

**TOWN OF ROYALSTON, MASSACHUSETTS**

Independent Auditors' Reports Pursuant  
to Governmental Auditing Standards  
and The Single Audit Act Amendments of 1996

For the Year Ended June 30, 2015

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**Additional Offices:**

Nashua, NH  
Manchester, NH  
Andover, MA  
Ellsworth, ME

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT  
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
*GOVERNMENT AUDITING STANDARDS*

INDEPENDENT AUDITORS' REPORT

To the Selectboard  
Town of Royalston, Massachusetts

We were engaged to audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of each major fund and the aggregate remaining fund information of the Town of Royalston, Massachusetts as of and for the year ended June 30, 2015, and the related notes to the financial statements, which comprise a portion of the Town's basic financial statements, and have issued our report thereon dated January 17, 2017, in which we disclaimed an opinion.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Town's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion 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.

*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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2015-001 through 2015-004 to be material weaknesses.

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. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2015-005 to be a significant deficiency.

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 material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Town's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Town's Response to Findings**

The Town's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Town's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is

an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Melanson Heath*

January 17, 2017

**Additional Offices:**

Nashua, NH  
Manchester, NH  
Andover, MA  
Ellsworth, ME

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM;  
REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT  
ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
REQUIRED BY OMB CIRCULAR A-133

INDEPENDENT AUDITORS' REPORT

To the Selectboard  
Town of Royalston, Massachusetts

**Report on Compliance for Each Major Federal Program**

We have audited the Town of Royalston, Massachusetts' compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Town's major federal programs for the year ended June 30, 2015. The Town's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

**Auditors' Responsibility**

Our responsibility is to express an opinion on compliance for each of the Town's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing*

*Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Town's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Town's compliance.

### **Opinion on Each Major Federal Program**

In our opinion, the Town complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

### **Report on Internal Control Over Compliance**

Management of the Town is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Town's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a

material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Purpose of this Report**

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

### **Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133**

We were engaged to audit the financial statements of each major fund and the aggregate remaining fund information of the Town as of and for the year ended June 30, 2015, and the related notes to the financial statements, which comprise a portion of the Town's basic financial statements. We issued our report thereon dated January 17, 2017, which contained a disclaimer of opinion on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

*Melanson Heath*

January 17, 2017

TOWN OF ROYALSTON, MASSACHUSETTS

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2015

<u>Federal Grantor/ Pass-Through Grantor/ Program Name</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
<u>U.S. Department of Agriculture</u> Water and Waste Disposal Systems	10.760	\$ <u>1,137,223</u>
Total		\$ <u>1,137,223</u>

The accompanying notes are an integral part of this schedule.

TOWN OF ROYALSTON, MASSACHUSETTS  
Notes to the Schedule of Expenditures of Federal Awards  
For the Year Ended June 30, 2015

***Note 1. Basis of Presentation***

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of the Town under programs of the federal government for the year ended June 30, 2015. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, or the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Because the schedule presents only a selected portion of the operations of the Town, it is not intended to and does not present the financial position, changes in net assets or cash flows of the Town.

***Note 2. Summary of Significant Accounting Policies***

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting.

***Note 3. Subrecipients***

The Town provided no federal awards to subrecipients in fiscal year 2015.

TOWN OF ROYALSTON, MASSACHUSETTS  
 Schedule of Findings and Questioned Costs  
 For the Year Ended June 30, 2015

**SECTION I - SUMMARY OF AUDITORS' RESULTS**

Financial Statements

Type of auditors' report issued:

*Disclaimer*

Internal control over financial reporting:

- Material weakness(es) identified?  yes  no
- Significant deficiencies identified that are not considered to be material weakness(es)?  yes  none reported

Noncompliance material to financial statements noted?

yes  no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified?  yes  no
- Significant deficiencies identified that are not considered to be material weakness(es)?  yes  none reported

Type of auditors' report issued on compliance for major programs:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?

yes  no

Identification of major programs:

CFDA Number(s)

Name of Federal Program or Cluster

10.760

Water and Waste Disposal System

Dollar threshold used to distinguish between type A and type B programs:

\$300,000

Auditee qualified as low-risk auditee?

yes  no

## SECTION II - FINANCIAL STATEMENT FINDINGS

### Finding #

### Finding/Noncompliance

#### 2015-001 IMPROVE CONTROLS OVER CASH (MATERIAL WEAKNESS)

During our review and testing of the Town's controls over cash, we found several areas where improvement is needed. Specifically:

