

**TOWN OF GRANBY, MASSACHUSETTS**  
**MANAGEMENT LETTER**  
**FOR THE YEAR ENDED JUNE 30, 2009**

**TOWN OF GRANBY, MASSACHUSETTS**

**Management Letter**

**Year Ended June 30, 2009**

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To the Selectboard  
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, 2009, in accordance with auditing standards generally accepted in the United States of America, we considered the Town of Granby's internal control as a basis for designing our auditing procedures for the purpose of expressing our opinions on the basic financial statements and not to provide assurance on internal control.

During our audit, we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. This letter summarizes our comments and recommendations concerning those matters. This letter does not affect our report dated March 23, 2010, on the basic financial statements.

The accompanying comments and recommendations are intended solely for the information and use of management, the Board of Selectmen and should not be used by anyone other than these specified parties.

We will review the status of these comments during our next engagement. 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.



Scanlon & Associates, LLC

March 23, 2010

## **CURRENT YEAR COMMENTS AND RECOMMENDATIONS:**

### ***GASB Statement No. 45, Accounting and Financial Reporting by Employers for Post Employment Benefits other than Pension Plans***

#### *Comment:*

GASB requires the Town to calculate the amount of the annual post employment benefit costs, such as healthcare benefits and other types of post employment benefits, such as life insurance. Once determined, the cost is then presented and recognized on the financial statements of the Town. The implementation date that the Town is required to present the liability is the fiscal year ending June 30, 2009. The Town did not have an actuarial valuation completed. As a result of the Town not presenting the liability the auditor's report is considered a qualified opinion. The qualified opinion could affect the Town's bond rating.

It is our understanding that the Town is to have an actuarial completed for the fiscal year ending June 30, 2010.

### ***Cash Balances in Stabilization Funds***

#### *Comment:*

The balances in the capital stabilization funds recorded on the general ledger do not agree with the balance of the funds on deposit in the bank. This is the result of transfers not being made on a timely basis. Such variances can be misleading and leave the Town at risk of overspending available balances and of inaccurate financial reporting.

We recommend that the Town implement procedures to reconcile the stabilization funds reported on the general ledger to the bank balances on a monthly basis. Withdrawals out of the funds should be on a timely basis. Lack of such reconciliation puts the Town at risk of inaccurately reporting trust fund balance and improperly allocating interest income to the individual capital stabilization funds.

#### *Response:*

This item has been addressed by the Treasurer and Town Administrator with the auditors. After several meetings, the actual format the Treasurer is to use for interest allocation was developed.

### ***School Department – American Recovery and Reinvestment Act (ARRA) funds***

#### *Comment:*

To help stimulate the economy the federal government provided \$397,774 in ARRA funds to the Town. Because of the public interest in these funds, these funds are considered to be high risk and require additional testing.

For the first reporting quarter the school department submitted its report indicating that the school department applied the entire amount to health insurance although only \$194,477 had been expended. Subsequently documentation obtained from the Town indicated that the remaining amount was spent for other school employee benefits.

The school department has indicated that they have since filed an amended final financial report and amended its quarterly report.

Response:

The school department has filed an amended final financial report and amended the quarterly report for the ARRA grant. Copies of the amended reports are available upon request.

**PRIOR YEAR ISSUES – NOT RECTIFIED:**

***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.

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.

Status:

The same condition exists for the fiscal year 2009 audit.

Response:

The accounting manual is still in progress.

***Risk Assessment and Monitoring***

Prior Comment:

When internal controls are initially implemented, they are usually designed to adequately safeguard assets. However, over time, these controls can become ineffective due to changes in technology, operations, etc. In addition, changes in personnel and structure, as well as the addition of new programs and services, can add risks that previously did not exist. As a result, all municipalities should periodically perform a risk assessment to anticipate, identify, analyze and manage the risk of asset misappropriation. Risk assessment, including fraud risk assessment, is one element of internal control. The Town, like most Massachusetts municipal organizations, does not adequately perform this assessment.

The fraud risk assessment can be formal or informal, and should be performed by a management-level employee who has extensive knowledge of the Town's operations. Ordinarily, the management-level employee would conduct interviews or lead group discussions with personnel who have extensive knowledge of the Town's operations, its environment, and its processes. The fraud risk assessment process should consider the Town's vulnerability to misappropriation of assets. When conducting the assessment, the following questions should be considered.

- What assets are susceptible to misappropriation?
- What departments receive cash receipts?
- What departments have movable inventory?
- What operations are the most complex?
- How could assets be stolen?
- Are there any known internal control weaknesses that would allow misappropriations of assets to occur and remain undetected?
- How could potential misappropriation of assets be concealed?

Once the areas vulnerable to fraud have been identified, a review of the Town's systems, procedures, and existing controls related to these areas should be conducted. The Town should consider what additional controls (if any) need to be implemented to reduce the risk.

After the risk has been assessed and controls implemented the Town should periodically monitor these controls to evaluate the operational effectiveness.

Status:

The same condition exists for the fiscal year 2009 audit.

