

TOWN OF SHARON, 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
Sharon, Massachusetts

In planning and performing our audit of the financial statements of the Town of Sharon, 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 of Sharon'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 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 our comments and suggestions 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, Audit Committee, Board of Selectmen, and 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

July 24, 2014

1. Include All Disbursements on Town Warrant (Material Weakness)

Certain large disbursements for debt payments were paid by the Treasurer using wire transfers, but were not included in the Town's vendor warrants. As a result, there were no authorized disbursement approvals by the Board of Selectmen, the Town Accountant was not aware of these disbursements, and the general ledger and appropriation reports reflected materially inaccurate balances. Massachusetts General Law Chapter 31, section 52 specifies that all payments of bills and payroll must be approved by the Board of Selectmen on a warrant before being paid by the Treasurer. We understand these situations were identified by the Town Accountant during the process of reconciling the Treasurer's cash book to the general ledger.

We recommend all disbursements be included on warrants and that the warrants be dated the same as the actual disbursement. This will result in disbursements being properly authorized and properly recorded in the general and appropriation ledgers.

Town's Response:

The Town has over the past few years been working to modify and improve the cash disbursement process for wire transfers of debt and health insurance. This process has now been accomplished with transactions being recorded and paid in the current period.

2. Maintain Cash Book and Perform Cash Reconciliations in Timely Manner (Material Weakness)

With the assistance of outside consultants, the Treasurer's office maintained a cash book, however, it was not updated in a timely manner, did not include all activity, and did not include all Town bank accounts. Because of delays in the completion of the cash book and because of multiple transactions not reported in the general ledger (see comment 1), the Town was not able to reconcile the Treasurer's cash to the general ledger in a timely manner. As a result, the Town was not able to close the fiscal 2013 accounting records in a timely manner and the year-end audit was delayed considerably. We understand this is a continuing problem in fiscal 2014, and that as of the time of our audit fieldwork in May 2014, the Town's cash had not been reconciled since June 30, 2013. This places the Town's cash balances at great risk and increases the risk that interim revenue and expenditure reports are inaccurate.

We recommend the cash book format be revised and upgraded, that postings be completed and bank accounts be reconciled within three weeks of each month end for all Town bank accounts. We further recommend that bank reconciliations be documented on a single form/spreadsheet that is approved by the Town Accountant and Treasurer, and that it be provided to the Town Administrator within 30 days after month end. This will result in improved documented evidence that the Town's bank balances are accurate and free

from material errors or irregularities and will allow the Town to close its accounting records for audit in a more timely manner.

Town's Response:

The Town has hired an outside consultant (a former Treasurer) to complete a total redesign of our cash reconciliation system and train the Treasury staff in using the new system. Duties have been clearly defined with Treasury, written daily processing routines have been instituted, and staff has been trained in these duties and processes. The process is well underway and we continue to work with staff to make sure routines are followed and are working to bring this process to a more current state.

3. Reorganize Job Responsibilities and/or Cross Train Staff (Material Weakness)

Because of the issues mentioned in comments 1 and 2, the Town Accountant continues to spend extensive time to identify the Treasurer's cash transactions that were erroneously not reported in the general ledger. The Town Accountant has created very elaborate spreadsheets to accomplish this analysis.

Also, we understand that the Town's bank no longer maintains a list of outstanding checks, nor prepares reconciliations for the vendor and payroll accounts. To compensate for this, the Town Accountant has been performing these functions. Typically bank reconciliations are one of the major responsibilities of the Town Treasurer. Shifting this responsibility to the Town Accountant places a great burden of additional responsibility on the Town Accountant. It also creates risk for the Town because most critical accounting and reconciling responsibilities are performed by one person. In the event of an unexpected absence of the Town Accountant, the Town's accounting system would deteriorate quickly.

We recommend the Town reorganize job responsibilities, and/or at a minimum, cross train staff to perform accounting and reconciling responsibilities which are currently performed by the Town Accountant. This will improve oversight and segregation of duties over the Town's accounting records and cash balances.

Town's Response:

The Town has been working with an outside consultant to cross train staff and bring Treasury responsibilities back into the Treasury department. While the process is still ongoing, we have made great headway and should have this process completed within FY14.

4. Improve Various Internal Controls

Our audit procedures included a review of the internal controls applied to various financial functions of the Town, such as accounting, treasury, vendor disbursements, payroll, computer applications, etc. This review involved the analysis of internal control questionnaires prepared by Town personnel as well as discussions with personnel regarding the responses to the questionnaires. As a result we identified the following areas in which improvements could be made:

A. Departmental Receipts

- The Town should establish a formal departmental receipt policy and standard departmental receipt log. The policy should address physical security, audit trails, oversight, and frequency of turnovers.

Town's Response:

The Town will work on a formal departmental receipt policy.

- The Town Accountant should periodically perform internal audits of a sample of departmental receipts.

Town's Response:

The Town Accountant will work on periodically performing internal audits of sample departmental receipts.

- Departmental receipt turnover forms should be signed by the preparer and a reviewer in each department, copies should be remitted to the Treasurer and Town Accountant, and originals retained by each department.

Town's Response:

The Town will try to work on a policy for signatures on all departmental receipts. Due to many offices only having one person handling this process we will have to review the policy and see how multiple signatures can be obtained.

- Departments should carefully code incoming receipts to the appropriate chart of account numbers to minimize the need for multiple reclassifications throughout the fiscal year.

Town's Response:

The Town will work with departments to review the posting of chart of account numbers to minimize the need for reclassification through the fiscal year.

- The Treasurer’s office should maintain an improved filing system for all departmental receipt turnovers and for all bank statements.

Town’s Response:

The Treasurer’s office has completed a filing system for all departmental receipt turnovers and bank statements so they can be clearly identified when research is needed.

