

TOWN OF HARDWICK, MASSACHUSETTS

Management Letter

For the Year Ended June 30, 2015

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Additional Offices:

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

To the Board of Selectmen
Town of Hardwick, Massachusetts

In planning and performing our audit of the basic financial statements of the Town of Hardwick, Massachusetts as of and for the year ended June 30, 2015, 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.

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, significant deficiencies or material weaknesses may exist that have not been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies and other deficiencies that we consider to be material weaknesses.

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. Material weaknesses are noted in the table of contents and comment headings.

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 recom-

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

Melanson Heath

November 7, 2016

1. Establish Cash Reconciliation Procedures (Material Weakness)

In fiscal year 2015, there were no formal and regular monthly cash reconciliation procedures between the general ledger and the Treasurer's cash balances. Reconciliation of major general ledger accounts is integral to a strong internal control system. Specifically, the reconciliation of cash accounts ensures the proper recording of receipts and disbursements. Lack of this reconciliation greatly increases the risk that errors or irregularities may occur and go undetected.

We recommend that the Town's general ledger and the Treasurer's cash be reconciled on a monthly basis, that quarterly reconciliation forms be prepared, and year-end report be submitted to the Department of Revenue. This will result in more reliable financial information and reduce the risk of undetected errors or irregularities.

To accomplish efficient monthly cash reconciliations, we recommend the Town implement the following:

- The Treasurer should maintain a current and accurate cash book containing all of the Town's bank accounts.
- All Town cash reconciliations, including trust accounts, should be summarized on a single form to prove the overall cash reconciliation between the Treasurer and the general ledger. The form should be signed by the Treasurer and Town Accountant, and be provided to the Board of Selectmen on a monthly basis.
- All identified reconciling items should be clearly described and documented, and should be resolved/corrected in the subsequent month.
- Specific trust accounts maintained in separate bank accounts should be reconciled to specific corresponding general ledger accounts on at least a quarterly basis.
- Old outstanding checks should be voided and reclassified to a general ledger "tailings" liability account at least annually.
- The Town Accountant should perform periodic reviews and testing of specific bank account reconciliations.
- At least annually, the Town should survey local banks to identify other bank accounts that are using the Town's federal identification number.

Town's Response:

It is agreed that Melanson Heath's finding of no formal and regular monthly cash reconciliation procedures between the general ledger and the Treasurer's cash balances had been established. It is agreed that without this the Town is absent a strong internal control system.

The Town Administrator is currently preparing a financial policies and procedures manual for the Town of Hardwick. The recommendations provided in this section of the management letter will be incorporated into the financial policies and procedures manual and implemented during fiscal year 2017. In addition, the manual requires monthly reporting to the Board of Selectmen.

As of fiscal year 2016 the Treasurer maintains a current and accurate cash-book containing all the Town's bank accounts.

The Treasurer is working with Bartholomew & Company, Inc. to structure the trust accounts with the general ledger which will be reconciled on a quarterly basis. The anticipated timeframe for this to be in place is January 2017.

The Treasurer will be setting up a new vendor and payroll account in January 2017 and will work with the Town Accountant to create a tailings account. This is anticipated to be in place by the start of fiscal year 2018.

2. Establish Receivable Reconciliation Procedures (Material Weakness)

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

We recommend the Collector and Accountant establish procedures to reconcile control totals to detailed balance due reports and control totals to the general ledger on at least a quarterly basis. Any differences should be investigated and corrected in a timely way. We further recommend the Treasurer and Accountant work to identify the cause of the variance in the tax title receivable account and that once resolved, the account also be reconciled quarterly.

Town's Response:

It is agreed that Melanson Heath's finding of no formal and regular monthly reconciliation procedures between the Tax Collector and the Town Accountant for property tax, motor vehicle, and utility receivables had been established. It is agreed that incorporating a regular monthly reconciliation process will provide a means of identifying recurring differences in the way the transactions are processed within the accounting system and to ensure the financial statement balances are supported by detail accounts maintained separately.

The recommendations provided in this section of the management letter for the Collector and Town Accountant will be incorporated into the financial policies and procedures manual and implemented for fiscal year 2017. In addition, the Treasurer and Accountant have identified the cause of the

variance in the tax title receivable account and will now reconcile that account quarterly.

3. Improve Controls Over Payroll Disbursements (Significant Deficiency)

As noted in previous years, our sample testing of payroll for 25 employees found the following issues:

- Seventeen instances where there was inadequate documentation of the pay rate or salary. Lack of documentation of approved pay rates increases the risk that errors may occur without being detected.
- Three instances where timesheets were not approved by department heads.
- Payroll checks were given to employees in advance of the check date.

