

TOWN OF GRANBY, MASSACHUSETTS

Management Letter

Year Ended June 30, 2012

TOWN OF GRANBY, MASSACHUSETTS

Management Letter

For the Year Ended June 30, 2012

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Management Letter

Board of Selectmen
Town of Granby
Granby, Massachusetts

Dear Board Members:

In planning and performing our audit of the financial statements of the Town of Granby as of and for the year ended June 30, 2012; in accordance with auditing standards generally accepted in the United States of America, we considered the Town of Granby's internal accounting control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the basic 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.

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, detect or correct misstatements on a timely basis. A significant deficiency is a deficiency, or 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.

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 over financial reporting was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

However, during our audit, we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. We have already discussed these comments and suggestions with Town personnel. We will be pleased to discuss them in further detail and to assist you in implementing the recommendations.

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 the Board of Selectmen, others within the entity and the Commonwealth of Massachusetts Department of Revenue and is not intended to be and should not be used by anyone other than these specified parties.

Scanlon & Associates, LLC

Scanlon & Associates, LLC
South Deerfield, Massachusetts

June 28, 2013

INFORMATIONAL ITEM

Departure from Generally Accepted Accounting Principles

TOWN OF GRANBY, MASSACHUSETTS
Management Letter
Year Ended June 30, 2012

INFORMATIONAL ITEM

A. Departure from Generally Accepted Accounting Principles

In September 2004 the Government Accounting Standards Board (GASB) issued Statement #45, *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other than Pensions*. This Statement addressed Other Post-Employment Benefits (OPEB) such as medical, dental, vision and other health-related benefits provided to terminated or retired employees and their dependents and beneficiaries. The Statement, which was effective for the fiscal year beginning July 1, 2008 for the Town of Granby, required employers to obtain an actuarial valuation and to disclose certain information relating to the Town's funding progress, including:

- Actuarial valuation date
- Accrued liability and total unfunded liability
- Annual covered payroll
- Ratio of the unfunded actuarial liability to annual covered payroll

The Town has appropriated \$19,000 to conduct the actuarial valuation, but has yet to hire an actuary to conduct the study.

The Town has not complied with the reporting requirements of GASB Statement Number 45. As a result of the pervasive effect on the financial statements with regard to disclosure, which are fundamental to users' understanding, we have issued an adverse opinion on the governmental activities of the Town.

We will continue to communicate in writing relevant GASB statements which are applicable to the Town. Management should consider the cost benefit of complying with promulgated GASB statements.

CURRENT YEAR COMMENTS AND RECOMMENDATIONS

TOWN OF GRANBY, MASSACHUSETTS

Management Letter

Year Ended June 30, 2012

CURRENT YEAR COMMENTS AND RECOMMENDATIONS

1. Review of Cash Receipt Procedures

Various departments of the Town receive cash payments from customers in the normal course of operations. Cash transactions, by nature, have a higher degree of inherent control risk and require the establishment of additional preventive controls to safeguard against loss. The Town should establish and disseminate uniform policies and procedures for the handling of receipts by all departments. Issues to be considered include:

- a. Maintaining receipt logs with reference to source documentation,
- b. Maintaining pre-numbered receipt books,
- c. Maintaining an audit trail over remittances to the Treasurer's Office,
- d. Establishing policies for frequency of remittance,
- e. Establishing policies for breakdown of currency and checks on a Standardized Turnover Sheet.
- f. Account reconciliations between the Treasurer's office and Town Departments, and
- g. Security of receipts on hand during Town business hours and overnight.

Recommendation

We recommend that the Town review and modify, if necessary, the uniform policies and procedures over the receipt function pertaining to various departmental receipts. The Town should monitor departmental compliance with established procedures on a periodic and continual basis. All department heads should review established procedures and document their understanding of the relevant cash receipt control activities.

2. Internal Controls Over Financial Reporting

A system of internal control over financial reporting includes the design and implementation of policies and procedures deemed necessary by management to provide reasonable assurance that the Town's financial information is fairly presented.

The following are two critical assertions that underlie the Town's financial information:

- Completeness
All transactions and other events and circumstances that occurred during a specific period and that should have been recognized in that period have, in fact, been recorded.
- Accuracy, Valuation, or Allocation
Asset, liability, revenue and expenditure components are recorded at appropriate amounts in conformity with relevant and appropriate accounting principles. Transactions are mathematically correct and appropriately summarized and recorded in the entity's books and records.

