

TOWN OF TOWNSEND, MASSACHUSETTS

Management Letter

For the Year Ended June 30, 2015

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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 (the Town), as of and for the year ended June 30, 2015, 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

March 8, 2017

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

Prior Year Issue:

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

Current Year Status:

The issue is not fully resolved. We understand that the Town implemented corrective action in fiscal year 2015 by using a lock box service to reduce over-the-counter transactions. However in the year under audit, the Water Department remained responsible for all phases of the water-related activity including, but not limited to:

- Billing
- Posting of revenue to customer accounts
- 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 recommend that the Town continues to monitor internal controls and revise where applicable to ensure that the controls are operating effectively and promote a segregation of duties.

Town's Response:

The majority of the payments are now received and posted by an outside lockbox firm (Century Bank). Additionally, payments are now accepted online through Unipay. The Water Department is in the process of working with their billing software to allow these Unibank online payments to post directly to Water Customer accounts via an electronic file.

The Treasurer/Collectors office now receives all checks and cash that residents mail or come in to pay. These payments are deposited by the Treasurer's

Office. A log of these payments is sent to the Water Department along with the corresponding coupons.

At this time, the Water Department is posting the payments received by the Treasurer. The Water Department then creates a turnover for these payments and gives a copy to the Accountant and the Treasurer. The Treasurer reconciles the turnovers to the bank statements. The Accountant reconciles the turnovers to the Water Department receivables.

All abatements for the Water Department are handled and signed off on by the Water Department Board of Commissioners. If an abatement is approved, they sign it. The Water Department then sends a copy of the signed abatement to the accountant and is integrated into the receivable reconciliation process.

Checks returned for insufficient funds and billing adjustments are signed off on by the Water Department Superintendent. This authority was given by the Water Commissioners. A copy of the NSF information is sent to the Treasurer and the Accountant. The Treasurer verifies these to the bank statement and enters in a negative receipt. The Accountant includes this in the receivable reconciliation process.

Refunds are processed through the vendor warrant. All refunds are signed by the Water Commissioners and submitted to accounting. This happens only when a resident pays a bill twice in error. Usually this is the result of a home sold, and the bill is paid at closing as well as by the resident, or they pay it online and also by check. The Water Department keeps a book with copies of relevant material showing the overpayment.

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 and conflicts of interest.

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:

It is my understanding the risk assessment item is taken care of as a result of the Town of Townsend joining the Red Flag Program. Please refer to the video presentation by Eric Demas at the meeting on August 11, 2015.

CURRENT YEAR RECOMMENDATIONS:

3. Engage a Consultant to Re-establish Complete Reconciliations (Material Weakness)

The Town continues to experience significant turnover in key financial areas. As a result, the June 30, 2015 general ledger reconciliations were substantially delayed and lacked completeness as variances remained in cash and receivables. Additionally, we understand that minimal fiscal year 2016 revenues have been posted the general ledger.

We recommend that the Town engage an outside service provider to assist the Town in re-establishing controls over the general ledger as well as cash and receivable reconciliations.

Town's Response:

Receipts have now been entered through Fiscal Year end 2016. We are in the process of reconciling cash and accounts receivables. The Treasurers' office has closed the gap between the number of months entered and the current date down to 4 months. Previously there was a gap of 9 months. We have entered many pieces of the 4 months and will start the reconciliation process as soon as FY16 is closed. To satisfy the suggestion of hiring an outside consultant, our prior/retired accountant will continue to work until the end of March 2017. She is helping the new Accountant to make the transition a smooth one as well as dedicating a large portion of her hours to reconciling and closing FY16. This action is supported by the Selectmen and Finance Committee.

4. Implement Policies and Procedures at the Recycling Center

During our audit, we became aware that the Town does not have formal policies and procedures over the collection, handling, and remittance of monies collected at the Recycling Center. We were also informed that related

parties may work at the facility. As a result, there is an increased risk that errors and irregularities could exist and not be detected by employees in the normal course of performing their duties.

We recommend that the Town implement formal written policies and procedures over the assessment of fees, collection, handling, and remittance of monies generated at the facility. The policies and procedures should address, at a minimum, the following: the uniform format of receipt records and receipts logs, establishment of audit trails, frequency of remittances to the Treasurer, overnight security, and check-cashing procedures.

Town's Response:

The Recycling Center is open 2-3 days a month. Ethics was contacted with regard to the related parties and do not have an issue with the minimal hours worked with the employee but asked the Chairman of the Board of Health to sign any time sheets instead of the Health Administrator. This has been done and continues. The Chairman will also be evaluating this employee for their performance review.

Currently, the employees at the Center write receipts for the items that are being recycled by taking cash or checks. The Board is currently reviewing online payments as a possibility to get out handling cash. They have previously explored stickers for residents but the Center is a regional facility and the Board decided against this route. The Town has not increased the fees at the Recycling Center since January 2011. They are currently reviewing these fees and will adjust accordingly in January 2017.

All revenue generated is locked in the secured locked safe in the garage Saturday afternoon and picked up Monday morning along with payroll. The receipts are balanced on a spreadsheet which is submitted to the Treasurer on Friday with other payments such as permits and fees. The recycling center garage is locked and only the four Center employees, the Chairman of the Board, and the Health Administrator have keys to this building. There is also a separate gate to enter the facility which currently has 20 keys out to various department heads, trash haulers, and engineers. We also have an extensive security system with four cameras on the building.