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**Management Letter**

Members of Council  
Borough of Churchill  
Pittsburgh, Pennsylvania

Dear Members:

In planning and performing our audit of the schedules included in the Annual Audit and Financial Report of the Borough of Churchill as of and for the year ended December 31, 2017, we considered the Borough's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The following summarizes our comments and suggestions regarding these matters:

Sewer Fund

The Borough has entered into an agreement with Wilkinsburg-Penn Joint Water Authority (Authority) for the preparation and billing of sewage charges for residents of the Borough. Currently, the Borough is only receiving from the Authority an annual summary of the beginning receivable, billings, adjustments, collections and ending receivable. While this information is useful and necessary for the analysis of the funds receipts and operations, it does not provide all the necessary information to ensure the controls over the billings and collections are proper.

The agreement does provide that the Authority shall furnish the Borough reports detailing the customers billed, the amounts billed and usage billed on a quarterly basis. The access to these reports will provide the Borough the information necessary to determine that all Borough customers are billed and the bills are in accordance with the appropriate rates. In addition, the report detailing the usage billed will enable the Borough to reconcile the gallons billed by Alcosan to the Borough to the gallons billed by the Authority to the Borough customers.

We recommend that the Borough contact the Authority and determine what reports are available for its use and have them sent in an electronic format. The use of this information will provide additional controls over the sewer fund billing and receipts.

Contract Testing

During our testing of a contractor's "Daily Time Record", we noted that there was not a clear listing of individual operators and their respective vehicles or machinery operated by such. Instead, they were generalized to the point that it was difficult to determine who operated what vehicle or machinery.

It is our recommendation that the Borough not pay any bills submitted by a contractor until all the information as to who operated what is clearly defined.

Section 125 Plan

The Borough should consider adopting a Section 125 Cafeteria Plan to take advantage of the tax savings for employees and the employer as it relates to the employees contribution for health insurance.

A Cafeteria Plan (includes premium only plans) is an employee benefits program designed to take advantage of Section 125 of the Internal Revenue Code. A Cafeteria Plan allows employees to pay certain qualified expenses (such as health insurance premiums) on a pre-tax basis, thereby reducing their total taxable income and increasing their spendable/take-home income.

Premium Only Plan (POP) is the process of taking after-tax employee contributions to their (employer-provided) group insurance and "converting" them to pre-tax contributions. This results in a tax savings for the employee (federal, FICA, and sometimes state) as well as the employer (FICA and sometimes workers' compensation). This is simply a bookkeeping transaction; no claim process is required as long as the proper documents have been executed to establish this benefit.

Pension Withholdings

The employees covered under the municipal employee pension plan are required to contribute five percent (5%) of compensation. The actuarial report indicates contributions are made on a pretax basis under IRS Section 414(h)(2). It does not appear the employee contributions are being reported on a pretax basis on the employees' pay.

We recommend the treatment of the employee contributions be reviewed.

Form 941

It was noted the amounts reported on Form 941 "Employer's Quarterly Federal Tax Return", line two "Wages, Tips and Other Compensation" was not net of the pretax employees' voluntary 457 plan contributions. That amount should be the same amount as reported on the employees' Forms W-2. The W-2 amounts were correct as those amounts were net of the employees' contributions.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with various Borough 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.

Respectfully submitted,

*Hosack, Specht, Muetzl & Wood LLP*

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Pittsburgh, Pennsylvania  
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