TOWN OF GRANBY, MASSACHUSETTS

Management Letter

Year Ended June 30, 2012

CURRENT YEAR COMMENTS AND RECOMMENDATIONS

2. Internal Controls Over Financial Reporting (Continued)

The reliability of financial reporting is one of the key elements used by management to achieve its desired objectives and meet internal and external responsibilities. As part of performing audit risk assessment procedures to understand the attitudes, awareness and actions of management concerning internal control and its importance in achieving reliable financial reporting, we noted the following:

- Closing Town Meeting Articles
 - a. The Town Meeting process is used to close balances remaining in completed capital project funds. Article 3 of the May 14, 2012 Special Town Meeting voted to transfer \$15,142.25 of the balance remaining from the Self-Contained Breathing Apparatus (SCBA) purchase to the Capital Stabilization Fund. The original funding source for the SCBA was borrowing, which would prohibit this type of transfer.
 - b. The amount transferred from the remaining capital funds of the High School Feasibility Study exceeded the balance remaining in the project by \$116,055. The Town corrected this error at the June 2013 Town Meeting.
 - c. Ledger postings used to close remaining articles were not properly accounted for. Adjustments were made to budgetary accounts rather than closing the actual balance of the funds to be transferred.
- Budgeting

Article 24 of the May 9, 2011 Annual Town Meeting, which appropriated \$10,000 for the West Street School Boiler, was not properly set up in the budgetary ledger. It was also noted that the appropriated funds were not expended in Fiscal Year 2012 and the funds therefore should have been encumbered at year end.
- Overdrawn Accounts

The General Fund budgetary account for Highway – Maintenance of Roads was over-expended at June 30, 2012 by \$11,175. The over-expenditure will be raised on the tax recapitulation in a subsequent period. This over-expenditure should have been voted at a Special or Annual Town Meeting in accordance with Massachusetts General Law, Chapter 44, Section 64, "Payment of Bills Incurred in Excess of Appropriation."
- Reserve Fund Transfers

The Town Accountant recorded a Reserve Fund Transfer in error. A transfer totaling \$5,476.66 to contract services (01-133-5301-00) was duplicated as the Reserve Fund transfer amount was recorded from the requested amount rather than the Advisory Committee approved amount.

TOWN OF GRANBY, MASSACHUSETTS

Management Letter

Year Ended June 30, 2012

CURRENT YEAR COMMENTS AND RECOMMENDATIONS

2. Internal Controls Over Financial Reporting (Continued)

- **Other Receivables**

The recording of ambulance receipts in the general ledger were not posted to the ambulance accounts receivable balance. The receipts were posted directly to revenue, and the accounts receivable control account was adjusted at year end to agree with the subsidiary receivable balance. Receivable accounts are essential to maintaining control over liquid assets of the Town. The properly posted ambulance receivable balance should be used as a means to reconcile the ambulance billing activity to internal records maintained by the ambulance director and external reports generated by the third party billing company.

We also noted that activity related to Police Off-Duty receipts were not posted to the Police Off-Duty receivable account in Fiscal Year 2012.

There are timing differences between when receipts are posted to subsidiary receivable accounts and when receipts are turned over to the Town Treasurer. Therefore, the year-end adjustment of ledger receivables created a variance as a result of these timing differences.

Recommendation

We recommend the Town consider taking action to modify and improve the system of internal control over financial reporting. Additional monitoring procedures should be implemented to ensure that management's assertions with respect to reliable financial reporting are being maintained.

3. Enterprise Funds

Enterprise Funds are generally used to report activities that the government operates more like a business. These activities generally become the government's business-type activities in the government-wide financial statements. The Town has adopted Enterprise Fund accounting for the Sewer, Solid Waste, and Ambulance activities. The pricing policies of each activity should establish fees and charges designed to recover its costs, including capital, indirect, and debt service costs.

In Fiscal Year 2012, the ambulance budget was overdrawn by \$51,944 when including accrued salaries at year end. Budgets are required for Enterprise Fund activities and Massachusetts Laws governing budgetary accounting and over-expenditures do apply to those activities. It was also noted that ambulance revenue totaled \$243,095 while expenditures totaled \$426,236.