- Cash balances between the Treasurer and general ledger have not been reconciled in years. Based on our audit testing, we found the Treasurer's balance was lower than the general ledger by approximately \$125,000. As a result, we were unable to opine on the Town's financial statements and our audit report disclaimed an opinion. We recommend the Town implement formal procedures requiring the monthly reconciliation of cash. This overall cash reconciliation should be in written form and signed by both the Treasurer and Town Accountant. Implementing formal procedures will help ensure that cash is properly reconciled on a regular basis and will reduce the likelihood of errors or irregularities occurring without being detected.
- The Treasurer does not file "Quarterly Reports of Reconciliation of Treasurer's Cash" with the Commonwealth of Massachusetts Department of Revenue. We recommend that these reports be completed and filed on a timely basis.
- The Town maintains certain cash accounts within the general ledger for which the Treasurer also maintains separate bank accounts (e.g., stabilization and trust funds). The existence of trust funds dictates that the Town assumes a fiduciary responsibility over them. In addition, since many trust funds are restrictive in nature, their integrity must be maintained. This is typically accomplished through the physical separation and monitoring of trust fund cash. There are currently no procedures in place to reconcile these separate bank accounts to the general ledger. We recommend the Town establish a procedure whereby trust fund cash is reconciled separately between the general ledger and the Treasurer on a quarterly basis.

#### Town's Response:

We have hired a new accountant, and she and the Treasurer have reconciled our accounts through June 2016. Once we are totally caught up, they will sign off on a monthly reconciliation, and the Treasurer will resume filing her quarterly reports with the state. Regarding the separate bank accounts, we agree with your recommendation and will implement the changes suggested.

#### 2015-002 IMPROVE CONTROLS OVER RECEIVABLE COLLECTIONS AND BALANCES (MATERIAL WEAKNESSES)

During our review and testing of the Town's controls over receivables, we found several areas where improvement is needed. Specifically:

- In our testing of receipt procedures in the Tax Collector's Office, we noted that receipts in cash (currency) are not coded as such in the tax receipt system nor do the receipt stubs indicate those that were paid in cash. Because of the increased risks related to handling cash, it is very important that a clear audit trail exist from the time cash is accepted to the time it is deposited. We recommend the Tax Collector include a notation on the receipt stub of those payments that were made in cash and that the office make efforts to ensure currency transactions are coded as such when receipts are posted to taxpayer accounts in the receipt system. Also, the amount of currency deposited should be proven to the receipt stubs and daily receipt posting reports.
- The Town has not established and implemented formal reconciliation procedures between the Tax Collector and the Town Accountant for any receivable balances. Further, based on our review of the general ledger detail, the Town Accountant posted one adjustment at year end to make the general ledger balances agree with the Collector balances. We recommend the Accountant post activity based on the various source documents provided by other departments and that the resulting balances be reconciled to the Tax Collector on a monthly basis. All differences should be researched and corrected immediately.
- Community preservation fund receivables are not recorded in the general ledger. We recommend the Town record all activity related to community preservation receivables in the general ledger and reconcile the balances monthly to the Tax Collector.
- The Town maintains receivable balances for personal property dating back several years. If these receivables are not truly collectable, receivables and liabilities reported in the Town's financial statements are overstated. Only amounts that are considered to be collectible should be shown on the Town's financial records. We recommend that these old accounts receivable be reviewed to determine the likelihood of collection. If they are deemed uncollectable, we recommend that they be abated. This will ensure that the Town's receivables are fairly stated.
- The Town does not maintain accurate balances in the general ledger to track betterments and betterments not yet due. This increases the risk that billing and receivable information could be incomplete or inaccurate, which could result in lost revenue to the Town. We recommend the Town formalize policies and procedures for accounting and reconciling betterment receivables due, as well as future amounts not yet due. This will improve controls and oversight over betterment receivables and revenues.
- Due apparently to transfers of ownership in prior years, several properties are annually billed to owners unknown. Consequently, these bills are never paid and receivables are reported in the general ledger back to 1994. We recommend the Town research and resolve the true

ownership of these properties and/or contact the Department of Revenue to request approval to write these balances off.

- The Treasurer's list of tax lien receivable balances due appears incomplete and could not be reconciled to the general ledger balance.
- The Town's tax title balance grew from approximately \$150,000 at June 30, 2014 to approximately \$555,000 at June 30, 2015. In addition, the Town's real estate receivables include over \$100,000 for levy years 2013 and prior, \$57,000 of which is from levy years prior to 2010. We recommend the Town establish a policy to be more aggressive in pursuing delinquent accounts. This could include collection efforts such as pursuing land court / foreclosure procedures, using an outside collection agency and/or executing payment plans in accordance with State laws.
- The Assessors' Office does not maintain a running balance of the overlay (allowance for abatements and exemptions) accounts. As a result, the balance in the general ledger cannot be reconciled. 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. We recommend the Assessors' Office maintain a running balance of all overlay accounts and that balances be reconciled monthly to the general ledger.

