

TOWN OF SHARON, 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
Sharon, Massachusetts

In planning and performing our audit of the basic financial statements of the Town of Sharon, Massachusetts 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 Town'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 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, the 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.

Melanson Heath

January 13, 2016

OPENING REMARKS:

We would like to commend the Town for making improvements in the internal control processes of various departments and resolving several prior year management letter comments. Specifically, the following prior-year recommendations were resolved or substantially resolved as of the time of our fiscal year 2015 audit fieldwork:

- Maintain cash book and perform cash reconciliations in a timely manner.
- Reorganize job responsibilities and/or cross-train staff.
- Contact local banks to determine whether any unauthorized bank accounts exist under the Town's employee identification number (EIN).
- Expand the general ledger revenue accounts for school lunch to track state and federal portions separately.
- Sign all general ledger journal entries by the Town Accountant to indicate approval for posting.
- Formalize tax receivable reconciliations between the general ledger and Collector.
- Periodically test a sample of tax title receivable balances with the Registry of Deeds website.
- Investigate and resolve all old deficit capital project balances.
- Track and maintain the police detail account.

CURRENT YEAR ISSUES:

1. 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 towards establishing the recommended formal policies as stated above.

2. Establish Fiscal Policy Goals

The Town currently does not have 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 work towards establishing the recommended formal policies as stated above.

3. Prepare for Single Audit Changes

In fiscal year 2016, there will be significant new requirements related to single audits. In addition to raising the threshold for requiring a single audit from \$500,000 to \$750,000, there are new requirements of OMB's *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (UG) for single audits. The following summarizes the major changes:

- Financial and program management –
 - Establish written policies and procedures for the following:
 - Cash management
 - Determination of allowable costs
 - Employee travel
 - Implement internal controls that comply with COSO’s “Internal Control Integrated Framework”

- Property standards – equipment –
 - Maintain property records that include description, serial/identification number, source of funding, acquisition date, cost, location, and ultimate disposition data
 - Conduct a physical inventory every 2 years and reconcile to property/fixed asset records
 - Implement a control system to safeguard property from loss, damage, theft

- Procurement –
 - Establish written policies and procedures for the following:
 - Procurement in compliance with the new procurement standards
 - Standards of conduct covering conflicts of interest
 - Process for conducting proposal evaluations
 - Maintain certain records to detail the history of procurement
 - Implement oversight procedures to ensure contractors perform in accordance with terms

- Subrecipient monitoring and management –
 - Establish written policies and procedures for the following:
 - Communication of award requirements
 - Responsibilities for monitoring subrecipients
 - Process for monitoring
 - Methodology for resolving findings
 - Requirements for audits

We recommend that the Town prepare for the single audit changes by training staff and establishing the aforementioned documented policies and procedures. This will help the Town to minimize the risk of new single audit compliance findings in fiscal year 2016.

Town's Response:

The Town will work towards establishing the recommended formal policies as stated above.