

TOWN OF ROYALSTON, MASSACHUSETTS

Management Letter

For the Year Ended June 30, 2018

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Additional Offices:

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

To the Select Board
Town of Royalston, Massachusetts

In planning and performing our audit of the basic financial statements of the Town of Royalston, Massachusetts as of and for the year ended June 30, 2018, 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 entity'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 to be material weaknesses.

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. Material weaknesses 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 Select Board, and others within the Town, and is not intended to be, and should not be, used by anyone other than these specified parties.

Melanson Heath

November 6, 2019

CURRENT YEAR ISSUES

1. IMPROVE CONTROLS OVER RECEIVABLE COLLECTIONS AND BALANCES (MATERIAL WEAKNESS)

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

- 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 receivable balances are fairly stated.
- Due apparently to transfers of ownership in prior years, real estate taxes for several properties are annually billed to "owners unknown". Consequently, these bills are never paid and receivables that date back many years are maintained by the Tax Collector. We recommend the Town research and resolve the true ownership of these properties and/or contact the Department of Revenue to request approval to abate these balances.
- The Town's tax title balance grew from approximately \$150,000 at June 30, 2014 to over \$500,000 at June 30, 2018. In addition, the Town's outstanding real estate receivables include approximately \$180,000 for levy years 2017 and prior, \$46,000 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 to independently maintained records. 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 those balances be reconciled at least quarterly to the general ledger.

Town's Response:

- The Town has referred old personal property tax bills to the Deputy Collector. A few have been collected as a result. In addition, several taxpayers are in payment plans to bring these current. The Town will

review the remaining older accounts to write off uncollectable balances.

- The Town has identified one unknown property owner in recent years and will review the remaining properties with the intent to request a rewrite off, or to identify and rebill the owners.
- The Town will ask taxpayers to increase the amount of funds available to pursue collections on delinquent property owners through foreclosure and land court procedures. Many accounts were sent out to collection, with a small number being paid through that process. There are a number of payment plans currently in place. The Town is in the process of implementing a tax sale on liens for some of these delinquent properties. In addition, the Town has just switched to new collection software that will greatly simplify the tax title and foreclosure process.
- All abatements that are issued by the assessors are recorded in the general ledger. The abatements are recorded by the Collector and reconciled monthly with the Town Accountant.
- The Assessors will be asked to maintain a running balance of the overlay accounts.

2. PREPARE FOR GASB STATEMENTS 84 AND 87

GASB Statements No. 84 and 87 will apply to the Town in fiscal years 2020 and 2021, respectively. Statement No. 84 addresses fiduciary activities and may require a change in how the Town accounts for and reports these activities. Statement No. 87 addresses leases and significantly changes the accounting standards related to them, including requiring various operating leases to be reported on the Town's balance sheet.

We recommend the Town prepare for these accounting changes by ensuring all departments are aware of the pending changes. The Town should also consider updating its lease accounting policy to ensure all material leases are properly identified.

Town's Response:

The Town is reviewing these new GASB statements and will implement changes as applicable. Specifically,

- Send an email to all department heads asking them to report any possible leases (buses, ambulances, fire apparatus, vehicles, technology, public works equipment, etc.) that may be entered into.
- Call our financial advisor, and together make a determination if the financial obligation is material.
- Disclose as deemed appropriate.

3. OTHER ISSUES

The following section of the management letter identifies several other recommendations for improvements. We report these issues here in a summarized manner.

Current Year

- Annually the Town is required to submit a Statement of Indebtedness as part of the year-end reporting to the Massachusetts Department of Revenue. This statement should include activity related to short-term and long-term notes and bonds. In fiscal year 2018, the Town also included activity related to capital leases and septic betterments. We recommend this activity be excluded from the statement in future years.

