

TOWN OF TOWNSEND, MASSACHUSETTS

Management Letter

For the Year Ended June 30, 2012

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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, 2012, 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.
Andover, Massachusetts
November 12, 2013

INTRODUCTION:

The following section summarizes prior recommendations that have not been fully implemented and that we think are still worthy of consideration.

PRIOR YEAR RECOMMENDATIONS:

1. Improve the Cash Reconciliation Process (Material Weakness)

Prior Year Issue:

In the prior year, we recommended the Treasurer clear old reconciling items identified in the cash book. We recommended that bank transfers made to fund payroll and vendor warrants agree with the actual warrant amounts. We recommended the Town consider establishing 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 recommended that as part of the monthly cash reconciliation process, the Town document a summarized, one-page report that shows the reconciling items for each bank statement to prove to both the Treasurer's cash books and to the Town Accountant's general ledger. We further recommended that the summarized report be formally reviewed, approved, and signed by the Town Accountant and Treasurer within thirty days from month end.

Current Year Status:

This issue remains unresolved. As a result of our fiscal 2012 audit, we noted the following:

- Total cash reported by the Treasurer was approximately \$90,000 more than the amount reported in the general ledger.
- The Town's cash reconciliation process did 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 then to the general ledger. As a result, it was more difficult to determine the nature and extent of all reconciling items.
- The Treasurer's cash book 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.

- Certain bank reconciliations included old reconciling items. In addition, it was time-consuming and difficult for the Treasurer to provide support for the reconciling items selected for testing.
- Transfers were made between accounts to fund payroll and vendor warrants that did not always agree with the warrant amounts.
- 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.

Further Action Needed:

We continue to recommend the following:

- The Treasurer clear any old reconciling items identified in the cash book as soon as possible.
- Transfers made to fund payroll and vendor warrants between bank accounts agree with the actual warrant amounts.
- The Town establishes 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.
- As part of the monthly cash reconciliation process, the Town documents a summarized one-page report that shows the reconciling items for each bank statement to prove to both the Treasurer's cash books and to the Town Accountant's general ledger.
- The summarized report be formally reviewed, approved, and signed by the Town Accountant and Treasurer within thirty days from 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 cash book and general ledger.

Town's Response:

The Town is in agreement with the finding in Item 1 and will implement the recommended corrective actions. The incumbent Treasurer/Collector has announced her retirement effective at the end of November 2013. The Administration has hired a qualified and experienced interim Treasurer. Legislation is pending that will convert the Collector from elected to appointed. We are also exploring changes in the finance area to improve our operations. We will ensure that Melanson & Heath's recommendations are provided to the new officials and that they are implemented.

2. Improve Controls Over Water Activity (Material Weakness)

Prior Year Issue:

In the prior year, we recommended that individuals involved with abatements and postings Water Department to customer accounts be restricted from the handling of collections.

Current Year Status:

This issue remains unresolved. The Water Department remains responsible for all phases of the water activity.

Further Action Needed:

We continue to 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. A number of operational improvements have been implemented. A drop box is available outside the Water Department Office for after-hours payments, on-line bill paying through UniBank is available as of October 2013, and a triple cash receipt book has been in use since July 2013. Abatements and adjustments are only approved by the Board of Water Commissioners and cannot be approved by office staff. Most significantly, a contract has been awarded to upgrade water meters to automatic radio read meters. This will dramatically reduce the time required to

collect meter data and allow the Superintendent to upload the data, thereby segregating that task from the office staff.

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

Prior Year Issue:

In the prior year, we recommended that the Town develop a more formal risk assessment process. 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. Particular attention should be given to potential related party transactions.

Current Year Status:

This issue remains unresolved. Although the Town informally performs risk assessment for possible fraud or material misstatement through various policies and procedures and regular reviews of trends in the financial statements, it is not performed in a formal and documented methodology.

Further Action Needed:

We continue to recommend that the Town implement a more formal risk assessment process that includes 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 such risk assessment discussion.

Town's Response:

The Town is in agreement with the finding in Item 3. The Town Accountant has developed a draft risk assessment policy. The policy is currently being reviewed. The policy will to be brought to the Board of Selectmen for adoption before the end of the fiscal year.

4. Maintain Tax Title Accounts

Prior Year Issue:

In the prior year, we recommended the Treasurer's Office maintain detailed tax title receivable activity by fiscal year.

Current Year Status:

The Treasurer provided a detailed list of tax title accounts as of June 30, 2012; however, we noted the detail was approximately \$51,000 less than the amount recorded in the general ledger. We were told by the Treasurer this was due to 2012 activity that was not yet reported to the Town Accountant.

Further Action Needed:

We continue to recommend the Treasurer's Office maintain detailed tax title receivable activity by fiscal year, and ensure all activity is reported to the Town Accountant. This will improve control and documented oversight over tax title receivable accounts.

Town's Response:

The Town is in agreement with the finding in Item 4. The Town implemented integrated financial management software in June 2013. The new software will make it easier for the Treasurer/Collector to maintain records of tax title properties. The Treasurer will maintain detailed tax title receivable activity and report it to the Town Accountant. As with Item 1, implementation of the recommended corrective actions will be a carryover task for the new officers in that department.

CURRENT YEAR RECOMMENDATION:

5. Improve Internal Controls in the Tax Collector’s Office (Material Weakness)

Our audit disclosed the following unresolved variances between the Tax Collector’s detail list of outstanding receivables and the Town Accountant’s general ledger balances (in thousands).

<u>Receivable</u>	<u>Collector Detail</u>	<u>General Ledger</u>	<u>Variance</u>
Real estate taxes	\$ 667	764	\$ (97)
Tax title	586	637	(51)
Motor vehicle excises	133	161	(28)

We recommend the Town establish procedures to reconcile receivable records both within the Tax Collector's Office and with the general ledger. To simplify the reconciliation process, we recommend the Tax Collector's Office implement an automated spreadsheet log to track all activity affecting the various receivable accounts. On a monthly basis, this log should be reconciled to detail "balance due" report totals and to the general ledger balances. All differences should be identified and corrected immediately to reduce year-end efforts. These procedures will result in improved controls over Town receivables and will reduce the likelihood of errors or irregularities occurring and going undetected.

Town's Response:

The Town is in agreement with the finding in Item 5 and will implement the recommended corrective actions. The incumbent Treasurer/Collector has announced her retirement effective at the end of November 2013. The Administration has hired a qualified and experienced interim Treasurer. Legislation is pending that will convert the Collector from elected to appointed. We are also exploring changes in the finance area to improve our operations. We will ensure that Melanson & Heath’s recommendations are provided to the new officials and that they are implemented.