

**TOWN OF SANDISFIELD, MASSACHUSETTS**  
**MANAGEMENT LETTER**  
**FOR THE YEAR ENDED JUNE 30, 2016**

**TOWN OF SANDISFIELD, MASSACHUSETTS**

**Management Letter**

**Year Ended June 30, 2016**

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To the Honorable Board of Selectmen  
Town of Sandisfield  
Sandisfield, Massachusetts

In planning and performing our audit of the financial statements of the Town of Sandisfield, Massachusetts as of and for the year ended June 30, 2016, in accordance with auditing standards generally accepted in the United States of America, we considered the Town of Sandisfield'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 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 over financial reporting was for limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore there can be no assurance that all such deficiencies have been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be a material weakness.

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 in the Town's internal control and presented in Finding 2017-1, 2, 3 and 4 to be a material weakness.

In addition, we noted other matters involving the internal control and its operation that we have reported to management that would improve operations and internal accounting control.

This communication is intended solely for the information and use of management, the 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.

Scanlon & Associates, LLC  
South Deerfield, Massachusetts

August 31, 2017

## CURRENT YEAR COMMENTS AND RECOMMENDATIONS – Material Weaknesses

### 2016-1 Cash and Investment Reconciliation (Material Weakness)

Comment:

The Treasurer did not maintain a proper cashbook and perform effective Individual bank account reconciliations for fiscal year 2016. Furthermore, reconciliations between the general ledger and the individual bank statement reconciliations were not completed effectively. Internal control procedures should be designed in a manner that ensures all activity is recorded in the cashbook prepared by the Treasurer as the transactions occur. At the same time as the activity is being posted to the cashbook a corresponding posting would be made to the general ledger. The cashbook balance and the general ledger cash balance must match at all times. At the end of each month the Treasurer would complete a reconciliation between the cashbook and bank statements. The absence of having timely and proper procedures in place to maintain a cashbook, perform individual bank account reconciliations and reconcile to general ledger significantly increases the risk that misstatement due to error or fraud may occur and not be detected, prohibits the safeguarding of assets and does not provide for accurate and timely financial reporting. As a result of this situation the Town hired an outside consultant to reconcile the cash and investment for fiscal year 2016. An adjustment was made to the general ledger cash account to eliminate an unidentified variance with the Treasurer's individual bank reconciliations of approximately \$37,000.

We cannot emphasize enough the importance of the timely reconciliation of cash and investments in order to have an effective system of internal controls. We strongly recommend management closely monitor this situation to insure that cash and investments are reconciled in a timely manner between the treasurer's records and the town accountant general ledger.

## 2016-2 Tax Accounts Receivable (Material Weakness)

### Comment:

During our audit we noted the following with regards to the tax accounts receivables:

- During our audit we noted that a tax title receivable subsidiary ledger was not properly maintained and reconciled to the General Ledger on a periodic basis. We further noted that end of year documentation filed with Department of Revenue for free cash certification was incorrect with regard to tax title. It was filled out showing no variance between the general ledger and the detailed outstanding list. Furthermore, there are real estate accounts that date back to 2012 and no tax title takings have been completed. An accurate tax title receivable balance and tax title takings are critical to protecting the Town's interest as the Town pursues the collection or possession of these receivable accounts. An accurate accounting of the detail tax title accounts is also necessary to facilitate an effective reconciliation process with the Town Accountant.

We recommend that a detail subsidiary ledger be maintained for the tax title accounts and procedures be implemented to reconcile it to the general ledger on a periodic basis. Also, we recommend that tax title taking be done for the older outstanding accounts.

- Receivable reconciliations were not effectively performed between the Tax Collector's records and the general ledger in fiscal year 2016. Reconciling the activity and ending balances of the accounts receivable is an integral control procedure over one of the most significant asset and revenue sources of the Town. We have proposed an adjustment to the general ledger for the 2015 real estate levy during our audit. We noted that variances exist between the town accountant's general ledger and tax collector subsidiary ledgers. The following is a summary of variance between general ledger and accounts receivable subsidiary ledgers.
- We noted the collection rate (collections net of refunds divided by commitment) for 2016 real estate levy was 91%. In our observation this rate is low in comparison to other communities. We recommend that the Town improve its collection rate. Property taxes are one of the most significant assets and revenue sources of the Town and we cannot emphasize enough the importance of having procedures in place to ensure property taxes are being collected. Furthermore, having procedures in place to monitor and collect the Town's accounts receivable is an integral control procedure to ensure safeguarding of the Town's assets.
- The Town currently utilizes a Deputy Collector to collect unpaid motor vehicle excise taxes. The Collector does not have a procedure in place to reconcile the outstanding detail accounts to the Deputy Collector's detail outstanding accounts. This procedure should be implemented to safeguard the Town's asset collected by a third party.