Town's Response:

The Town did a long term borrowing with MWPAT for the septic betterment program several years ago (the final payment to MWPAT will be in fiscal year 2020). The Town is responsible for this debt payment whether the program participants pay or not, which is why it is listed on the Statement of Indebtedness. The Capital lease, we are assuming is referring to the "Fire Truck/KME Pumper". This was a ballot vote on 9/9/2013 to be funded by debt exclusion and reported on the DE-1 FORM for the DOR every year, so it also needs to be listed as part of the Statement of Indebtedness.

Prior Year

- The Town has numerous special revenue funds that have been inactive for the past few years. We recommend the Town investigate these funds and take the appropriate action to resolve and/or close these funds.
- During our evaluation of the Town's internal controls over information technology, we found that the Town should make improvements over offsite server backups, implementing procedures for server recovery and managing access to the system by terminated employees.

Town's Response:

The inactive special revenue funds will be closed to the general fund as of June 30, 2019.

The Town is not aware of any circumstances where terminated employees could have access to computer systems. All financial software is located off-site in secure environments with daily, weekly and monthly backups.

PRIOR YEAR ISSUES

4. IMPROVE INTERNAL CONTROLS OVER PAYROLL DISBURSEMENTS (MATERIAL WEAKNESS)

During our testing of internal controls over 25 payroll disbursements, we noted 19 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 1st 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:

The Town has established a Standard Operating Procedure Policy to manage payroll rates and employee wages to ensure that correct information is processed on the payroll warrants. The latest union contract now incorporates the wage rates and steps specifically for each year of the contract.

5. IMPROVE DEPARTMENTAL RECEIPT PROCEDURES

The Town currently does not have formal written policies and procedures for departments to follow for collecting and remitting departmental receipts. The lack of formal policies and procedures increases the risk that errors or omissions could occur and go undetected.

The Town should also consider establishing an internal audit function to properly monitor operations and assess the risk of misstatement caused by errors, irregularities or omissions. In addition, departments should be supplied with a report of their revenues on a monthly basis so they can verify that their receipts were recorded accurately in the general ledger.

Implementation of these recommendations will result in improved oversight and could reduce the risk of errors or irregularities from occurring and going undetected.

Town's Response:

Monthly reports do go out to departments which include revenue information for all special revenue funds. All departments submit copies of the "Schedule of Payments to the Treasurer" form to both the Treasurer and the Town Accountant. The Town Accountant verifies that department copies match the Treasurer's receipt entries in Vadar before posting to the general ledger.

Cash is also reconciled monthly between the Treasurer and the Town Accountant which ensures that they are recorded accurately in the general ledger. The receipts that are turned over by the departments on their forms are exactly what's posted in the general ledger, unless the Treasurer finds an error. In this case the department head is emailed to them to verify the correct deposit. The email and the change sent by the Treasurer goes to the department head and to the Town Accountant.

6. DEVELOP A MORE FORMAL RISK ASSESSMENT PROCESS

The Town informally performs its own risk assessment for possible fraud or material misstatement through various policies and procedures and regular reviews of trends in the financial statements. Risk assessment is a management function designed to identify where an organization may be vulnerable to errors and/or irregularities. A complete risk assessment process involves a written description of risk areas identified by those charged with governance (management and elected officials) and a description of how the organization intends on responding to the risks.

We recommend that the Town implement a more formal risk assessment process that includes internal audits and written identification of areas where potential fraud or material misstatements to the basic financial statements may occur. Regular department head meetings could be used as a starting point for documenting risk assessment discussions and assessments.

In evaluating risk areas, particular consideration should be given to situations where a single employee is responsible for performing most or all accounting responsibilities, since this could create opportunities for fraud to occur and go undetected. The Town should evaluate major transactional cycles in all applicable departments to ensure an adequate segregation of duties exists. If staffing levels do not permit an adequate segregation of duties, the Town should provide additional oversight, which should include review and documented sign-off of the key accounting records.

We also recommend the Town establish a formal employee fraud policy or consider establishing a fraud hotline to provide staff with guidance in the event they observe or suspect fraud in the workplace.

Town's Response:

The Town will establish a fraud and risk policy.