

TOWN OF GRANBY, MASSACHUSETTS
MANAGEMENT LETTER
FOR THE YEAR ENDED JUNE 30, 2013

TOWN OF GRANBY, MASSACHUSETTS

Management Letter

Year Ended June 30, 2013

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To the Board of Selectmen
Town of Granby
Granby, Massachusetts

Dear Members of the Board:

In planning and performing our audit of the basic financial statements of the Town of Granby as of and for the year ended June 30, 2013, 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, or detect and 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.

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

July 15, 2014

CURRENT YEAR COMMENTS AND RECOMMENDATIONS – Other Matters

1. School Department Reconciliations

Comment:

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. As a direct result of lack of reconciliation procedures there are several school accounts that are in deficit as discussed further in item no. 2.

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.

2. School Deficit Accounts

Comment:

During our audit we noted that there are several school accounts on the general ledger that have deficit balances. These accounts are as follows:

<u>Account</u>	<u>Balance</u> <u>June 30, 2013</u>
School Lunch	(a) \$ (121,236)
Circuit Breaker	(a) (80,705)
School Choice	(a) (46,223)
School Grants	(a) (8,831)
Athletic Revolving	(a) (3,354)

(a) - DOR Reduction to Free Cash Certification

We recommend that the Town and School department review and provided for the above deficits. Furthermore, as noted above in item no. 1 procedures should be implemented to reconcile the School department's records to the Town's general ledger.

3. Departmental Receipt Procedures

Comment:

Various departments of the Town receive cash and check 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:

- Maintaining receipt logs with reference to source documentation.
- Maintaining pre-numbered receipt books.
- Maintaining an audit trail over remittances to the Treasurer's Office.
- Establishing policies for frequency of remittance.
- Establishing policies for breakdown of cash and checks on a standardized turnover sheet.
- Account reconciliations between the Treasurer's and Accountant's office with Town Departments.
- Security of receipts on hand during Town business hours and overnight.

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.

4. Contractual Obligations

Comment:

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.

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

5. Ambulance and Police Off-Duty Receivables

Comment:

The Town currently has an ambulance and police off-duty receivable on the general ledger of the Town. Receivable accounts are essential to maintaining control over liquid assets of the Town. The current practice is to adjust the receivable balances to the receivable lists at the end of the year.

To accurately support the receivable of the ambulance and police off-duty detail charges all activity of these receivables should be recorded on the general ledger by the Town Accountant, which includes the billing commitment, write-offs, adjustments and collections. Outstanding lists should be generated on a periodic basis (i.e. monthly, quarterly) and reconciled to the general ledger. Because all the activity is not being recorded in the receivable account on the general ledger these reconciliations cannot be performed effectively.

It is recommended that all of the activity of the ambulance and police off-duty detail be recorded on the general ledger. Furthermore, periodic reconciliations should be performed between the general ledger and the receivable subsidiary records.

6. Taxes Receivable

Comment:

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, 2013</u>	<u>June 30, 2012</u>
Current	\$ 308,614	\$ 288,365
Prior Years	<u>130,604</u>	<u>108,555</u>
Total	<u>\$ 439,218</u>	<u>\$ 396,920</u>
 Tax Possessions	 <u>\$ 447,838</u>	 <u>\$ 447,838</u>

The Tax Collector has outstanding real estate taxes receivable dating back to 1994. Of the prior year total real estate taxes receivable \$7,783 is from levy years 2000 to 1994 and \$122,821 is from levy years 2009 to 2012.

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.

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.

7. Future Government Accounting Standards Board (GASB) Statements – GASB no. 65 and 68

Comment:

The GASB has issued new pronouncements that will significantly affect financial accounting and reporting requirements. Two of the pronouncements that will affect the Town are summarized as follows:

- GASB Statement No. 65 *"Items previously reported as Assets and Liabilities"* is required to be implemented in fiscal year 2014. This statement established accounting and financial reporting standards that reclassify and recognizes, as deferred outflows and deferred inflows of resources, certain items that were previously reported as assets and liabilities.
- GASB Statement No. 68 *"Accounting and financial reporting for pensions"* is required to be implemented in fiscal year 2015. This statement will significantly change the reporting and accounting of the pension liability and expense. The primary objective of the statement is to improve accounting and financial reporting by state and local governments for pensions. Changes to methods and assumptions used to determine actuarial information for GAAP reporting purposes will be required. Current actuarial methods and assumptions may continue to be used to determine funding amounts. Governments will be required to recognize in their financial statements a net pension liability (asset) determined annually as of the end of the fiscal year. GASB statement no. 68 is a financial reporting standard and does not require funding of any net pension obligation.

Given the significant impact of these two GASB statements on the Town's financial accounting and reporting we recommend that the Town familiarize and educate themselves with the statements.

8. Implement Regular Department Internal Audits

Comment:

Currently, the town does not perform regular departmental internal audits. Internal audits compliment the independent audit and will provide important oversight over departmental accounting records throughout the year.

We recommend the accountant perform periodic internal audits of the town's departmental records. This will result in improved oversight and should reduce the risk of errors and irregularities from occurring and going undetected.

9. Financial Policies and Procedures Manual

Comment:

Internal control is defined as “a process – effected by those charged with governance, management and other personnel – designed to provide reasonable assurance about the achievement of the entity’s objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. The components of internal control apply to all entities, although smaller and medium sized entities may implement them differently from larger entities. The controls in a medium sized organization, such as the Town of Granby, may be less formal and less structured, yet the objective of small and large organizations should be the establishment of effective internal control. Internal control consists of five interrelated components:

- The Control Environment
- Risk Assessment
- Information and Communication Systems
- Control Activities
- Monitoring

In order to improve and maintain the existing system of internal controls, the Town should consider documenting the policies, procedures and controls over key financial transactions, which have been in place and relied upon over the years. The Financial Policies and Procedures should include an investment policy, a personnel policy (of which the Town has), a risk assessment policy, and a formal documentation of the detailed financial reporting policies and procedures. A written Financial Policies and Procedures Manual will help improve the efficiency and consistency of transactional processing and establish responsibilities for specific duties.

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 recommend the Town develop and document a Financial Policies and Procedures Manual. The documentation should describe relevant procedures as they are intended to be performed and explain the design and purpose of control-related procedures, including your risk assessment process with regard to financial reporting.

10. Capital Assets

Comment:

The Town has compiled a list of capital assets that are required to be on the financial statements to be in compliance with GASB No. 34 in previous years. During our current audit we tested the capital assets and found that the Town did not keep adequate records with regard to additions, deletions and depreciation.

We recommend that the Town implement procedures to insure that all capital assets are being accounted for under the financial reporting model of GASB No. 34.