

**TOWN OF TOWNSEND, MASSACHUSETTS**

**Management Letter**

**For the Year Ended June 30, 2013**

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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, 2013, 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*

May 15, 2014

## **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 address the following issues:

- Clear old reconciling items identified in the cash book as soon as possible.
- Ensure transfers made to fund payroll and vendor warrants between bank accounts agree with the actual warrant amounts.
- 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 removed from the bank account reconciliation.
- As part of the monthly cash reconciliation process, the Town should prepare 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 should be formally reviewed, approved, and signed by the Town Accountant and Treasurer within thirty days from month end.

#### Current Year Status:

The Treasurer was able to clear many of the old reconciling items identified in the cash book; however, the other issues were not fully resolved. During our current year testing, we identified significant online bank deposits during June 2013, which were not reported to the Town Accountant for posting to the general ledger. As a result, these deposits generated a variance between the general ledger and the reconciled bank accounts, as these receipts were omitted from the overall cash reconciliation process.

#### Further Action Needed:

We continue to recommend the following:

- 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 removed from the bank account reconciliation.
- The summarized cash summary report be formally reviewed, approved, and signed by the Town Accountant and Treasurer within thirty days of month end.
- The Town improve internal controls over receipts to ensure all bank activity is reported and accounted for in the general ledger.

This 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:

Management is in agreement with the finding in item 1. The Town will work to implement the current year recommendations before the end of FY2014.

**2. 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. This 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 and the Water Superintendent are in agreement with the finding in item 2 and with the recommended action. Absent a bylaw adoption, the Board of Water Commissioners (BOWC) must agree to move collections to the Town Collector. To date, the BOWC has resisted the recommended action. The BOWC is scheduled to meet in the near future with the Board of Selectmen, and the Administration will continue to urge the transfer of collections to the Town Collector.

**3. 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 3. The Board of Selectmen 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.

**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, 2013; however, we noted the detail was approximately \$51,000 less than the amount recorded in the general ledger. We were told by the Treasurer that this was due to 2013 activity that was not 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 controls of tax title receipts and receivables.

Town's Response:

Management is in agreement with the finding in item 4. The Town implemented integrated financial software last year. Progress has been made in tax title accounts. The Treasurer will track tax title activity by fiscal year and report activity to the Town Accountant.



## **CURRENT YEAR RECOMMENDATION:**

### **5. Improve Controls over Petty Cash**

The Recreation Department maintains a petty cash fund to deal with short-term disbursement needs. However, we noted that no formal policies and procedures exist to provide guidance in the proper maintenance and uses of petty cash funds. This increases the risk of errors and abuses occurring and going undetected. We further noted that when the petty cash fund has been depleted, and not yet replenished, the Department would use program receipts to make purchases.

We recommend that the Town prepare formal policies and procedures for the administration of petty cash funds. At all times the combination of cash on hand and disbursement slips should equal the fixed amount. This proof should be documented on a monthly basis and retained. This will provide additional controls and documentation over petty cash funds. We further recommend the Town consider amending the Recreation Department's petty cash fund to a level that will meet the department's immediate needs.

#### **Town's Response:**

Management is in agreement with the finding in item 5. Management will work with the Recreation Commission and the Recreation Director to develop policies and procedures for petty cash, including providing monthly documentation. We will also evaluate the needs of the Department and adjust the petty cash fund to meet the needs.