### 2016-3 Internal Controls Over Financial Reporting (Material Weakness)

A system of internal control over financial reporting includes the design and implementation of policies and procedures deemed necessary by management to provide reasonable assurance that the Town's financial information is fairly presented. The following are two critical assertions that underlie the Town's financial information:

- Completeness  
All transactions and other events and circumstances that occurred during a specific period and that should have been recognized in that period have, in fact, been recorded.
- Accuracy, Valuation, or Allocation  
Asset, liability, revenue and expenditure components are recorded at appropriate amounts in conformity with relevant and appropriate accounting principles. Transactions are mathematically correct and appropriately summarized and recorded in the entity's books and records.

The reliability of financial reporting is one of the key elements used by management to achieve its desired objectives and meet internal and external responsibilities. As part of performing audit risk assessment procedures to understand the attitudes, awareness and actions of management concerning internal control and its importance in achieving reliable financial reporting, we noted the following:

- We noted that there was no procedure to reconcile the authorized town meeting votes, the tax recapitulation sheet, budget transfers and budget of the expenditure and revenue subsidiary ledgers. The lack of not having these procedures in place can lead to a situation in which appropriations are overdrawn, expenses paid from incorrect line items and department heads and management not having accurate information to maintain operating efficiency.
- During our fieldwork we noted a lack of receipts and bank deposits for June 2016. Thru inquiry and testing we found deposits in July 2016 that were for receipts from April 2016 to June 2016. Most noteworthy, tax collections of approximately \$200,000. Furthermore, we were unable to locate proper support documentation for most receipts in fiscal year 2016. The lack of timeliness of turnover of monies to Town treasury and lack of support documentation for all receipts can have a significant negative impact on a Town's financial condition and reporting.
- During our audit we noted that payroll withholding account balances are not being properly reconciled. Because these accounts have essential annual activity and carry with them statutory tax liabilities, among other responsibilities, we recommend that these accounts be accounted for accurately and consistently. A proper and timely reconciliation of payroll withholdings would minimize and control potential discrepancies from occurring. Furthermore, we could not locate or verify that all the required returns and reporting forms associated with payroll were properly filed. We recommend that all withholding accounts be reconciled monthly to the applicable governmental regulations and source documents to ensure that proper employee contributions are being made and relieved.

- During our audit we found that there is a lack of reconciliation of agency accounts. Agency accounts are used to report resources held by a Town in a purely custodial capacity. They usually involve only a receipt and the remittance of the receipt to individuals, private organizations or other governments. We recommend all agency accounts be reconciled on a periodic basis and operate in accordance with the agency definition.
- During our audit we reviewed journal entries made to the general ledger. We noted that a journal entry book is maintained, however we could not locate supporting documentation for several entries made to the general ledger. To maintain a good internal control system all entries made to the general ledger should be supported by proper documentation. We recommend that the journal entries have supporting documentation and that this documentation be filed with the journal entry book.
- As a result of the Town having various special accounts that earn interest (i.e. stabilization funds), actual cash transfers are necessary between funds, for such items as Town meeting votes or actual expenditures that are paid out of the general cash but not paid out of the specific bank account. We noted that transfers are not being made in a timely manner, specifically with the Stabilization fund. By not transferring funds, this can cause accounting problems and also results in the specific funds not receiving the correct amount of interest. We recommend that the Treasurer make the necessary bank transfers for the various special accounts.

#### **2016-4 Segregation of Duties (Material Weakness)**

*Comment:*

The Town due to its size has one person who is in charge of reconciling bank accounts, preparing and signing checks, depositing monies, and maintaining the general ledger. As is the case with many small-sized municipalities inherent staff limitations make it difficult to provide these separations in a cost effective manner. However, the Board of Selectmen should continue to be constantly aware of the need for adequate separation of duties to have a proper internal control structure. Responsibilities should be segregated among employees so that a single employee is not able to authorize a transaction, record the transaction in accounts and be responsible for custody of the asset resulting from the transaction.