Town's Response:

*Cash tax payments:* Cash receipts are recorded as such in the Collector's system, and have been for years. We have instituted the other recommended changes. *Reconciliation procedures:* As noted above, we are working toward proper, monthly reconciliation. *Community Preservation funds:* We have implemented this recommendation. *Tax and lien receivables:* We have just bought into a Vadar tax title program and should in the near future be able to fully implement the recommendations. *Betterments, unknown owners, and overlay balances:* We agree with your recommendations and will implement the changes suggested.

2015-003 ESTABLISH FORMAL GENERAL LEDGER RECONCILIATION PROCEDURES (MATERIAL WEAKNESS)

As noted in the first two comments, the Town's general ledger was not reconciled during the year for significant accounts such as cash and receivables. In addition, withholding accounts, capital projects, and grants were also not reviewed and reconciled. Monthly reconciliations are necessary to ensure the accuracy of the Town's financial records as well as to provide a means of checks and balances between the financial departments.

We recommend the Town Accountant establish formal procedures to reconcile all critical general ledger balances on a regular monthly basis. This will provide additional assurance that the Town's internal financial reports,

including monthly departmental budget reports, the balance sheet used for free cash certification, and the annual Schedule A report are accurate. It will also provide the necessary checks and balances over the Treasurer and Tax Collector Offices to help ensure that errors or irregularities, if any, are identified and corrected in a timely manner.

Town's Response:

We agree with your recommendation and will implement the changes suggested.

2015-004 IMPROVE INTERNAL CONTROLS OVER PAYROLL DISBURSEMENTS (MATERIAL WEAKNESS)

During our testing of internal controls over 25 payroll disbursements, we noted 13 instances where the documentation to support the rate of pay was lacking. While the timesheets themselves included a pay rate, there was no documentation that the pay rates on the timesheets were authorized. This increases the risk of inappropriate salaries and wages being paid.

We recommend that procedures be established to maintain up-to-date documentation of pay rates in all employee files. This could be achieved by annually compiling a list of all employees with their step / grade level as of July 1<sup>st</sup> to be approved by the Board of Selectmen for the upcoming fiscal year. This will help assure that proper wages are paid for all employees and provide clear authorization for all pay rates.

Town's Response:

We intend to do a thorough salary review for the upcoming fiscal year 2018 budget and will incorporate this recommendation as part of that work.

2015-005 IMPROVE BUDGETING PROCEDURES (SIGNIFICANT DEFICIENCY)

During our review of the Town's procedures related to the annual budget process we noted the following issues:

- At the Town's May 2014 Annual Town Meeting, \$75,000 was appropriated from the stabilization fund and \$35,000 from the storm account to cover a snow and ice deficit. These amounts were not included on the Town's fiscal year 2015 tax recap. Although this meeting had no impact on the Town's tax rate, a good internal control system, as well as State regulations, require all town meeting appropriations to appear on the Town's tax recap. We recommend the Town ensure that all future town meetings involving the appropriation of funds be included on the tax recap.
- During fiscal year 2015, the Town voted to transfer \$3,179 from the sale of highway equipment (a current year revenue line item). Current year revenues are not allowable funding sources once the tax rate is set. We recommend the Town establish a procedure to determine an allowable

funding source while the appropriation article is being formed. This will result in compliance with State statutes and minimize the risk of unfunded appropriations.

- Budget amounts for property tax revenue recorded in the general ledger were at variance with the tax recap by approximately \$90,000. We recommend that all revenue budgets be entered into the general ledger and reconciled to the tax recap in order to properly monitor actual results versus budget.
- Budgetary adjustments to general fund appropriations were incorrectly made to actual expenses, resulting in materially misstating individual expense line items by approximately \$170,000. Budgetary adjustments should never be made to actual expenses, only to the amounts appropriated through the software's budget module.
- The intent of one the adjustments noted above (totaling approximately \$80,000) was to move excess budgeted amounts to the stabilization fund; however, this included \$20,000 unspent from the reserve fund. Per Massachusetts General Laws, amounts appropriated for the reserve fund can only be used for extraordinary and unforeseen expenditures, and the excess balance in this account cannot be transferred to the stabilization fund. We recommend any future budgetary transfers comply with State guidelines.

Town's Response:

We agree with your recommendations and will implement the changes suggested.

### **SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS**

None.

### **SECTION IV - SCHEDULE OF PRIOR YEAR FINDINGS**

The Town was not subject to Single Audit Act requirements in the prior year and no audit was performed.