



TOWN OF STOW, MASSACHUSETTS

Management Letter
For the Year Ended June 30, 2020

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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, (the Town) as of and for the year ended June 30, 2020, 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 certain deficiencies in internal control that we consider significant deficiencies.

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. A reasonable possibility exists when the likelihood of an event occurring is either reasonably possible or probable as defined as follows:

- *Reasonably possible.* The chance of the future event or events occurring is more than remote but less than likely.
- *Probable.* The future event or events are likely to occur.

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.



A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. Significant deficiencies 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.



Andover, Massachusetts
March 23, 2021

Current Year Issues

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

Prior Year Issue:

In the prior year, 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.

Current Year Status:

The Town did ensure that all approved articles were included in the general ledger; however, the Town did not enter budgeted revenues into the general ledger. Furthermore, we noticed the Town closed articles to unassigned fund balance that actually had been voted as re-appropriation of funds during the Fiscal Year 2020 and 2021 budgeting process. As a result, certified free cash was overstated by \$65,887 and \$57,296 in fiscal years 2020 and 2021.

Further Action Recommended:

We continue to recommend the Town incorporate budgeted revenue amounts in the general ledger and to utilize the automatic variance analysis function. This will provide a more efficient and timely process to analyze monthly revenues to identify unexpected trends and variances. Furthermore, we recommend the Town ensure re-appropriated articles remain as a committed fund balance at year end. This will ensure unassigned fund balance is not overstated at year end.

Town's Response:

The Town will enter revenue budgets into the general ledger and analyze monthly. The Town will ensure re-appropriated articles remain in the committed fund balance at year-end.

2. Improve Internal Controls Over the Payroll Database (Significant Deficiency)

Prior Year Issue:

In the prior year we noted that the Payroll Clerk and two others involved in the payroll process 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 recommended an individual not involved in the payroll process review all edit reports from the payroll system on a quarterly basis.

Current Year Status:

The Town did not address this recommendation in fiscal year 2020.

Further Action Recommended:

We continue to 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:

We have reached out to Harper's Payroll to generate a payroll audit report as of July 1, 2020 and have requested this report be provided on a quarterly basis. The Town Administrator will review all edits to the payroll system.

3. Other Recommendations

Prior Year Issues and Current Year Status:

In the prior year, we noted the following areas where efficiencies and/or internal controls could be improved.

- 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.

Current Year Status:

The Town did not address this recommendation in fiscal year 2020.

Town's Response:

There is not enough activity to warrant recording activity on a quarterly basis for Library Trust Funds, Randal Relief Fund and Hale Trust Funds.

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

Current Year Status:

The Town did not address this recommendation in fiscal year 2020.

Town's Response:

This has been added to the 2021 Annual Town Meeting Warrant.

- 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.

Current Year Status:

The Town did not address this recommendation in fiscal year 2020.

Town's Response:

The Town Administrator will be working with the Treasurer/Collector to address this matter.

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

Current Year Status:

The Town did not address this recommendation in fiscal year 2020. The difference between the Trust specific bank accounts and the Trust specific general ledger funds increased to approximately \$507,000 during fiscal year 2020.

Town's Response:

The Town Administrator will be working with the Treasurer/Collector to address this matter.

- 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.

Current Year Status:

The Town did not address this recommendation in fiscal year 2020.

Town's Response:

The Town Administrator will be working with the Treasurer/Collector to address this matter.

- 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.

Current Year Status:

The Town did not address this recommendation in fiscal year 2020.

Town's Response:

The Treasurer/Collector and Assessor are working on this and hope to have it resolved during FY22.

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

Current Year Status:

The Town did not address this recommendation in fiscal year 2020.

Town's Response:

As of March 2021, all reimbursement requests made by Department Heads require signed approval by the Town Administrator.

4. 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 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 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.