

**TOWN OF SHERBORN, MASSACHUSETTS**

**Management Letter**

**For the Year Ended June 30, 2012**

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# MELANSON HEATH & COMPANY, PC

CERTIFIED PUBLIC ACCOUNTANTS  
MANAGEMENT ADVISORS

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, 2012, in accordance with auditing standards generally accepted in the United States of America, we considered the Town'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.

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.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses. In addition, because of the inherent limitation 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. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

During our audit, we 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.*

April 4, 2013

## **STATUS OF PRIOR YEAR RECOMMENDATIONS:**

### **1. Improve Controls Over General Ledger**

#### Prior Year Issue:

In the prior year, we recommended a safeguard be added the Town's software system, SoftRight, to prohibit posting of unbalanced entries directly to fund balance. We also recommended that general ledger trial balance reports be reviewed monthly to verify that all entries are proper and balanced.

#### Current Year Issue:

In the current year, there were no instances of unbalanced funds; however the Town's general ledger control account for actual expenditures did not reconcile to the subsidiary detail report.

#### Further Action Recommended:

We continue to recommend that general ledger trial balance reports be reviewed monthly to verify that all entries are proper and balanced.

#### Town's Response:

The Town Accountant continues to review the General Ledger Trial Balance monthly as was done during FY 2012. The discrepancy referred to was a small amount due to a Chart of Accounts coding error which has been corrected.

### **2. Improve Departmental Internal Controls**

#### Prior Year Issue:

Library: In the prior year, we recommended the Library establish receipt control procedures.

Police: In the prior year, we recommended the Police Department establish procedures to minimize the lack of segregation of duties over departmental receipts.

#### Current Year Issue:

Library: Resolved.

Police: As noted in fiscal year 2011, the same individual receives payments, records transactions, and prepares turnovers to the Treasurer with no department head or supervisor oversight.

Further Action Recommended:

We continue to recommend the Police Department supervisor provide documented oversight of transactions originated by the clerk, including the review and approval of turnovers to the Treasurer and a periodic internal audit of the department's records.

Town's Response:

In discussion with Lieutenant Bento (supervisor), after his discussion with the auditor, the following procedures are now in place: the officers are currently issuing numbered receipts for cash and recording it on a spreadsheet which is signed by the shift supervisor at the end of the shift and then turned over to the supervisor who then reviews and turns the funds over to the Treasurer on form AD9/10.

**CURRENT YEAR RECOMMENDATIONS:**

**3. Improve Departmental Receipt Procedures**

Although the Town adopted departmental receipt procedures as part of their Financial Policies and Procedures Manual several years ago, we noted in our review of departmental turnovers that they are not consistently followed. We also noted the following specific weaknesses in our departmental receipt testing.

School Lunch Program:

- During working hours, checks are kept in the cafeteria manager office and cash receipts are kept in an unlocked drawer until deposited. Because these areas are not locked, receipts could be accessed by other employees.

Although receipts are typically deposited on a daily basis, we recommend they be kept in a locked file cabinet or safe until they are deposited.

- The Department does not retain computer records generated from the point of sale system, WinSNAP. Currently, the system also does not allow users to access reports from past fiscal years.

We recommend the School Department print and retain all WinSNAP school lunch reports, and that the computer generated prepayment summary be reconciled and signed by two individuals involved in the proof. This will provide improved documentation of the checks and balances over school lunch receipts and deposits.

- The School Department does not have a formal written policies and procedures for its school lunch receipts.

We recommend the School Lunch Director create a formal, written departmental receipt policy. This will improve controls and documentation over receipts.

Town's Response:

The School Lunch Director has written up the policies. She had already instituted the policies some time ago so everything has been addressed.

Transfer Station:

- Any employee of the Transfer Station can collect receipts and record transactions on receipt log and there is no documented oversight of daily cash collected. Additionally, the supervisor who prepares turn-overs to the Treasurer is also involved in the receipt process.

We recommend at least two responsible individuals be involved in the daily cash out procedures and that they both sign the daily receipt log. Additionally, we recommend duties be segregated so that no one individual controls all phases of the collections and turnover process.