Auditing standards do not require any further action than for us to communicate this issue to management of the Town in writing. The Town may continue with its current operating structure and accept this risk or may attempt to implement additional controls to mitigate potential risks.

*Prospective Information:*

In September 2016 (fiscal year 2017) the Town segregated the maintaining of the general ledger duties by creating a position of Town Accountant and has hired proper personnel to fill that role.

## CURRENT YEAR COMMENTS AND RECOMMENDATIONS – Other Matters

### 1. Ambulance Receivable

Comment:

During our audit we noted the accounts receivable for the ambulance charges are not recorded on the Town's general ledger. We recommend that the ambulance accounts receivable be recorded on the town's general ledger. The receivable activity should be periodically reconciled to source documents (i.e. ambulance billing reports).

### 2. Indication on Receipt Stub – Tax Collector's Office

Comment:

During our audit we reviewed and tested the internal control in the Tax Collector's office. We noted that the tax receipt stubs for the day's work were not consistently marked to indicate whether payment was made with cash or check. Because of the higher risk of currency (cash) transactions it is important that a trail exists from time of collection to bank deposit. Therefore all tax receipt stubs should indicate whether payment is cash or check, date paid and who received the payment. We have communicated this matter to personnel in Tax Collector's office at time of fieldwork.

### 3. Departmental Receipt Procedures

Comment:

Various departments of the Town receive cash and check payments from customers in the normal course of operations. Cash transactions, by nature, have a higher degree of inherent control risk and require the establishment of additional preventive controls to safeguard against loss. The Town should establish and disseminate uniform policies and procedures for the handling of receipts by all departments. Issues to be considered include:

- Maintaining receipt logs with reference to source documentation.
- Maintaining pre-numbered receipt books.
- Maintaining an audit trail over remittances to the Treasurer's Office.
- Establishing policies for frequency of remittance.
- Establishing policies for breakdown of cash and checks on a standardized turnover sheet.
- Account reconciliations between the Treasurer's and Accountant's office with Town Departments.
- Security of receipts on hand during Town business hours and overnight.

We recommend that the Town review and modify, if necessary, the uniform policies and procedures over the receipt function pertaining to various departmental receipts. The Town should monitor departmental compliance with established procedures on a periodic and continual basis. All department heads should review established procedures and document their understanding of the relevant cash receipt control activities.

#### **4. Internal Control Policies and Procedures Manual**

Comment:

During our audit we noted that most departments do not maintain a formal internal control policies and procedures manual that documents day-to-day activities and controls utilized within their respective department. An internal control policies and procedures manual would assist each department head with training, documenting and assuring the continuity of operational policies and procedures that have been approved by management of the Town to ensure achievement of its objectives.

#### **5. GASB Statement no. 34**

Comment:

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement #34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*. This Statement established new financial reporting standards for state and local governments. One of the important aspects of government-wide financial statements was that governments should report all capital assets, including infrastructure assets in the Statement of Net Position and depreciation expense should be reported in the Statement of Activities. The Statement was effective for the fiscal year beginning July 1, 2003 for the Town of Sandisfield.

We have issued an adverse opinion on the Town’s basic financial statements because the Town has not compiled detail capital asset and infrastructure records and is not in compliance with the reporting requirements of GASB Statement 34. If the Town were to consider obtaining a bond rating for the issuance of debt in the future, it may need to consider complying with GASB Statement #34.

#### **6. Review Special Revenue Accounts**

Comment:

Special revenue funds account for proceeds of specific revenue sources (other than trusts and capital projects) that are legally restricted to expenditure for specified purposes. Special revenue funds must be established by statute. The resources accounted for in special revenue funds would include federal and state grants, revolving funds, receipts reserved for appropriation, gifts, donations and other funds. Overtime special revenue accounts can lose their initial defined purpose when set up due to changes in operations, structure and personnel. During our audit we noted the Town has several special revenue accounts that have balances that are not supported by proper documentation, have a deficit balances or did not have activity for several fiscal years. We recommend The Town review all special revenue accounts to determine if the accounts are needed and that balances have proper supporting documentation.

#### **7. Other Areas**

- Convert to UMAS (Uniform Massachusetts Accounting).
- Health Insurance Deduction Pre-Tax (Section 125 plan).
- Review Deficit Accounts.
- Personnel Files.