



TOWN OF STOW, MASSACHUSETTS

Management Letter

For the Year Ended June 30, 2019

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Additional Offices:

Nashua, NH
Manchester, NH
Greenfield, MA
Ellsworth, ME

To the Board of Selectmen
Town of Stow, Massachusetts

In planning and performing our audit of the basic financial statements of the Town of Stow, Massachusetts, as of and for the year ended June 30, 2019, 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.

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 a certain deficiency in internal control that we consider to be material weakness.

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 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 our comments and suggestions have not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

This communication is intended solely for the information and use of management, the 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.

Melanson Heath

June 15, 2020

Current Year Issues

1. Improve Cash Reconciliation Procedures (Material Weakness)

The Town's internal controls over cash reconciliations are not adequately designed. Specifically, no formal review and approval was performed by a secondary knowledgeable individual. As a result, we identified a reconciling item (approximately \$133,000) that upon further investigation may have been modified to produce an ending cash balance to agree with the Town's general ledger. The Town has contacted the Commonwealth of Massachusetts and our understanding is that an investigation has commenced.

We recommend that the Town establish a new form, that documents overall monthly reconciliation of cash and investments, specifically identifies all reconciling items and that the form be presented to the Town Accountant for review and formal approval. The implementation of this recommendation will strengthen the Town's documentation and oversight of cash reconciliations.

Town's Response:

The monthly cash reconciliation process will include a form that specifically identifies all reconciling items and bank statements will be given to the Town Accountant for review and formal approval.

2. Record Bond Anticipation Note Pay Downs

In fiscal year 2019, the Town was required to paydown bond anticipation notes by \$180,000, however, only budgeted \$90,000 for the paydown. As a result, the Fire Station and Community Center capital project fund had a deficit balance of approximately \$75,000 (the difference of \$15,000 coming from unspent project appropriations).

We recommend that the Town appropriate for all bond anticipation note paydowns to avoid future deficits.

Town's Response:

The Town had changed financial advisors in FY19 and the bond anticipation paydown amount was changed from what was originally given to the Town during the budget process.

3. Ensure Accurate Recording of Town Meeting Actions and Monitor Revenue Budget

During our audit, we noted that an article from the Town's Special Town Meeting in October 2018 for \$7,500 was not recorded in the Town's general ledger. Additionally, the Town currently does enter budgeted revenues into the general ledger. As a result,

the Town is not utilizing the computer-generated budget vs. actual revenue report. This process increases the risk that errors could occur in the receipt process.

We recommend the Town review the procedures currently in place to ensure that all meeting actions are accurately recorded in the general ledger. Furthermore, we recommend the Town incorporate budgeted revenue amounts in the general ledger in order to utilize the automatic variance analysis function. This will provide a more efficient process to analyze monthly revenues to identify unexpected trends and variances.

Town's Response:

That was the only money article on that STM meeting and it was overlooked. Invoices for that article have not been received. The Town Accountant will ensure that this will not happen in the future. The Town Accountant prepares local receipt budget to actual reports on a regular basis and monitors the collection of taxes and state revenues. She does not feel it is beneficial to enter the budget in VADAR because it is not budgeted by line item but rather category.

4. Perform a Full Actuarial Valuation in Accordance with GASB Statement 75

Government Accounting Standards Board (GASB) Statement 75 requires governments report their liability associated with Other Post-Employment Benefits (OPEB) for current and retired employees. To date, the Town has elected to apply alternative procedures to estimate the liability rather than performing an actuarial valuation, as permitted by the standard for governments with less than 100 employees. As of June 30, 2019, the Town has 99 employees.

We recommend that the Town obtain an actuarial valuation for fiscal year 2020 to ensure compliance with generally accepted accounting standards should the employee base increase to 100.

Town's Response:

The Town has requested quotes for a full actuarial valuation for the year-ended June 30, 2020 and will be awarding the contract.

5. Improve Internal Controls Over the Payroll Database

The Payroll Clerk and two others involved in the payroll process currently have the ability to create new employees in the payroll system or adjust employees in the payroll system. Further, adjustments to the payroll database are not reviewed by an individual that is not involved in the payroll process. This situation results in a lack of segregation of duties and increases the risk of errors or irregularities occurring and going undetected.

We recommend an individual not involved in the payroll process review all edit reports from the payroll system on a quarterly basis. This individual should review the accuracy and reasonableness of all edits and formally document their review. The implementation of the above will strengthen internal payroll controls and will reduce the risk of errors or irregularities occurring and going undetected.

Town's Response:

The Treasurer has recently been reviewing the accuracy to payroll changes and signing the information sheet with these changes. The Treasurer doesn't assist in Payroll at this time.

6. Identify All Bank Accounts in the Town's Employer Identification Number

We understand that it has been many years since the Town has inquired with area banks about accounts that use the Town's identification number (EIN) without the knowledge or approval of the Town. The existence of these accounts increases the risk that inappropriate activity is being conducted under the Town's EIN.

We recommend the Town take steps to determine if these accounts exist. We therefore recommend the Accountant with the Treasurer approval periodically request local banks to report all bank accounts established using the Town of Stow's EIN. Any accounts unduly authorized should be reviewed for inappropriate transactions and either formally authorized or closed.

Town's Response:

The Town Accountant has sent out letters to local banks requesting a list of bank accounts with the Town's EIN. Nothing unauthorized was found.

7. Other Recommendations

We also noted the following areas where efficiencies and/or internal controls could be improved. We will be available to discuss these issues with the Town in more detail, if requested.

