audit.

Management Representations

The auditor is required to inform those charged with governance that certain representations are being requested from management in connection with the audit.

We have requested certain representations from management that are included in the management representation letter dated January 12, 2023.

This information is intended solely for the use of the Mayor, Borough Council, and management of the Borough and is not intended to be, and should not be, used by anyone other than these specified parties.

If you have any questions regarding the above, please do not hesitate to call.

Sincerely yours,

Prociak & Associates, LLC

Prociak & Associates, L.L.C.
Certified Public Accountants
Wilkes-Barre, Pennsylvania

Appendix A

The following are the resulting journal entries from the audit of the financial statements of the Borough of Harveys Lake as of December 31, 2021 and the year then ended:

GENERAL FUND

	<u>Account Number</u>	<u>Description</u>	<u>DR</u>	<u>CR</u>	<u>Net Income Effect</u>
(1)	301.02	RE tax delinquent	\$ 82.50		
	310.301	Late per capita collected		\$ 82.50	
	301.000	RE tax current	\$ 3,368.57		
	310.100	Real estate transfer tax	\$ 14,990.56		
	301.020	RE tax delinquent		\$ 18,359.13	\$ -
		To reclassify misposted delinquent taxes			
(2)	330.10	Court and state fines	\$ 668.73		
	331.11	Veh code - magistrate		\$ 668.73	\$ -
		To reclassify misposted fines and forfeits			
(3)	310.20	Earned income tax	\$ 2,734.85		
	310.40	LST taxes		\$ 2,734.85	\$ -
		To reclassify misposted LST			
(4)	380.03	Other misc.	\$ 12,740.00		
	301.30	Garbage fee		\$ 12,740.00	\$ -
		To reclassify misposted garbage fees			
(5)	362.13	School resource officer reimb	\$ 60.00		
	330.12	Parking tickets		\$ 60.00	\$ -
		To reclassify misposted parking tickets			
(6)	355.01	Utility tax rebate	\$ 118.02		
	380.03	Other misc.		\$ 118.02	\$ -
		To balance PURTA to state website			
(7)	403.11	RE tax collector	\$ 2,097.75		
	427.12	Trash credit collect fee		\$ 2,097.75	\$ -
		To reclassify Laurie Kehler paycheck			

Appendix A (cont'd)

	<u>Account Number</u>	<u>Description</u>	<u>DR</u>	<u>CR</u>	<u>Net Income Effect</u>
(8)	410.144	School resource officer	\$ 400.00		
	404.01	Zoning officer	\$ 1,363.32		
	405.12	Salary secretary	\$ 9,260.28		
	410.12	Salary chief	\$ 400.00		
	430.10	Salary foreman	\$ 522.40		
	430.11	Salary roadmen	\$ 377.60		
	410.141	Salary pt patroimen	\$ 316.48		
	410.14	Salary patrolmen	\$ 2,484.00		
	493.18	Employee benefit - bonus		\$ 3,950.00	
	410.31	Hearings		\$ 230.80	
	6560.00	Payroll expenses		\$ 10,943.28	\$ -
	To reclassify misposted payroll				
(9)	405.20	Office supplies	\$ 756.00		
	200.00	Accounts payable		\$ 756.00	\$ (756.00)
	To balance accounts payable				
(10)	405.301	Bank fees	\$ 10.00		
	439.021	Property maintenance	\$ 136.12		
	105.02	EAC fund Citizens		\$ 146.12	\$ (146.12)
	To record ytd EAC account activity				
(11)	362.60	Job Johnnies	\$ 175.75		
	325.31	Zoning permits		\$ 175.75	\$ -
	To reclassify permits				
(12)	100.04	PA local gov't trust	\$ 3.92		
	103.02	Cash cap imp PLIGIT	\$ 1.74		
	341.00	Interest earnings		\$ 5.66	\$ 5.66
	To add interest to PLIGIT accounts and balance to bank statement				
(13)	104.10	PA local gov't trust	\$ 3.17		
	341.00	Interest earnings		\$ 3.17	\$ 3.17
	To record Warden Place maintenance interest				
(14)	405.15	Solicitor	\$ 300.00		
	404.15	Zoning solicitor		\$ 300.00	\$ -
	To reclassify misposted solicitor expenses				

