

TOWN OF SHERBORN, MASSACHUSETTS

Management Letter

For the Year Ended June 30, 2013

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Additional Offices:

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

To the Board of Selectmen
Town of Sherborn, Massachusetts

In planning and performing our audit of the basic financial statements of the Town of Sherborn, Massachusetts as of and for the year ended June 30, 2013, 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.

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.

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 material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

Melanson, Heath + Company P.C.

April 4, 2014

STATUS OF PRIOR YEAR RECOMMENDATIONS:

We would like to commend the Town for implementing most of the prior year management letter recommendations and resolving the various software conversion difficulties that existed in prior years. Specifically, the following prior year management letter issues were resolved in fiscal 2013:

- Improve Controls Over General Ledger
- Improve Departmental Internal Controls
- Prepare for Implementation of GASB 68
- Implement Regular Departmental Internal Audits

The following section discusses certain other prior year recommendations that have not yet been fully resolved that we feel are still worthy of consideration.

1. Hold a Special Town Meeting

Prior Year Issue:

In the prior year, we noted that the Town included certain current year appropriations that use free cash as a funding source within the ensuing year's Annual Town Meeting. This comingling of fiscal year appropriations complicates the reconciliation of actual appropriations to the tax recap form, and to the SoftRight appropriation report.

Current Year Issue:

This issue was not resolved in fiscal 2013.

Further Action Recommended:

We continue to recommend the Town hold a Special Town Meeting to address all articles that will add appropriation to the current fiscal year, instead of including them in the ensuing year Annual Town Meeting. 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:

This recommendation was brought to the attention of the Board of Selectmen by the Town Administrator in the fall 2013. They expressed no interest in holding a special town meeting to address current fiscal year appropriations unless it was clearly demonstrated to be a DOR requirement. Andrew Nelson, Sherborn's DOR representative said that there was no consensus in the DOR to support the recommendation. Until it is a requirement of the DOR, the selectmen have opted to continue having current year supplemental funding as an Article within the same Town Meeting as it has in the past.

2. Formalize Capital Asset Policies and Procedures

Prior Year Issue:

In the prior year we recommended the Town formalize a capital asset capitalization policy to document thresholds for capitalizing assets and useful lives for various asset classes. This would help ensure consistent accounting treatment is achieved regardless of whether capital asset recordkeeping is performed by a consultant or in-house.

Current Year Issue:

This issue was not addressed in fiscal 2013.

Further Action Recommended:

We continue to recommend that the Town establish a formal policy for the capitalization of assets.

Town's Response:

In the General By-Laws of the Town of Sherborn, Section 5 of Chapter 6 (Capital Budget Committee) states that a capital improvement or project shall be a physical betterment or item of equipment having a useful life of at least five years and a cost of ten thousand dollars (\$10,000) or more. The Town Administrator believes this was evidence of an approved policy. In fulfilling the requirement of GASB 34 Fixed Asset accounting, a policy was established that we would record assets consistent with the DOR guidelines which we have done since the beginning. At that time, we decided to include Computer equipment so we would have a record of all purchases in that category. These purchases frequently were \$5,000 or less. The Board of Selectmen also views the Section 5 of Chapter 6 of the General By-Laws to be the town's official policy. The Town Accountant has agreed that in setting up a new in-house Fixed Asset module, this \$10,000 and 5 year life policy will be adhered to beginning this fiscal year (FY2014).

CURRENT YEAR RECOMMENDATIONS:

3. Improve Payroll Documentation

In our testing of payroll transactions, we noted several instances where the pay rate for the employee had to be supported by departmental budgets. Because, departmental budgets do not always indicate employee names, this increases the risk of inappropriate salaries and wages being paid.

We recommend that the Town maintain "employee status forms" to document current authorized pay rates and positions in each employee file. This will help ensure that proper wages are paid to all employees.

Town's Response:

The Town Administrator has developed a Personnel Action form which is now pending Board of Selectmen approval.

4. Improve Oversight of Library Trust Funds

The Library trust funds are included in the Town's general ledger based on year-end summary reports prepared by the Library Trustees. The Town does not provide oversight to these funds, and as a result, are not subject to the Town's normal internal controls. The trust funds are governed by the Library's own governing body, and in 2013 included over \$1.3 million in gift income.

During our testing it was noted there is a lack of documented oversight of the Library trust funds. Also, the same individual responsible for providing reports to the Town Accountant is also responsible for cash management. Collections of donations and gifts are made at the Library and the Library does maintain records of funds received, however these records are not reconciled to bank statements or to the year-end report.

We recommend the Trustees of the Trust Funds develop and implement formal internal control policies and procedures to document receipt and disbursement processes, internal accounting records, and reconciling procedures (including an adequate segregation of duties). We also recommend activity be reported to the Town Accountant more frequently (monthly or quarterly).

In addition we recommend the Town Accountant report the Library Trust activity in a separate general ledger fund and perform periodic internal audits to verify the accuracy of reported activity. This will improve documented oversight over trust funds, and will minimize the risk of irregularities occurring and going undetected.

Town's Response:

At the Library Trustee Board Meeting of January 30, 2014, the Trustees voted to implement an audit procedure whereby on a quarterly basis, at least two different people would reconcile and verify all of the donations received by or for the Library during that quarterly period. This would involve at least one Trustee and either a second Trustee or the person who has been tasked with receiving and recording the information at the Library when received. The adoption of this procedure was communicated to the auditors. Previously it had been indicated to the auditors that a complete summary of all receipts and disbursements of endowment funds is made to all the Trustees on a quarterly basis and that summary is included as an attachment to the minutes prepared by the Trustees and submitted to the Town Clerk.

In addition, it was disclosed to the auditors that on the disbursement side, invoices were only paid by the Library's Finance Chair after they had been approved by either the Library Director or another Trustee. Acknowledgement/

approval was indicated by initials or written "OK". The auditors requested that such "OKs" be initialed. The Trustees agreed with this request at a Trustee meeting on February 12, 2014.

Monthly Bank Statements and Monthly BNY Statements will be provided to the Town Accountant quarterly. The Middlesex Savings Bank Statements are reconciled by the Treasurer of the Trustees already and he can supply the Town Accountant with a reconciling print-out. The BNY Statements in their present form cannot be reconciled as the investment trading activity is not something that is controlled or accessible by the Trustee treasurer.