Recommendation

The Town should consider whether Enterprise Fund accounting is appropriate for the ambulance activity. The Town should also adopt budgeting practices for its Enterprise Fund activities that are in accordance with Massachusetts General Laws.

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CURRENT YEAR COMMENTS AND RECOMMENDATIONS

4. Tax Collector Internal Control

While performing audit risk assessment procedures, we noted that the Town Clerk and Assessor will accept taxpayer payments when the Collector is out sick or on vacation. The payments, including cash, are locked in the Town Clerk's safe until the Tax Collector returns. The individuals accepting payment in the Tax Collector's absence are not bonded to accept taxpayer payments.

Recommendation

We recommend that the Town consider appointing a bonded Assistant Tax Collector, who would be responsible for collecting taxes in the Tax Collector's absence.

5. Taxes Receivable

Per audit analysis, the following was noted related to outstanding property taxes and tax possessions receivable:

<u>Real Estate</u>	<u>Receivables</u>	
	<u>June 30, 2012</u>	<u>June 30, 2011</u>
Current	\$ 288,365	\$ 301,601
Prior Years	108,555	97,217
Total	<u>\$ 396,920</u>	<u>\$ 398,818</u>
Tax Possessions	<u>\$ 447,838</u>	<u>\$ 415,055</u>

The Tax Collector has outstanding real estate taxes receivable dating back to 1992. Of the total real estate taxes receivable \$17,568 is from levy years 2000 and prior.

It was also noted that the balance in tax possessions receivable is excessive when considering the size of the community. Through inquiry, it was disclosed that the Town has not appointed a Tax Title Custodian responsible for auctioning these properties.

Recommendation

We recommend the Town establish a policy to be more aggressive in pursuing delinquent accounts. This should include following a specific schedule for liening of properties and possibly seeking legal assistance for collection or foreclosure efforts.

We also recommend the Town appoint a Tax Title Custodian so that tax possession property can be auctioned. Once completed, respective parcels will become part of the active Town tax rolls.

Both recommendations will result in an improved financial condition of the Town.

TOWN OF GRANBY, MASSACHUSETTS

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CURRENT YEAR COMMENTS AND RECOMMENDATIONS

6. Contractual Obligations

The Town enters into various contractual obligations with vendors and employees. We noted that Town departments did not always forward copies of contracts to the Town Accountant as required by Massachusetts General Laws. Massachusetts General Laws, Chapter 41, Section 57, reads in part, "The Town Accountant shall have custody of all contracts of the Town." Contracts should be forwarded and retained by the Town Accountant to ensure proper payment in accordance with contractual obligations.

Recommendation

We recommend that all contracts be forwarded to the Town Accountant for proper retention.

7. School Department Reconciliations

Control activities are generally considered one of the inter-related elements of internal control over financial reporting. Control activities are defined as "practices, policies and procedures that reduce the possibility of errors entering in the financial reporting system (preventive controls) or that detect errors that are made (detective controls)."

The Town and the School Department have not established formal procedures to reconcile general fund, revolving and grant account balances and activities maintained by the School Department to the activity in the general ledger. The reconciliation of subsidiary records to the general ledger would be considered a control activity as defined above.

The lack of subsidiary reconciliation procedures between the School Department and the Town's general ledger results in more than a remote likelihood that an error or irregularity may occur and not be prevented or detected by the Town's internal control.

Recommendation

We recommend that the School Finance Director work with the Town Accountant to reconcile subsidiary account balances and activity to the general ledger detail posting on a monthly basis. All variances and reconciling items should be identified and adjusted with adequate explanations.

8. Single Audit Findings

A single audit is a term used in reference to an entity-wide audit consisting of two main parts: an audit of the financial statements and a compliance audit of the entity's major federal award programs. The audit of the major programs includes (a) gaining an understanding of and testing internal controls over compliance and (b) testing compliance with applicable compliance requirements for major programs. In accordance with the concept, one auditor integrates the various programs' internal control and compliance auditing requirements with an audit of the entity's financial statements.

The single audit process, in part, addresses the concerns of public officials, legislators and the general public about whether federal funds are handled properly and in compliance with existing laws and whether governmental programs are being conducted efficiently, effectively and economically.