Appendix A (cont'd)

	<u>Account Number</u>	<u>Description</u>	<u>DR</u>	<u>CR</u>	<u>Net Income Effect</u>
(15)	100.10	Cash - general fund Luzerne	\$ 29,150.45		
	270.00	Fund balance general		\$ 29,150.45	\$ -
	To balance cash and record prior year transaction deletions				
(16)	189.07	Leasehold improvements	\$ 47,439.00		
	409.25	Building maintenance		\$ 47,439.00	\$ 47,439.00
	To reclassify leasehold improvements				
(17)	240.00	Due from escrow account	\$ 9,480.50		
	248.00	Zoning escrow	\$ 13,854.75		
	325.31	Zoning permits		\$ 23,335.25	\$ 23,335.25
	To record escrow payments as income				
(18)	430.72	Depreciation	\$ 11,438.00		
	181.121	A/D - Case backhoe		\$ 11,438.00	
	409.71	Equipment depr.	\$ 510.29		
	182.02	A/D - office depr		\$ 510.29	
	430.72	Depreciation	\$ 10,787.00		
	186.031	A/D - Ram Vac		\$ 10,787.00	
	410.72	Building depr.	\$ 13,412.27		
	187.021	A/D - Police bld		\$ 13,412.27	
	410.71	Equipment depr.	\$ 13,778.22		
	187.031	A/D - security cam		\$ 298.09	
	187.041	A/D - 2017 Ford Explorer		\$ 13,480.13	
	430.72	Depreciation	\$ 13,405.20		
	187.051	A/D - 2018 Tar Buggy		\$ 1,322.57	
	188.011	A/D - 2017 Ford F550		\$ 12,082.63	
	430.72	Depreciation	\$ 255.00		
	189.011	A/D - 2018 Cub Cadet CC800		\$ 255.00	
	430.72	Depreciation	\$ 11,249.54		
	189.021	A/D - Skid steer		\$ 11,249.54	
	430.72	Depreciation	\$ 1,867.87		
	189.031	A/D - felling trailer dep		\$ 1,867.87	
	410.71	Equipment depr.	\$ 3,447.27		
	189.041	A/D - Police speed minders		\$ 3,447.27	
	430.72	Depreciation	\$ 7,102.71		
	189.051	A/D - 2019 F-350 XL truck		\$ 7,102.71	
	404.71	Zoning depr	\$ 605.29		
	189.061	A/D - 2007 Nissan Pathfinder		\$ 605.29	\$ (87,858.66)
	To record depreciation				

Appendix A (cont'd)

	<u>Account Number</u>	<u>Description</u>	<u>DR</u>	<u>CR</u>	<u>Net Income Effect</u>
(19)	181.05	Police department equip	\$ 3,414.68		
	410.70	Equipment purchase		\$ 3,414.68	\$ 3,414.68
		To capitalize police cameras			
(20)	410.71	Equipment depr	\$ 682.94		
	181.06	A/D - police dept equip		\$ 682.94	\$ (682.94)
		To record depreciation			
(21)	212.000	EIT w/h	\$ 3,213.76		
	219.000	LST w/h	\$ 211.73		
	221.000	Garbage payment w/h	\$ 17.15		
	223.000	Credit Union	\$ 470.00		
	224.000	Disability ins w/h	\$ 110.58		
	218.000	Unemployment w/h		\$ 3,401.33	
	217.000	Pa income tax w/h		\$ 1,296.57	
	210.00	Fed w/h		\$ 6,215.36	
	211.10	Direct deposit liabilities	\$ 735.13		
	483.16	Social security	\$ 6,154.91		\$ (6,454.91)
		To balance withholding accounts			
(22)	189.07	Leasehold improvements	\$ 28,166.94		
	405.52	Engineer/other than roads		\$ 28,166.94	\$ 28,166.94
		To capitalize engineer fees			
(23)	105.50	Cash - Luzerne bldg improv	\$ 75,000.00		
	255.00	Renovation loan - Luzerne		\$ 75,000.00	\$ -
		To record renovation loan			
(24)	356.00	ARPA funds	\$ 130,523.20		
	249	Deferred ARPA funds		\$ 130,523.20	\$ (130,523.20)
		To defer ARPA funds			
(25)	410.146	Workman's Comp/Heart & Lung	\$ 22,668.69		
	211.10	Direct deposit liabilities		\$ 22,668.69	\$ (22,668.69)
		To record Heart and Lung salary			

