

TOWN OF TOWNSEND, MASSACHUSETTS

Management Letter

For the Years Ended June 30, 2017 and June 30, 2018

TABLE OF CONTENTS

	<u>PAGE</u>
INTRODUCTORY LETTER	1
<u>CURRENT YEAR RECOMMENDATIONS:</u>	
1. Continue Improvements Over Monthly Reconciliations	3
2. Improve Compensated Absences Accounting Records	3
3. Improve Timeliness of Cash Receipts Postings	4
4. Prepare for Implementation of GASB Statement No. 84	4

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, 2018, 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.

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.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

During our audit we became aware of 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.

The purpose of this communication, which is an integral part of our audit, is to describe for management and those charged with governance, including those overseeing the financial reporting process, the scope of our testing of internal control and the results of that testing. Accordingly, this communication is not intended to be and should not be used for any other purpose.

Melanson Heath

May 10, 2019

CURRENT YEAR RECOMMENDATIONS:

1. Continue Improvements Over Monthly Reconciliations

In fiscal years 2017 and 2018, the Town had reconciled property tax receivables between the Treasurer/Tax Collector's detailed account balances and the general ledger monthly except for the tax title receivable account. Due to significant turnover in the Treasurer/Tax Collector's office, the tax title receivable detailed account balances were not consistently reconciled with the general ledger control balance, with the difference being \$119,356 as of June 30, 2018. The Treasurer/Tax Collector and Town Accountant are aware of the variance and have been actively trying to determine and investigate the difference.

We recommend that the Town continue to reconcile monthly and to devote resources to researching this variance and, at a minimum, reconcile annual activity between the Treasurer/Tax Collector's records and the general ledger. This will help ensure the variance does not change and will provide a better opportunity to identify and implement a timely resolution.

Town's Response:

The Town devoted additional time and resources to close the gap in the reconciliation and perform the reconciliation on a monthly schedule. At the beginning of fiscal year 2018, the Treasurer/Collector devoted some time in researching old tax title balances and has reduced the gap of what is in the tax software to the general ledger. We will continue the research and book or clear the outstanding tax title balances.

2. Improve Compensated Absences Accounting Records

During fiscal year 2018, the Town began using a payroll service to track and monitor compensated absence (i.e., earned but unused vacation time) balances for employees. However, this new report did not properly calculate the amount payable to each employee as of June 30, 2018 based on individual vesting requirements and maximum accrual balances.

While the Town made improvements by automating and centralizing the accounting for employee compensated absences, we recommend that the Town reconcile balances calculated on the report in accordance with relevant vesting requirements and maximum accrual balances in order to provide an adequate audit trail and estimate of the liability at year-end.

Town's Response:

The Town has been working diligently with all departments to assure that the accrual balances are correctly recorded in the payroll system. An accrual report is sent out to department heads after every payroll cycle for verification. Additionally, the Town will be switching to the Time and Attendance automated system that has more capacity and flexibility for calculating accrual balances for specific contracts and reporting.

3. Improve Timeliness of Cash Receipts Postings

During fiscal years 2017 and 2018, we noted that the Treasurer receipt information was often reported to the Town Accountant several months in arrears. Consequently, the general ledger records were not up to date and could not be reconciled in a timely manner in order to provide budgetary (budget vs. actual) data accurately within a reasonable amount of time.

We recommend that the Treasurer's receipt information be reported to the Town Accountant by the third week of the subsequent month in order to facilitate a timelier reconciliation and accurate budgetary reporting. Additionally, this will improve the Town's ability to identify potential errors or irregularities occurring and going undetected.

Town's Response:

The 2017 gap in reconciliations was caused by the significant turnover in the Treasurer's office and additional time needed to reconcile the outstanding receipts. The past due reconciliations were completed in fiscal year 2018, and for the remainder of the year the deposit receipts were posted on a monthly basis.

4. Prepare for Implementation of GASB Statement No. 84

The Governmental Accounting Standards Board (GASB) has issued Statement No. 84, *Fiduciary Activities*, that will apply to the Town in fiscal year 2020. Statement 84 changes the way certain Agency Funds are to be accounted for. Currently, Agency Funds have no measurement focus and are simply assets offset by corresponding liabilities. The changes establish a measurement focus on these activities and may require a change in how the Town accounts and reports these activities. Specifically, revenue and expenditure accounts may need to be added to the Town's general ledger in order to maintain the newly required measurement focus.

We recommend that the Town prepare to implement Statement No. 84. An implementation guide is scheduled to be published in the near future and should provide guidance including possible revisions to the Town's chart of accounts.

Town's Response:

The Town is aware of the new requirements of GASB statement No. 84 and is taking the required steps to ensure that any and all new requirements will be implemented in a timely manner.