We recommend that procedures be established to maintain up-to-date documentation of pay rates in all employee files. This could be achieved by annually compiling a list of all employees with their step/grade level as of July 1 to be approved by the Board of Selectmen for the upcoming fiscal year. This will help ensure that proper wages are paid for all employees and provide clear authorization for all pay rates.

We also recommend that care be taken to ensure that all timesheets include appropriate approvals and that checks be held until the check date and then distributed to employees.

Town's Response:

The Town is in agreement with the findings of Melanson Heath, and that the following issues have been identified in previous years as well as in fiscal year 2015:

- Lack of documentation of approved pay rates
- Instances where timesheets were not approved by department heads
- Payroll checks given to employees in advance of the check date

Lack of documentation of approved pay rates: The Town Accountant, Town Treasurer, and Town Administrator all receive copies of the annual town meeting and special town meeting votes. These documents will be reviewed and kept as record with regard to salaries and increases to salaries. In addition, the Town Administrator will provide written record whereas the Board of Selectmen has, within their authority, voted to hire, appoint, or enter into contract with a new Town employee. The written record will include the name, title of position, hourly/annual wage, employment start date, and number of hours to be worked weekly. This record will be placed in the personnel file of that individual.

Timesheets not approved by department heads: The Town has incorporated a payroll voucher form that is attached to the timesheet. Both the time sheet and voucher contain a signature block for the department head signature. If the voucher/timesheet has not been signed by the department head, the Town Accountant immediately alerts the department head and will not process until it has been signed.

Payroll checks given to employees in advance of the check date: This practice has stopped. No checks are issued prior to the check date. All employees have been notified.

4. Improve Procedures Over Vendor Disbursements (Significant Deficiency)

As noted in previous years, our sample testing of 25 invoices found several exceptions:

- Four instances in where there was no supporting documentation for the disbursement recorded in the general ledger.
- Two instances in which there was no documentation that the invoice was approved.
- Three instances in which a reimbursement request was signed by the same individual requesting reimbursement, not an approving body.
- One instance where a mileage reimbursement request was submitted for three months at once. We recommend that reimbursements are made in a timely manner.
- Three instances where the Treasurer's signature was printed directly on the invoice, instead of a handwritten signature.
- One instance where an additional check was erroneously issued for the total amount summarized on the voucher cover sheet to the department head authorizing the voucher.
- Lack of documentation to support compliance with MGL Chapter 30B procurement requirements.

Documentation of authorization and invoice review procedures are integral parts of good internal controls and provide assurance that the Town's expenditures are legitimate and accurate.

We recommend that all disbursements include handwritten documentation of departmental approval. We further recommend the Town consider adopting a policy to require the Board of Selectmen's approval for reimbursements to department heads in excess of a set amount (\$500 for instance). This will reduce the risk of payment being made for unauthorized or duplicate purchases.

Town's Response:

The Town is in agreement with the findings of Melanson Heath, and that the following issues have been identified in previous years as well as in fiscal year 2015:

- Instances where there was no supporting documentation for the disbursement recorded in the general ledger.
- Instances in which there was no documentation that the invoice was approved.
- Instances in which a reimbursement request was signed by the same individual requesting reimbursement, not an approving body.
- Instances where a mileage reimbursement request was submitted for three months at once.
- Instances where the treasurer's signature was printed directly on the invoice, instead of a handwritten signature.
- Instance where an additional check was erroneously issued for the total amount summarized on the voucher cover sheet to the department head authorizing the voucher.
- Lack of documentation to support compliance with MGL Chapter 308 procurement requirements.

Instances where there was no supporting documentation for the disbursement recorded in the general ledger: The Town has created and implemented a voucher system to be used by all department heads. All accounts payable vouchers submitted are to be attached to the supporting invoice. Further, any additional back up documentation, i.e., newspaper clipping, order confirmations, work orders, shipping receipts, etc., shall be attached.

Instances in which there was no documentation that the invoice was approved: The Town has created and implemented an accounts payable voucher system to be used by all department heads.

Instances in which a reimbursement request was signed by the same individual requesting reimbursement, not an approving body: The Town will issue a notice to all department heads regarding this issue. No reimbursement request will be accepted without proper approval from the approving body. If the person requesting the reimbursement is autonomous or is the department head, they will be asked to present the request to the board or commission for whom they work. If the person requesting the reimbursement is autonomous, they will be asked to present the request to the Board of Selectmen for authorization (signature). This too will be added to the financial policy and procedures manual.

Instance where a mileage reimbursement request was submitted for three months at once: The Town will issue a notice to all department heads regarding this issue. They will be requested to submit reimbursement for mileage on the following accounts payable warrant cycle.