Appendix A (cont'd)

	<u>Account Number</u>	<u>Description</u>	<u>DR</u>	<u>CR</u>	<u>Net Income Effect</u>
(26)	252.00	2018 Skidsteer & trailer loan	\$ 196.65		
	441.00	Interest tax loan		\$ 196.65	\$ 196.65
		To balance out Skidsteer			
(27)	253.00	2019 F-350 XL truck	\$ 20.02		
	441.00	Interest tax loan		\$ 20.02	\$ 20.02
		To balance out payable			
(28)	255.000	Renovation loan - Luzerne	\$ 108.05		
	441.000	Interest tax loan		\$ 108.05	\$ 108.05
		To balance note payable			
(29)	486.01	Liability ins	\$ 5,168.57		
	405.20	Office supplies	\$ 842.85		
	411.12	Fire - other		\$ 6,011.42	\$ -
		To reclassify credit card charges			
(30)	499.00	Misc expense	\$ 811.56		
	105.50	Cash - Luzerne bldg improv		\$ 811.56	\$ (811.56)
		To record Luzerne building improvement account activity			

Appendix B

There were no unrecorded proposed journal entries noted during the audit of the financial statements of the Borough of Harveys Lake as of December 31, 2021.

Appendix C

In planning and performing our audit of the financial statements of the Borough of Harveys Lake, (the Borough) as of and for the year ended December 31, 2021, in accordance with auditing standards generally accepted in the United States of America, we considered the Borough's internal control over financial reporting (internal control) as a basis for designing 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 over financial reporting. 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 would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, material weakness 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 significant deficiencies.

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

Cash Receipts Deposits and Records

During our review of cash receipts, we noted the following:

- Numerous cash receipt deposit slips and/or deposit support could not be located.
- Several payments for trash collection services were not deposited on a timely basis.

Strong internal controls over financial reporting and the effectiveness and efficiency of operations include the retention of source documents for cash receipts.

We recommend management take the necessary steps to ensure all source documents for financial transactions are retained.

Cash Disbursement Records

During our review of cash disbursements, we noted the following:

- Supporting documentation, specifically invoices, for all cash disbursements selected for testing could not be located. In addition, the individual invoices for the charges on the BMO credit card are not retained.
- The 2021 BMO credit card charges were not classified in the general ledger during the year. The charges were not classified until the audit commenced in 2022. It was then discovered that several charges were not related to Borough operational expenses, specifically, an employee's personal insurance policy premium. Since the invoices for the credit card charges are not retained, the Borough had to request several invoices from the vendor in order to determine if the charge was related to Borough operations. These items are currently being investigated.

Strong internal controls over financial reporting and the effectiveness and efficiency of operations includes the review of all invoices prior to payment and the retention of supporting documentation for all payments. In addition, accurate financial reporting includes the proper and timely classification of all cash disbursements.

We recommend management review cash disbursement procedures to ensure all cash disbursements are reviewed and approved prior to payment and all supporting documents are retained. In addition, we recommend management ensure all disbursements are properly classified on a timely basis and that financial reports are reviewed on a monthly basis.

Bank Account Reconciliation and Administration

During our review of bank accounts, we noted the following:

- Several bank accounts were not reconciled to the general ledger on a monthly basis. Although these accounts do not have much activity, a review of the statement and a reconciliation to the balance on general ledger should be performed on a monthly basis.
- We noted that voided checks were being deleted in QuickBooks instead of being voided, and physical copies of all voided checks were not retained at the Borough.
- We noted the closing of the Luzerne Bank Harveys Lake Rec Committee account and the opening of the Luzerne Bank Building Improvement Fund were not approved and documented in the council meeting minutes.