- The Transfer Station does not have a secure location to physically store incoming receipts prior to deposit. Additionally, the supervisor takes all receipts and the receipt log home each night.

We recommend incoming receipts be kept in a locked file cabinet or safe at the Transfer Station until deposited.

- The Transfer Station does not receive a monthly general ledger revenue reports and therefore does not reconcile revenue recorded with their internal records.

We recommend that monthly revenue reports be provided to the Transfer Station, that reconciliations be performed, and that any discrepancies be explained or corrected.

Town's Response:

This recommendation has been given to the Supervisor currently running the Transfer Station and the person responsible for monitoring the budget. Currently there is not enough staff to segregate duties. They have agreed to provide a locked box to hold the receipts prior to deposit. There is a monthly report distributed to the Selectmen's office since the Transfer Station falls under their control. We will provide an additional copy of the report to the Supervisor and request that he reconciles revenue to his internal records.

Town-Wide:

We recommend the Town provide a copy of the Town's Departmental Receipt Policy to each department as a reminder of the procedures to be followed and to ensure cash and receipts are turned over to the Treasurer in a timely manner. We also recommend the Town establish a schedule for periodic internal audits of the Town's departmental accounting records. This will result in improved oversight and should reduce the risks of errors or irregularities occurring and going undetected.

Town's Response:

The Treasurer surveyed the Departments and Committees and all but one confirmed that they possess a copy of the Receipt Policy. All departments are following the policies with the exception of a few departments which do not

turn their receipts over every week. The Town Accountant has established a schedule for periodic internal audits which are scheduled to begin in February.

#### **4. Hold a Special Town Meeting**

We noted that the Town reports certain Annual Town Meeting appropriations that use free cash as a funding source in the current fiscal year, and all other appropriations in the following fiscal year. This complicates the reconciliation of actual appropriations to the tax recap form, and to the SoftRight appropriation report.

We recommend the Town hold a Special Town Meeting to address all articles that will add appropriation to the current fiscal year. This will improve the consistency and accountability of appropriations between Town Meeting actions, the tax recap form, and the Town's SoftRight appropriation report.

#### **Town's Response:**

Sherborn has always had an article with their annual town meeting to handle supplemental funding to current year budgets. This has never been a problem in all the years of prior audits. But this recommendation will be presented to the new Town Administrator, the Town Moderator and the Selectmen. Several towns do schedule Special Town Meetings within their Annual Town Meeting.

#### **5. Formalize Capital Asset Policies and Procedures**

The Town uses an outside consultant to track capital asset/depreciation records. The Town does not have a written capitalization policy and therefore requires the consultant to use the Department of Revenue fixed asset manual as a guide.

Although the Town has been using an outside consultant for several years, we recommend the Town develop a formal written capitalization policy to document thresholds for capitalizing assets and useful lives for various asset classes. This will help ensure consistent accounting treatment is achieved, regardless of whether capital asset recordkeeping is performed by a consultant or in-house.

Town's Response:

The Consultant has consistently used DOR guidelines and this has worked very well in the past and the accounting treatment has been consistent. When the Town has a Town Administrator in place this suggestion of establishing a written capitalization policy will be presented to him.

**6. Prepare for Implementation of GASB Statement No. 68**

Beginning in fiscal year 2015, the Town is required to implement the Governmental Accounting Standards Board (GASB) Statement No. 68 – Accounting and Financial Reporting for Pensions that will require the unfunded pension liability be recognized on the Town's Statement of Net Assets, including enterprise funds. It is widely expected that the implementation of this accounting standard will have a material impact on the Town's basic financial statements.

We recommend the Town begin planning for the implementation of GASB 68, which includes gaining an understanding of the new requirements, educating applicable financial statement users, and ensuring that the Town's applicable portions of unfunded retirement system's unfunded liability is available for inclusion in your financial statements. We will be monitoring best practices for implementing this standard and will provide guidance in the coming year.

Town's Response:

The Town receives copies of the Middlesex County Retirement Systems actuarial reports when they are issued which provide the data indicated above.