- Tax Collector cash out documentation should be signed by the preparer and a reviewer.

Town’s Response:

The Town will review the process of the Tax Collector cash out documentation and preparation policy.

- The Tax Collector should consider installing a cash register to track accountability of which clerk accepted each payment.

Town’s Response:

The Town will consider installing a cash register to track accountability of each accepted payment.

- The Council on Aging should improve departmental receipt procedures, including:

- All receipts should be remitted to the Treasurer for deposit, and never be used to make petty cash purchases.
- Receipt turnovers should be signed by the preparer and a reviewer.
- A receipt log should be maintained daily as receipts occur.
- Receipt turnovers should be more frequent (weekly or bi-weekly).

Town’s Response:

The Town will review information with the Council on Aging and have them work on establishing the proper audit requested policy.

- The Recreation department should improve receipt procedures, including:

- Improve physical security over receipts
- Document oversight of receipt turnover records
- Document audit trail of currency and check receipts
- Maintain receipt log and reconcile to turnovers

Town’s Response:

The Town will review information with the Recreation department and have them work on establishing the proper audit requested receipt policy.

B. Cash Maintenance

- All bank statements should cut off as of month-end.

Town's Response:

The Town will review with the Treasurer the request for bank statement cut off and work to have this process established.

- All local banks should be contacted annually to determine whether any unauthorized bank accounts exist under the Town's employer identification number (EIN).

Town's Response:

The Town will review with the Treasurer and contact all local banks to determine whether any unauthorized bank accounts exist under the Town's employer identification number.

- Bank reconciliations should be signed by the preparer and a reviewer.

Town's Response:

The Town will review the process for Bank reconciliations signatures.

- Specific trust fund bank accounts should be reconciled to corresponding general ledger balances on a quarterly basis.

Town's Response:

The Town is working on reconciling Trust Fund bank accounts to the general ledger.

- Cash collateralization should continue to be monitored.

Town's Response:

The Town will continue to monitor the cash collateralization.

C. Petty Cash

- The Town should establish a formal petty cash policy for departments to follow.

- The Town Clerk and Recreation Departments should establish formal "imprest" petty cash systems.

Town's Response:

The Town will work to establish a formal petty cash policy for departments to follow and establish formal "imprest" petty cash systems.

D. Payroll

- The Town should evaluate and restrict the employees who have access to the payroll system and have ability to change rates of pay.
- The Town should improve oversight over employee withholdings and periodically perform test calculations over a sample of withholding amounts, and reconcile all accounts on a quarterly basis.

Town's Response:

The Town will work to evaluate the restriction level in the payroll system and work to establish a policy in reconciling employee withholdings on a minimum of a quarterly basis.

E. General Ledger

- The general ledger revenue accounts for school lunch should be expanded to track state and federal portions separately.

Town's Response:

The Town will do a breakdown as requested for school lunch state and federal disbursements.

- Septic betterment receivable balances should be reconciled between the Assessor's records and the general ledger.

Town's Response:

The Town will work on a procedure to reconcile septic betterment receivables from the Assessor's records to the general ledger.

- The Town should formalize the monitoring of detailed actual revenues compared to the budget, as reported on the tax recap form.

Town's Response:

The Town will work to formalize the monitoring of revenues vs the tax recap.

- All general ledger adjusting journal entries should be signed off by the Town Accountant to indicate approval for posting. This will improve documented oversight over adjusting journal entries and control over the general ledger.

Town's Response:

The Town will work on the approval policy for all Town Journal entries.

- Procedures should be established to periodically evaluate and update general ledger access rights, particularly by removing terminated employees in a timely manner.

Town's Response:

The Town will work with the IT department to timely remove terminated employees from the General ledger access.

F. Other

- The Town Accountant should periodically test a sample of tax title receivable balances to the Registry of Deeds website to ensure accounts are properly liened as reported.

Town's Response:

The Town will work to do a sample test of tax title balances with the Registry of Deeds.

- The Town should establish a formal enterprise fund indirect overhead cost allocation plan to document the basis for all indirect costs reimbursed to the general fund.

Town's Response:

The Town will work to establish a formal enterprise fund indirect overhead cost allocation.

- Computer passwords should be periodically changed.

Town's Response:

The Town will strive to change computer passwords on a periodic basis.

- Access to the Town's vendor master file should be evaluated and restricted.

Town's Response:

The Town will work to restrict access to the vendor master file.

- The tracking of employee sick and vacation time should undergo thorough oversight and testing. We noted various inconsistencies and calculation variances in our testing. We recommend the Town investigate integrating the tracking of compensated absences with its automated payroll processing.

Town's Response:

The Town will work with the new Treasurer and Payroll Clerk to correct variances in the tracking of sick and vacation time.

- The Town should formally implement a “Red Flag” policy for detecting identity theft in accordance with Federal Trade Commission (FTC) requirements.

Town's Response:

The Town will review the “Red Flag” policy for detecting identity theft in accordance with the Federal Trade Commission.

- The Town should investigate and resolve all old deficit capital project balances, and ensure that BANS or bonds are issued for all authorized projects in a timely manner.

Town's Response:

The Town is working on the resolution of any deficit capital project balances and will ensure that BANS or bonds are issued in a timely manner.

- The Town should monitor the fund balance in the health trust account. In fiscal 2013, the fund reflected an operating loss of \$812,000, resulting in a remaining fund balance of only \$130,000.

Town's Response:

The Town continues to monitor the Health Trust Account to make sure it remains in a positive balance.

- All expense reimbursements should be approved by someone other than the individual receiving the reimbursement in order to improve documented oversight and control.

Town's Response:

The Town maintains oversight of reimbursements during the accounts payable process.