

TOWN OF SHERBORN, MASSACHUSETTS

Management Letter

For the Year Ended June 30, 2011

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To the Board of Selectmen
Town of Sherborn, Massachusetts

In planning and performing our audit of the financial statements of the Town of Sherborn, Massachusetts as of and for the year ended June 30, 2011, in accordance with auditing standards generally accepted in the United States of America, we considered the Town of Sherborn's internal accounting control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our 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.

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, there can be no assurance that all such deficiencies have been identified. In addition, because of inherent limitations in internal control, including the possibility of management's override of controls, misstatements due to error or fraud may occur and not be detected by such controls. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

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 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 did not identify any deficiencies in internal control that we consider to be material weaknesses.

Additional Offices:

Greenfield, MA • Ellsworth, ME • Nashua, NH • Manchester, NH

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. Significant deficiencies 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 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 management, Board of Selectmen, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

After you have had an opportunity to consider our comments and recommendations, we would be pleased to discuss them with you.

Melanson, Heath + Company P.C.

Andover, Massachusetts

June 28, 2012

STATUS OF PRIOR YEAR RECOMMENDATIONS:

1. Approve Expense Reimbursements

Prior Year Issue:

In the prior year, we recommended all department head expense reimbursements be approved by the Town Administrator.

Current Year Status:

During our testing in fiscal year 2011, we noted two separate instances where department heads approved their own expense reimbursements.

Further Action Needed:

We continue to recommend all department head expense reimbursements be approved by the Town Administrator to improve oversight and control.

Town's Response:

At the end of FY 2011 and all through FY 2012 we have sent memos, reminders, and made phone calls to all department heads that they cannot sign their own expense reimbursements and that these requests of the Elected Officials must be approved by the Town Administrator or in his absence the Assistant Town Administrator. This requirement has been met with some resistance from some of the Elected Officials. But in our review of the vouchers, we try to be diligent about removing a request from the process unless it has the proper authorization.

CURRENT YEAR RECOMMENDATIONS:

2. Improve Controls over General Ledger (Significant Deficiency)

During fiscal year 2011, the Town converted to a new software system, SoftRight, which allows the user to post unbalanced entries in the general ledger. During our audit, we observed several instances in which unbalanced entries were recorded in the general ledger. This resulted from debits and credits being made directly to fund balance accounts rather than to revenue or expenditure accounts. As a result, there is an increased risk of errors being made within a particular fund and not being detected.

Additionally, changes to the trial balance were made during the course of the audit which made it difficult for testing and reconciliation purposes. A final trial balance provided in May 2012, presented two Special Revenue Fund accounts that were out of balance due to unbalance entries being made directly to fund balance.

We recommend the Town inquire of the software vendor as to whether a safeguard could be added or activated to prohibit posting unbalanced entries. We also recommend that general ledger trial balance reports be reviewed monthly to verify that all entries are proper and balanced.

Town's Response:

The new SoftRight General Ledger system went online at the beginning of FY 2011. As with all conversions, this GL system had a lot of start-up problems and issues that needed to be ironed out. SoftRight responded to all our calls for help and as the year progressed we sorted out a lot of the issues. But the difficulties we were having definitely affected everything we were doing, including catching all adjustments we had to make as part of correcting and fine-tuning the process. This resulted in late changes to the Financial Statements and a delay in the audit. We are still working with the software Engineers about adding a safeguard to prevent unbalanced Trial Balances by Funds. The issue is not that the original entries are unbalanced. The issue is that the individual Fund Trial Balances can be out of balance if the entries were made between funds. The bottom line of all funds is in balance. I am expecting to hear from them this week about a possible solution. Trial Balances reports are being reviewed monthly.

3. Improve Departmental Internal Controls

In our review of departmental accounting procedures at the Library and Police Department, we found the following areas where improvements should be made:

Library:

- Real-time receipt logs are not consistently used to record all incoming receipts and to provide a clear audit trail of turnovers to the Treasurer.
- Prenumbered receipts are not issued to customers upon payment.
- Cash receipts are not held in a secure location.

We recommend the Library establish receipt control procedures, which should include the use of a real-time receipt log, prenumbered receipts issued to customers and all cash receipts be held in a locked secure location at all times until they can be turned over to the Treasurer.

Town's Response:

Response from Elizabeth Johnston, Library Director

I understand the recommendations of the auditors for the Library's receipt of overdue fines. The procedures we now have in place demonstrate that the Library computer system tracks daily fines collected during the day's transactions. In addition, the staff keeps a written log of the amount of the overdue fine they collect from each individual patron ranging from \$.05 cents to \$2.00 per item. Adding to those procedures, the auditor recommended that I count all coins and cash collected every single day and keep a record of how much cash is collected every day that is present in our cash drawer, and to do this daily in addition to the computer record and paper record we keep.

It is my intention to follow the auditor's recommendation.

The Library does have a system of receipts to give to customers for their payment. The computer system generates a printed receipt of their payment. Also, we have a conventional receipt book. We do offer a receipt to customers. We do not automatically issue them a receipt but ask if they would like a receipt. Going forward, we will generate receipts for all fines paid.

The Library intends to secure the location of monies collected in the cash drawer by moving the tray to a locked closet.

Police Department:

- The same individual receives payments, records transactions, and prepares turnovers to the Treasurer with no department head or supervisor oversight.

We recommend the Police Department establish procedures to minimize the effect of this lack of segregation. We recognize that the department has limited staff; however, we recommend that, at a minimum, the department Supervisor provide documented oversight of transactions originated by the Clerk. This

should include reviewing and approving turnovers to the Treasurer and a periodic internal audit of the department's records.

Town's Response:

Response from Rick Thompson, Chief of Police

Not a problem. I will make certain to review all through our new software. I am fairly certain that there is a function which allows only one person to approve. Also, our new software will allow us to audit our records periodically.