

**TOWN OF TOWNSEND, MASSACHUSETTS**

**Management Letter**

**For the Year Ended June 30, 2011**

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## MELANSON HEATH & COMPANY, PC

CERTIFIED PUBLIC ACCOUNTANTS  
MANAGEMENT ADVISORS

To the Board of Selectmen and Town Administrator  
Town of Townsend, Massachusetts

In planning and performing our audit of the financial statements of the Town of Townsend, Massachusetts as of and for the year ended June 30, 2011, in accordance with auditing standards generally accepted in the United States of America, we considered the Town of Townsend's internal accounting 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 Town's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town'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's 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.

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. Material weaknesses are noted in the table of contents and comment headings.

During our audit we also became aware of certain other matters that we believe represent opportunities for strengthening internal controls and operating efficiency. The recommendations that accompany this letter summarize our comments and suggestions concerning those matters.

The Town's written response to the recommendation identified from our audit has not been subjected to the auditing 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, Board of Selectmen, others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

After you have had an opportunity to consider our comments and recommendations, we would be pleased to discuss them with you.

*Melanson, Heath + Company P.C.*  
April 1, 2013

## **CURRENT YEAR RECOMMENDATIONS:**

### **1. Improve the Cash Reconciliation Process (Material Weakness)**

The Town's current cash reconciliation process does not include the use of a summary report to document all individual bank statement balances and the related outstanding items needed to reconcile to the Treasurer's cash books and to the general ledger. As a result, it is difficult to determine the nature and extent of all reconciling items. In addition, we noted that the Treasurer's cashbook had not been maintained for a number of months, nor reconciled to the bank statements. Throughout the audit process, many of the reconciled balances were changed by the Treasurer as additional reconciling items were identified. In addition, it was time consuming and difficult for the Treasurer to provide support for the reconciling items selected for testing. Further complicating the process, we noted that transfers were made between accounts to fund payroll and vendor warrants that did not always agree with the warrant amounts. We further noted that stale checks dating back a number of years were not reported to the Town Accountant, and many of the bank accounts had not been reconciled for months.

We recommend the Treasurer implement the following recommendations:

- Reconcile all bank accounts each month on a timely basis.
- Clear any old reconciling items identified in the cashbook as soon as possible.
- Ensure transfers made to fund payroll and vendor warrants between bank accounts agree with the actual warrant amounts.
- Establish a tailings account by adding the total stale checks back to the general ledger cash and creating an offsetting tailings liability account. At the same time, the outstanding checks would be voided and removed from the bank account reconciliation.

We also recommend the establishment of a summarized one-page report that shows the reconciling items for each bank statement to prove to both the Treasurer's cashbooks and to the Town Accountant's general ledger. This report should be formally reviewed, approved, and signed by the Town Accountant and Treasurer within thirty days of month end.

Implementation of these recommendations will help ensure total cash balances reconcile to the Town Accountant's general ledger, and will help detect errors and irregularities. This will also simplify the bank reconciliation process and improve the timeliness of reconciling cash with the cashbook and general ledger.

Town's Response:

The Town is in agreement with the finding in item 1. The Town will implement the recommendations during the second half of FY2013.

**2. Improve Controls Over Water Activity (Material Weakness)**

The Water Department is responsible for all phases of the Water activity including, but not limited to:

- Billing
- Collection and posting of revenue
- Abatement approval and posting
- Billing adjustments and posting

One individual or department is responsible for all functions of a transaction cycle results in a lack of segregation of duties. This increases the risk that errors or irregularities could occur and go undetected.

We recommend that the Town transfer collection responsibilities to the Tax Collector's office. We also recommend that individuals involved with abatements and postings to customer accounts be restricted from the handling of collections. Establishing and documenting an adequate segregation of duties and audit trail will protect the Town's assets and reduce the risk of errors or irregularities occurring and going undetected.

Town's Response:

The Town is in agreement with the finding in item 2. On April 9, 2013, the Town Administrator, Tax Collector, and Town Accountant met with the Water Commissioner, the Water Superintendent, and the Water Department's Office Administrator to discuss the concerns and recommendations identified in item 2. All in attendance were in agreement that the concerns have merit and must be addressed. The Town and the Water Department will explore implementing

a lockbox service and on-line bill pay. In addition, the Water Department will develop standard operating procedures to segregate the duties of its employees.

### **3. Develop a More Formal Risk Assessment Process (Material Weakness)**

The Town informally performs its own risk assessment for possible fraud or material misstatement through various policies and procedures and regular reviews of trends in the financial statements. Risk assessment is a management function designed to identify where an organization may be vulnerable to errors and/or irregularities. A complete risk assessment process involves a written description of risk areas identified by those charged with governance (management and elected officials) and a description of how the organization intends on responding to the risks.

We recommend that the Town implement a more formal risk assessment process that includes internal audits and written identification of areas where potential fraud or material misstatements to the basic financial statements may occur. Regular department head meetings could be used as a starting point for documenting risk assessment discussions and assessments.

In evaluating risk areas, particular consideration should be given to situations where a single employee is responsible for performing most or all accounting responsibilities, since this could create opportunities for fraud to occur and go undetected. The Town should evaluate major transactional cycles in all applicable departments to ensure an adequate segregation of duties exists. If staffing levels do not permit an adequate segregation of duties, the Town should provide additional oversight, which should include review and documented sign-off of the key accounting records.

We also recommend the Town establish a formal employee fraud policy to provide staff with guidance in the event they observe or suspect fraud in the work place.

Town's Response:

The Town is in agreement with the finding in item 3. The Town Accountant will develop a risk assessment policy to be brought to the Board of Selectmen for adoption during the second half of FY2013.

4. **Maintain Tax Title Accounts (Material Weakness)**

The Treasurer's office does not maintain records to support Real Estate Taxes placed in Tax Title during fiscal year 2011. As a result, the Tax Title receivable reported in the general ledger was not supported by detailed records.

We recommend the Treasurer's office maintain detailed Tax Title activity by fiscal year. This will improve reconciliation procedures with the Town Accountant, as well as to provide the Board of Selectmen with a periodic update of this critical information.

Town's Response:

The Town is in agreement with the finding in item 4. The Administration has submitted an FY2014 funding request for integrated financial software linking accounting, collections, treasury, and assessing. Support for the funding request has been received from the Capital Planning Committee and Board of Selectmen and a funding source identified. Approval at Town Meeting on May 7, 2013 is anticipated. The new software will make it easier for the Treasurer/Collector to maintain records of tax title properties.

5. **Maintain Assessor Log of Abatements**

The Assessors' Office does not currently maintain a log to track abatements and remaining balances in overlay accounts or a log of open cases with the Appellate Tax Board.

We recommend overlay logs be maintained in order to improve reconciliation procedures with the Town Accountant as well as to provide the Board of Selectmen with a periodic update of this critical information.

Town's Response:

The Town is in agreement with the finding. The Town Accountant has assisted the Assessor's Office in setting up a spreadsheet to monitor abatement/overlay activity. The Assessor's Office has already started using the spreadsheet. The Assessor's Office has also created a log to track open cases with the Appellate Tax Board (ATB).