

TOWN OF TOWNSEND, MASSACHUSETTS

Management Letter

For the Year Ended June 30, 2014

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Additional Offices:

Nashua, NH
Manchester, NH
Greenfield, MA
Ellsworth, ME

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

In planning and performing our audit of the basic financial statements of the Town of Townsend, Massachusetts, as of and for the year ended June 30, 2014, in accordance with auditing standards generally accepted in the United States of America, we considered the Town'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 entity's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over financial reporting.

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, significant deficiencies or material weaknesses may exist that have not been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to 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 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. 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 responses to the recommendations identified from our audit have 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

June 30, 2015

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 Controls over Water Activity (Material Weakness)

Prior Year Issue:

In the prior year, we recommended that individuals involved with abatements and postings 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 including, but not limited to:

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

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

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 will protect the Town's assets and reduce the risk of errors or irregularities occurring and going undetected.

Town's Response:

Management is in agreement with the finding in Item 1 and with the recommended action. The Water Department implemented a lock box service during FY15. This has reduced walk-in traffic to the office. Furthermore, Water collections will be transferred from the Water Department Office to the Town Treasurer-Collector at Town Hall. This change will take effect on July 1, 2015.

2. Develop a More Formal Risk Assessment Process

Prior Year Issue:

In the prior year, we recommended that the Town develop a more formal risk assessment process.

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. 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, including potential related party transactions.

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:

Management is in agreement with the finding in Item 2 and with the recommended action. The Board of Selectmen has adopted a fraud policy. The policy requires adoption by the Town's elected boards and commissions and the Administration must provide the collective bargaining groups with notice and opportunity to bargain. The Administration is working on these two steps. The Administration will look at other areas where improvements can be made.

CURRENT YEAR RECOMMENDATION:

3. Improve Controls Over Accounts Payable Activity

In our detail testing of vendor invoice, we found two instances where an invoice could not be located by the new Town Accountant. The lack of original documentation increases the risk of duplicate payments or unsupported expenditures.

We recommend the Town ensure that all original invoices be retained in the Accounting department. Documentation, authorization and invoice review

procedures are an integral part of an internal control system and provide assurance that the Town's expenditures are legitimate and accurate.

Town's Response:

Management is in agreement with the finding in Item 3 and with the recommended action. We believe the two invoices in question were misfiled during the transition of Town Accountants. Original invoices will be retained in the Accounting Department.