

TOWN OF TYNGSBOROUGH, MASSACHUSETTS

Management Letter

For the Year Ended June 30, 2017

TABLE OF CONTENTS

	<u>PAGE</u>
TRANSMITTAL LETTER	1
1. Establish Receivable Reconciliation Procedures	3
2. Expand Chart of Accounts	4
3. Establish Formal Policies and Procedures Over Federal Awards	4
4. Prepare for New Single Audit Guidelines Over Procurement	5
5. Develop a More Formal Risk Assessment Process	6
6. Adopt Formal Policies and Procedures	7
7. Regularly Review Vendors	7

To the Board of Selectmen
Tyngsborough, Massachusetts

In planning and performing our audit of the basic financial statements of the Town of Tyngsborough, Massachusetts as of and for the year ended June 30, 2017, 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, 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.

Melanson Heath

May 21, 2018

1. Establish Receivable Reconciliation Procedures

The Town did not perform regular formal reconciliation procedures between the Tax Collector and the Finance Director for property tax, motor vehicle and utility receivables. The benefits of the reconciliation process are to provide a means of identifying differences in the way transactions are processed within the accounting systems, and to ensure that financial statement balances are supported by detail accounts maintained separately.

We recommend the Collector and Finance Director reconcile detailed balance due reports to the general ledger on at least a quarterly basis. Any differences should be investigated and corrected in a timely way.

Town's Response:

Tyngsborough's Treasurer/Collector began working for the Town in February 2017. Due specifically to her effort in attempting to reconcile receivables and ultimately pursue the collection of delinquent taxes, she uncovered several discrepancies in the receivables accounts. Further investigation of these balances uncovered a \$500,000 variance between the Collector's records and the Accountant's that spanned a period of 12 years. In working with the previous audit firm, a recommended general ledger adjustment was made to the receivables accounts, however, the intent of this adjustment was to bring the balance of the general ledger accounts more closely in line with projected balances. By no means did this adjustment represent a complete untangling of 12 years' worth of false entries and it was expected that the receivables balance would continue to show a variance. The number one goal by the end of fiscal 2017 and into 2018 in regard to the Town's receivables was to secure the Town's interest in the approximately \$500,000 in outstanding real estate taxes by placing liens on all delinquent parcels. The Collector's office has brought the prior year real estate and personal property receivable tax balance down to \$152,696 as of May 17, 2018, which has consequently allowed the partial release of the Town's one million dollar overlay account. As you can imagine, the process of cleaning up the books after this extensive and deliberate manipulation has been a very time-consuming process. However, it remains the goal of the Finance Department to collect all back-tax payments due to the Town and bring these long overdue cases to foreclosure if collection procedures do not prevail. The Town has recently engaged with Attorney Ronald Berenson from Berenson & Bloom to begin the foreclosure process on properties with a combined outstanding balance in both taxes and interest of \$1.193 million. The departmental goal heading into fiscal 2019 is to continue the timely process of collecting taxes and perfecting tax liens as necessary. In addition, implementing a formal receivables reconciliation process and performing these procedures monthly remains a top priority.

2. Expand Chart of Accounts

The Town currently records the activity associated with multiple opinion units within only two general ledger funds. As a result, numerous reclassifying adjustments are required to properly present activity in the respective fund financial statements. The following accounts should be recorded as separate funds in the general ledger:

- OPEB trust funds (fiduciary funds)
- Private purpose trust funds (fiduciary funds)
- Nonexpendable permanent funds (governmental funds)
- Expendable permanent funds (governmental funds)

Additionally, each grant has multiple grant years accounted for in the same general ledger account, making the financial reporting of each individual grant more complicated.

We recommend that the Town expand the general ledger chart of accounts to eliminate the need for reclassifying adjustments. Additionally, we recommend that grants in special revenue be tracked in the general ledger by grant year. Implementation of these recommendations will result in the proper presentation of the above noted funds and will streamline the year-end closing process.

Town's Response:

The annual town meeting has approved the capital purchase of an integrated financial software system and will begin the transition process beginning in FY 19. As part of this process the Finance Director will expand the current chart of accounts to incorporate the management letter recommendations.