- The Town currently has formal written policies and procedures for departments to follow for collecting and remitting receipts; however, the formal policies and procedures can be enhanced to provide more clarity and guidance. Specifically, the policy does not include examples of the forms the departments should utilize; nor does it include a methodology for the departments to tie their records back to the general ledger.

Town's Response:

The Treasurer's Office provides a general form for departmental turn overs. This form allows for the date, account number which relates to the general ledger

account number, and the amount. The Cash and Check amount total are required to prove the accuracy of the deposit. We are in the process of updating our turn-in procedures. Some departments such as the Board of Health and Building Department have created their own form which relates to their specific accounts.

- Through our review of the Building and Recreation Departments, we noted the following areas where improvement could be made: Permits are not prenumbered in the Building Department, and checks are not stamped “For Deposit Only – Town of Stow” at the time of receipt in either department. We recommend the Town issue prenumbered permits and turn over receipts on a more frequent basis.

Town’s Response:

The Treasurer’s Office has had many discussions with the Recreation and Building Departments regarding the frequency of turn overs. There has been some improvement.

- The Assessors’ Department does not reconcile the overlay accounts to the general ledger. The lack of reconciliation increases the risk that abatements issued by the Assessors’ Office are not recorded in the general ledger, thereby misstating the Town’s receivable balances. Additionally, the lack of reconciliation increases the risk that the general ledger overlay balances may contain erroneous entries which cause the appearance of a deficit in those accounts.

Town’s Response:

The Assessors provide copies of abatement certificates to the Treasurer/Collector, and a monthly list of abated accounts to the Town Accountant. This process helps to avoid erroneous/missing entries. The Assessors maintain a detailed overlay spreadsheet for each fiscal year. This spreadsheet will be reconciled with the general ledger on a monthly basis going forward.

- The Town records activity for the Library Trust Funds, Randall Relief Fund, and Hale Trust Funds on an annual basis. We recommend the Town record the activity on a quarterly basis and reconcile to the underlying supporting documentation.

Town’s Response:

The Town currently is still recording the Library Trust Funds, Randall Relief Fund and Hale Trust Funds on an annual basis. The activity is minimal.

- The Town did not perform internal audits of departments during fiscal year 2019. We recommend the Town develop a methodology and plan for internal audits on a rotating basis.

Town’s Response:

The Town will perform internal audits of departments going forward.

- The special revenue funds contain funds that have been inactive for a number of years. We recommend the Town research all inactive special revenue funds to determine with they should be closed.

Town's Response:

Special revenue funds are reviewed on a regular basis to determine if they should be closed. Some departments wish to keep the funds even if there is no activity.

- The Town should consider re-authorizing the OPEB Trust Fund in accordance with updated established during the Massachusetts Modernization Act.

Town's Response:

The Town will look into re-authorizing the OPEB Trust fund in accordance with the Massachusetts Modernization Act.

- The Town should void all checks that are more than one-year-old and move them to a tailings liability account on an annual basis.

Town's Response:

As the Assistant Treasurer/Collector, I had the Treasurer advertise all checks that were over a year old. This will be a yearly procedure to move the tailings account on an annual basis.

- It appears that transfers between Trust Fund specific bank accounts and general operating bank accounts are not occurring on a timely basis, as we noted that the Trust specific bank accounts did not match the Trust specific general ledger funds by approximately \$117,000.

Town's Response:

The old Treasurer/Collector was behind in the monthly transfers. Moving forward the transfers should be completed on a monthly basis.

- The Town does not have a process in place to formally document the preparation and review of the daily cashout in the Treasurer and Collectors office. We recommend the completion and review of all daily cash out be formally documented.

Town's Response:

The Treasurer/Collector's office has set up a daily cash log to prove to the cash drawer daily. We are also proving our daily deposits to our monthly bank accounts on Excel spreadsheets which then prove to our monthly reconciliation.

- The Town maintains personal property receivable balances dating back to 2008 in the general ledger. We recommend the Town determine the collectability of these receivables and consider writing them off.

Town's Response:

The Treasurer/Collector will be notifying the Assessor of the collectability of the personal property receivables.

- The Town Accountant approved a reimbursement to herself in Fiscal Year 2019. We recommend all Department Heads receive approval from the Town Administrator for reimbursements.

Town's Response:

The Town Administrator signs the warrant approving all payments.

- The Town posted a fair market adjustment to the nonexpendable portion of the Randall Town Relief fund. We recommend that all fair market value adjustments be posted to expendable portion of the Trust Fund.

Town's Response:

The reason why the fair market adjustment was made to the nonexpendable portion is because the Town has possession of only the nonexpendable portion and that is the monies earning the unrealized gain/loss. An adjustment will be made at year-end to move it to expendable.

8. Prepare for GASB Statements 84 and 87

GASB Statements 84 and 87 will apply to the Town in fiscal years 2021 and 2022, respectively. Statement 84 addressed Fiduciary Activities and may require change in how the Town accounts and reports these activities. Statement 87 addressed leases and significantly changes the accounting standards for leases and will not require various leases to be reported on the Town's balance sheet.

We recommend the Finance Department prepare for these accounting changes by ensuring all other Departments are aware of the pending changes, and revising the chart of accounts if necessary. The Finance Department should also consider establishing a lease accounting policy to ensure all material leases are properly identified.

Town's Response:

The Town will look into establishing a lease accounting policy to ensure all material leases are properly identified.