**Review of Investments**

Prior Comment:

During our audit we noted that there was no formal procedure to review the investments of the Town on a period basis. The financial personnel of the Town should review the investments periodically to see if they are in compliance with their investment policy, and in compliance with legal investments for Massachusetts municipalities and therefore meeting the needs of the Town. Also this review should be documented to further strengthen this control.

The Town should also make sure that they have an updated investment policy in place and that it is in agreement with the investments that are currently with the Town Treasurer.

Status:

The same condition exists for the fiscal year 2009 audit.

Response:

The Treasurer and Town Administrator are currently finalizing a Town investment policy.

**Trust Fund Transfers**

Prior Comment:

As a result of the Town having various trust funds, actual cash transfers are necessary between funds, for such items as Town meeting votes or actual expenditures that are paid

out of the general cash but not paid out of the specific trust fund bank account. By not transferring funds, this causes accounting problems and also results in the specific funds not receiving the correct amount of interest. Further, any transfers that are made should be documented in detail.

The last year's audit indicated that transfers needed to be done.

It is again recommended that when funds are expended from trust funds or when Town Meeting votes a transfer, such as from the stabilization fund, the actual cash should be moved from the trust fund bank accounts to a general cash account.

Status:

The same condition exists for the fiscal year 2009 audit.

**Trust Fund Bequests**

Prior Comment:

In order to properly classify the trust funds for the new reporting model, a review has to be made of each trust fund. Our review of the trust fund documents indicated that some funds had no documentation to determine what the trust was for or to determine the non-expendable portion of the fund.

Last year's audit indicated that a review has not been made on the various trust funds.

It is again recommended that the Town research the trust funds to determine their purpose and what portions of the funds are nonexpendable.

Status:

The same condition exists for the fiscal year 2009 audit.

Response:

The Treasurer has attempted to research the Town records but has been unsuccessful in finding any of the original documentation.

**Older Tax Levies**

Prior Comment:

During our audit we found that there are real estate levies and sewer user charges outstanding between fiscal years 1991 to 2003. A summary below for older levies as shown on the ledger is as follows:

- Real Estate
  - o Levy 1991 to 2002 \$206,515
- Sewer Use
  - o Levy 1995 to 2002 \$2,288

We recommend that the town research the older tax levies to determine if the accounts should be abated, taken in tax title or make an effort to collect them. Some of the levies are the same individuals and thus they should be researched to determine if an abatement would be proper. Sewer use receivables should be researched and determined if they are able to be liened.

Status:

Outstanding lists have been provided on the old levies. A final review is to be conducted on the lists and uncollectible amounts will be provided to the Board of Assessors for their consideration for abatement.

Response:

On request of the Town, this issue was resolved during the audit through a joint meeting of the auditor, Town Administrator, Treasurer, Collector and Board of Assessors.

**PRIOR YEAR ISSUES – RECTIFIED:**

***Ambulance***

Prior Comment:

The prior audit indicated that there is no ambulance receivable established on the general ledger of the Town to account for the operations of the ambulance collections.

It was recommended that the ambulance receivable be recorded on the general ledger of the Town. Periodic outstanding lists should be generated and reconciled to the activity in the general ledger of the town. Procedures for write offs or abatements of outstanding amounts should be implemented. A form should be used to indicate why amounts are written off and then submitted on a periodic basis to the Board of Selectmen to approve.

Status:

Over the past two years most of the findings related to the ambulance have been resolved. The only remaining finding is to record the receivable on the general ledger of the Town. The Town Accountant has indicated that this is to be completed in fiscal year 2010.

***Encumbrances***

Prior Comment:

There is no supporting documentation requesting departmental encumbrances. The Town Administrator/Town Accountant will review invoices submitted through October and encumber necessary amounts from the invoice providing there are funds remaining in the previous year's budget.

Department's should submit a letter of request to the Town Administrator/Town Accountant along with a outstanding purchase order or invoice to document the outstanding liability.

Status:

Various documentation was provided to support the encumbrances.

***Deputy Tax Collector***

Prior Comment:

The last audit indicated that the Deputy Collector does not get paid through the warrant process for their services.

Status:

The deputy collector is now being paid via the warrant process.



## ***Foreclosed Property***

### Prior Comment:

Town owned property previously foreclosed on is still on the tax rolls under the previous owners name. The Town Collector issued bills to the previous owners of the property. Some of the bills were abated in June and the rest will be abated in July.

It was recommended that the Town Collector update the owner's of record when the Town forecloses on property to provide a more accurate listing of property owners.

### Status:

Foreclosed Property states that the Tax Collector should update the owner's of record on foreclosed properties for a more accurate listing of property owners. This process is between the Treasurer's and the Assessor's Office. The Treasurer handles the foreclosures, the Assessors are the record keepers and therefore commits the tax rolls to the Tax Collector. By the time the Collector's Office would know that a property is foreclosed and should not be on the tax rolls, it would already be committed to the Collector and therefore an abatement would be needed to remove the foreclosed properties from the Collector's list.