

**TOWN OF SHARON, MASSACHUSETTS**

**Management Letter**

**For the Year Ended June 30, 2014**

## TABLE OF CONTENTS

	<u>PAGE</u>
<b>TRANSMITTAL LETTER</b>	1
1. Maintain Cash Book and Perform Cash Reconciliations in Timely Manner (Material Weakness)	3
2. Reorganize Job Responsibilities and/or Cross Train Staff (Material Weakness)	3
3. Develop a More Formal Risk Assessment Process	4
4. Establish Fiscal Policy Goals	5
5. Improve Various Internal Controls	5

**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, 2014, 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*

June 23, 2015

1. **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, 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 2014 accounting records in a timely manner and the year-end audit was delayed considerably. We understand this has improved somewhat but continues to be a problem in fiscal 2015, and that as of the time of our audit fieldwork in April 2015, the Town's cash had not been reconciled since January 31, 2015. 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.

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

Because of the issues mentioned in comment 1, the Town Accountant continues to spend extensive time to identify the Treasurer's cash transactions. 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 respon-

sibilities 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 FY15.

**3. Develop a More Formal Risk Assessment Process**

The Town informally performs its own risk assessment for possible fraud or material misstatement through various policies and procedures and regular reviews of trends in the financial statements. 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.

We recommend that the Town implement a more formal risk assessment process that includes internal audits and 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 documenting risk assessment discussions and assessments.

In evaluating risk areas, particular consideration should be given to situations where a single employee is responsible for performing most or all accounting responsibilities, since this could create opportunities for fraud to occur and go undetected. The Town should evaluate major transactional cycles in all applicable departments to ensure an adequate segregation of duties exists. If staffing levels do not permit an adequate segregation of duties, the Town should provide additional oversight, which should include review and documented sign-off of the key accounting records.

We also recommend the Town establish a formal employee fraud policy to provide staff with guidance in the event they observe or suspect fraud in the work place.

Town's Response:

The Town will work to review and consider a more formal risk assessment process.

**4. Establish Fiscal Policy Goals**

The Town currently does not have any formal policies establishing financial guideline levels and spending criteria for the general fund, enterprise funds, and stabilization fund. As a result, there is a risk that fund balance levels could fall below the levels recommended by financial advisors, thereby risking a reduction in the Town's bond rating.

We recommend the Town establish long-term fiscal policy goals, including issues such as established thresholds for general stabilization, and enterprise fund unassigned fund balance levels, as well as plans to stabilize future tax and utility rates. This will help ensure adequate resources exist for funding unexpected costs, minimize future interest costs through continued strong bond ratings, and provide resources to deal with the effects of future downturns in the regional economy.

Town's Response:

The Town will review the above recommendation and work towards establishing Fiscal Policy Goals.

**5. 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 interviews, testing, and 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.

- Departmental receipt turnover forms should be signed by the preparer and a reviewer in 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.

- 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 Department of Public Works should improve receipt procedures, including:

- A cash register should be utilized to track incoming receipts.
- A receipt log should be maintained daily as receipts occur.
- All checks should be stamped "For Deposit Only" upon receipt.
- Collections should be reconciled to general ledger revenue account on a monthly basis.
- Receipt turnovers should be signed by the preparer and a reviewer.

Town's Response:

The Town will consider installing a DPW cash register and will follow up on the above procedures.

## 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.

- Old outstanding checks should be taken to tailings.

Town's Response:

The Town will work with the new Treasurer to make sure tailings are done in a timely manner.

### C. Petty Cash

- The Town should establish a formal petty cash policy for departments to follow.
- The Department of Public Works should establish a formal "imprest" petty cash system. Vouchers should be used and signed by recipient and supervisor for approval.

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.
- The Town should review payroll on a weekly basis to ensure all employee rates are accurate.
- The Town should ensure that all time sheets are signed for approval.

##### 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. Payroll rates are reviewed weekly and time sheets are all signed weekly as well.

#### E. General Ledger

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

##### Town's Response:

A policy change was made for 2015 and the breakdown of federal and state lunch revenue is being done.

- 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 versus 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:

Policy change was done in 2015 and all journal entries are being signed off by the Accountant.

- The Town should formalize the tax receivable reconciliation between the general ledger and the Collector.

Town's Response:

The Town will work to formalize the tax receivable reconciliation between the GL and the Collector.

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 lien-ed as reported.

Town's Response:

The Town will work to do a sample test of tax title balance 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.

- 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 on using the payroll system to monitor and track sick and vacation time.

- 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 on a borrowing schedule to make sure all capital funds are borrowed in a timely manner. All deficit funds have been resolved in 2015.

- The Town should establish a procedure to track and maintain the police detail account.

Town's Response:

The Town will work on a procedure to maintain a current balance of the Police Detail Account.