Strong internal controls over bank accounts include timely preparation of bank reconciliations, proper reconciling and retention of voided checks, and the reporting of new and closed accounts to Borough Council. We recommend controls over bank accounts be reviewed to ensure all accounts are reviewed and reconciled to general ledger on a monthly basis. In addition, procedures for voided checks should be reviewed to ensure all voided checks are properly accounted for and retained. Lastly, all new and closed accounts should be reported and approved in Council minutes.

Grant Administration and Compliance

During our review of grant activity, we noted the following:

- Internal Controls over the administration of grant programs and compliance have not been implemented.
- CARES Act funding and ARPA funding was utilized for the Air Purification project, however, Davis Bacon Act and/or Prevailing Wage Act rates were not utilized by the contractor. The Borough did not comply with the grant compliance requirements and/or Pennsylvania Prevailing Wage Act (applicable to construction contracts greater than \$25,000) regulations.
- There was no supporting documentation for the total cumulative expenditures of \$41,005.00 as reported on the ARPA March 31, 2022 utilization report.
- Documentation regarding the bidding process for the Air Purification Project was not retained.

Grant contracts require strong internal controls over grant administration and compliance. Non-compliance with grant contracts can jeopardize current and future grant funding.

We recommend the following:

- The Borough review the Air Purification project to determine if corrective action is required regarding the wage paid requirements specified in the grant agreement and/or the Pennsylvania Prevailing Wage Act.
- The Borough review current procedures to determine changes needed to ensure grant programs are administered; compliance is monitored; supporting documentation is retained; and all activity is properly recorded.

Separation of Duties in the Accounting Department

Although the small size of the Borough's office staff limits the extent of separation of duties, we believe certain steps could be taken to separate incompatible duties. The basic premise is that no one employee should have access to both physical assets and the related accounting records or to all phases of a transaction.

One of the most critical areas of separation is cash, where we noted that the bookkeeper is authorized to make journal entries, prepare deposits, disburse funds, and prepare the bank reconciliations. The result is the danger that intentional or unintentional errors could be made and not detected.

Presently, the general checking account bank reconciliations are performed by an outside accountant. However, the other accounts are reconciled by the Borough secretary. We recommend a member of Borough Council review all bank reconciliations on a monthly basis.

A significant deficiency is a deficiency, or 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 deficiency in the Borough's internal control to be a significant deficiency:

Financial Statement Preparation

As is common in small organizations, the Borough's accounting department currently does not perform the following functions:

- Prepare its financial statements, complete with notes, in accordance with accounting principles generally accepted in the United States of America. Accordingly, the Borough is unable to, and has not established internal controls over the preparation of financial statements.

Recently issued Statement on Auditing Standards AU-C265 requires that we report these deficiencies. The SAS does not provide exceptions to reporting deficiencies that are adequately mitigated with non-audit services rendered by the auditor or deficiencies for which the remedy would be cost prohibitive.

We agree with the objective of AU-C265, to inform an organization of all the conditions in its internal control that interfere with its ability to record financial data reliably and issue financial statements free of material misstatement. Communication of the control deficiencies above helps to emphasize that the responsibility for financial reporting rests entirely with the organization and not the auditor. In other words, if an organization is not able to issue, without the auditors' involvement, complete financial statements with notes, in accordance with generally accepted accounting principles, and free of material misstatement, that inability is a symptom of significant deficiencies in internal control.

As mentioned above, whether or not it would be cost effective to cure a control deficiency is not a factor in applying AU-C265's reporting requirements. Because prudent management requires that the potential benefit from an internal control must exceed its cost, it may not be practical to correct all the deficiencies an auditor reports under AU-C265. Accordingly, you may decide that curing the deficiencies described above would not be cost effective and take no action.

In addition, we noted other matters involving the internal control and its operations that we have reported to the management of the Borough in a separate letter dated January 12, 2023.

This information is intended solely for the use of the Mayor, Borough Council, and management of the Borough and is not intended to be and should not be used by anyone other than these specified parties.

January 12, 2023

Prociak & Associates, LLC

PROCIAK & ASSOCIATES, L.L.C.
Wilkes-Barre, Pennsylvania