3. Establish Formal Policies and Procedures Over Federal Awards

Significant new requirements related to Federal awards, established through OMB's *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (UG) are now in effect. The requirements stipulate that federal award recipients must document their policies and procedures over certain aspects of financial and program management. Specifically, written policies are required for the following:

- Cash management
- Determination of allowable costs
- Employee travel
- Procurement (see separate Comment 4)
- Subrecipient monitoring and management

We recommend the Town ensure that written policies and procedures are compiled and adopted. Implementation will help ensure that the Town is in compliance with Federal guidelines.

Town's Response:

The Town has prepared a comprehensive draft of Financial Policies and Procedures which it expects to formally adopt by the close of the fiscal year. The Finance Director will incorporate an additional section to address the policies and procedures relevant to federal awards and procurement so that these procedures may formally be adopted by the Town.

4. Prepare for OMB's Uniform Guidance Requirements Over Procurement

As a result of OMB's *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (UG) there are new procurement rules over purchases made with federal grant funds, which differ in certain respects from Massachusetts procurement laws (MGL Ch. 30B, et al). The OMB has extended the grace period for implementation of the new procurement standards with a new effective date of July 1, 2018.

Under the new requirements, Federal award recipients must:

- Establish written policies and procedures for the following:
 - Procurement in compliance with new procurement standards
 - Standards of conduct covering conflicts of interest
 - Process for conducting proposal evaluations
- Maintain certain records to detail the history of procurement
- Implement oversight procedures to ensure contractors perform in accordance with terms.

Differences to MGL Ch. 30B include:

- Under the new rules, purchases of \$3,500 - \$10,000 must have evidence of obtaining/evaluating prices from more than one source; MGL Ch. 30B does not contain any requirements for purchases under \$10,000.
- There are no exemptions allowed under the new procurement standards; MGL includes exemptions for certain types of purchases such as Special Education services and supplies.
- Sole-source/no-competition purchases are allowed only in certain situations and are not dependent on the purchase amount; MGL sole-source requirements are less specific.

We recommend the Town review the new requirements and modify the current procurement policy to ensure compliance with Uniform Guidance.

Town's Response:

The Town has prepared a comprehensive draft of Financial Policies and Procedures which it expects to formally adopt by the close of the fiscal year. The Finance Director will incorporate an additional section to address the policies and procedures relevant to federal awards and procurement so that these procedures may formally be adopted by the Town.

5. 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 to respond 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.

Town's Response:

The Finance Director has been reviewing formal risk assessment procedures and plans to develop an internal team of key members from various departments to identify risks the Town faces both internally and externally across all departments. The Finance Director will guide the team and complete the annual risk assessment using the COSO Internal Control – Integrated Framework and Fraud Related Internal Controls endorsed by the Association of Certified Fraud Examiners.

6. Adopt Formal Policies and Procedures

During the financial statement audit, we noted that the Town currently has draft policies and procedures over various areas. The Town should review their draft policies and ensure that the following are addressed:

- Fraud risk assessment
- Fund balance (minimum level)
- Conflict of interest
- Related parties
- Departmental receipts
- Procurement
- Receivable write-off

We recommend the Town formally adopt their draft policies and procedures to provide departments with documented guidance over the above noted areas. Adopting these proactive measures should result in Town-wide consistency, fewer internal conflicts, and would minimize the risk of future irregularities or abuses occurring.

Town's Response:

It is the intent of the Town to formally adopt the draft Financial Policies and Procedures and to incorporate all recommended sections as outlined in the management letter.

7. Regularly Review Vendors

We recommend that the Finance Department run an annual report by vendor. The list should be reviewed to ensure authentication of vendors and any vendors that exceed \$10,000 in total should be analyzed. This will ensure that proper procurement procedures are being followed.

Town's Response:

The Finance Director and Town Administrator will compile a list of vendors who exceed \$10,000 annually. This list will be distributed to all Town departments who will be required to provide proof of compliance with Massachusetts procurement laws for all purchases from the listed vendors, regardless of transaction amount.