TOWN OF GRANBY, MASSACHUSETTS

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CURRENT YEAR COMMENTS AND RECOMMENDATIONS

8. Single Audit Findings (Continued)

Our testing of the Town's compliance with applicable Federal grant requirements disclosed three items of noncompliance with respect to School department grants as follows:

- Late filing of final financial reports
- Timely requests for funds
- Lack of compliance with OMB Circular A-87 – allowable costs – time and effort payroll certifications.

Additional detail of the findings is described in the separately issued Single Audit Report.

Management is responsible for understanding and complying with the requirements of laws, regulations and the provisions of contracts and grant agreements related to each of its Federal programs.

Recommendation

In order to fulfill fiduciary responsibilities with respect to Federal awards, we recommend that management establish, maintain and adequately monitor internal control practices over compliance with Federal grant programs.

PRIOR YEAR COMMENTS AND RECOMMENDATIONS

TOWN OF GRANBY, MASSACHUSETTS

Management Letter

Year Ended June 30, 2012

PRIOR YEAR COMMENTS AND RECOMMENDATIONS

9. End-Of-Year Pupil and Financial Report

Prior Year Comment

In prior management findings, we noted that the End-of-Year Pupil and Financial Report prepared by the School Department contained numerous reporting errors which required subsequent adjustments. It was brought to our attention that the report was submitted to the Commonwealth of Massachusetts prior to Town Accountant Certification. As required, the Town Accountant should review the report for accuracy prior to the submission to avoid misstatements and the need for subsequent modifications.

Recommendation

We recommend that the School Department afford the Town Accountant the opportunity to review and certify the End-of-Year Pupil and Financial Report prior to submission.

Current Status

In Fiscal Year 2012, the Town Accountant was not provided a copy of the End-of-Year Pupil and Financial Report prior to submission for review and certification.

10. School Lunch Operating Deficits

The School Lunch Revolving Account had operating deficits of \$49,696 and \$44,511 in Fiscal Years 2012 and 2011, respectively.

It was noted that the decrease in overall School District enrollment has had a direct effect on the total receipts collected. However, if the School Lunch Activity continues to operate at a deficit, the use of Town unrestricted funds may be needed in the future to subsidize the program.

Recommendation

We recommend that the Town monitor the revolving activity and work toward operating the school lunch program at a break-even position. Innovative lunch programs may need to be implemented in order to increase student participation, or cost-saving measures may need to be explored in order to reduce operating expenditures.

11. Proration of Retiree Health Insurance Premiums Between Employers

Prior Year Comment

The State Legislature amended Chapter 32B when it enacted the Fiscal Year 2011 State budget. It inserted Section 9A1/2, which allows governmental units to prorate costs for retirees (after January 1, 2011) health insurance premiums to other governmental units. During our fieldwork, we asked management personnel about this matter, and they were aware of the new amendment to Chapter 32B

Recommendation

Because of the complexities and financial impact of the new law, we recommend to all our governmental clients to review and monitor the controls and procedures in place to insure compliance.

Current Status

The Town has not implemented policies and procedures to review and monitor compliance.

TOWN OF GRANBY, MASSACHUSETTS

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PRIOR YEAR COMMENTS AND RECOMMENDATIONS

12. Accounting/Financial Policies and Procedures Manual

Prior Comment

The Town does not have a current and comprehensive accounting policies and procedures manual. All governments should document their accounting policies and procedures. Although other methods might suffice, this document is traditionally in the form of an accounting policies and procedures manual. This manual should document the accounting policies and procedures which make up the Town's internal control system.

An accounting policies and procedures manual will enhance employees' understanding of their role and function in the internal control system, establish responsibilities, provide guidance for employees, improve efficiency and consistency of transaction processing, and improve compliance with established policies. It can also help to prevent deterioration of key elements in the Town's internal control system and can help to avoid the circumvention of Town policies.

Recommendation

We recommend the Town finance team develop and document the accounting policies and procedures manual. The accounting policies and procedures manual should be prepared by appropriate levels of management and be approved by the Board of Selectmen to emphasize its importance and authority. The documentation should describe procedures as they are intended to be performed, indicate which employees are to perform which procedures, and explain the design and purpose of control-related procedures to increase employee understanding and support controls.

Current Status

Auditing standards currently in effect require auditors to consider and evaluate what the auditee is doing internally as part of an ongoing "Risk Assessment Process." Part of the assessment includes a review of available, documented policies and procedures. We continue to recommend the Town develop and document a Financial Policies and Procedures Manual.