Instances where the Treasurer's signature was printed directly on the invoice, instead of a handwritten signature: This practice does not continue.

Instance where an additional check was erroneously issued for the total amount summarized on the voucher cover sheet to the department head authorizing the voucher: In review of the voucher it is clear how the Accountant at that time mistakenly identified the department head's signature and total amount to be part of the request for payment. This is because there had not been one consistent voucher format used. As mentioned above the Town has implemented one format for all departments to use when submitting requests for payment. In addition, the Town Administrator spoke with the department head regarding the additional check issued. The Town since has received payment from the individual in the full amount.

Lack of documentation to support compliance with MGL Chapter 30B procurement requirements: In review of files, it is clear that improved record keeping is needed with regard to adhering to procurement procedures. A checklist for procurement will be made and followed. The checklist will be placed in the files of each project/purchase that requires procurement procedures be followed to ensure each has the documentation necessary to prove adherence to MGL.

In order to reduce the risk of payment being made for unauthorized or duplicate purchases, in addition to the above, the requirement for the Board of Selectmen's approval for reimbursements to department heads/employees in excess of \$500 will be incorporated into the financial policies and procedures manual.

5. Develop Departmental Receipt Policies and Procedures

The Town currently does not have formal written policies and procedures for departments to follow for collecting and remitting departmental receipts. Although we did not detect any errors or irregularities during our audit, the lack of formal policies and procedures increases the risk that such situations could occur and go undetected.

We recommend the Town establish formal written departmental receipt policies and procedures. These policies and procedures should address, at a minimum, the following: the uniform format of receipt records and receipt logs, establishment of audit trails, frequency of remittances to the Treasurer, overnight security, and check cashing procedures.

We further recommend that the Town Accountant perform periodic internal audits of the various departments to ensure compliance with the policies and procedures that are adopted. This should result in improved controls over departmental receipts and reduce the likelihood of irregularities occurring.

We also recommend that a copy of the departmental receipt turnover form be provided by departments directly to the Town Accountant in order to reconcile with the Treasurer's records and that the Town Accountant periodically reconcile cash and check received per the departmental turnovers to the Treasurer's deposit slips. This will provide a necessary measure of checks and balances between departments.

Town's Response:

It is agreed that the Town does not have formal written policies and procedures for departments to follow for collecting and remitting departmental receipts.

The financial policies and procedures manual currently being prepared includes, but is not limited to the following:

- Uniform format of receipt records and receipt logs
- Establishment of audit trails
- Frequency of remittances to the treasurer
- Overnight security
- Check cashing procedures
- Town Accountant to perform periodic internal audits of various departments to ensure compliance with the policies and procedures

Department heads have been instructed to use the latest turnover form when remitting to the Treasurer. In addition, they have been instructed to provide the Town Accountant with a copy of the form that has been signed by the Treasurer in order for the Town Accountant and the Treasurer to reconcile cash and checks received per the departmental turnovers to the Treasurer's deposit slips. The Treasurer has recently implemented an additional process by totaling the cash and checks and filling out the deposit slip in the presence of the department head who has remitted the turnover. The Treasurer maintains all turnovers and attaches a tape listing as well as the bank receipt to the turnover.

6. Develop a Formal Risk Assessment Process

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 on responding 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.

We also recommend the Town establish a formal employee fraud policy to provide staff with guidance in the event they observe or suspect fraud in the work place.

Town's Response:

The Town agrees with the recommendation of Melanson Heath to implement a more formal risk assessment process. The Town Administrator will reach out to the inspector general's office for guidance in this matter to ensure the best measures possible in preventing fraud.

The Town will work to clarify segregation of duties in major transactional cycles of all applicable departments. Where staffing levels do not permit an adequate segregation, the Town will incorporate review and documented sign-off of the key accounting records, via the Town Administrator/Board of Selectmen.

The financial policy and procedures manual currently being prepared does include fraud prevention measures, employee fraud, and fraud reporting as well.

7. Require Dual Signatures

Although the Town performs certain accounting reconciling and oversight procedures, we noted the reconciliations typically are not signed by the preparer or reviewer. This could result in misunderstandings of who was responsible for the actual reconciliations or review process. We recommend the following specific forms be revised to require the signature of two individuals:

- Specific bank account reconciliations should be signed by the preparer and a reviewer in the Treasurer's office.
- Tax Collector daily cash-out forms should be signed by the preparer and a reviewer.
- Quarterly tax receivable reconciliations between the Tax Collector and Town Accountant should be signed by the Tax Collector and Town Accountant.
- All departmental receipt turnover forms should be signed by the preparer and a reviewer (preferably a department head).

Requiring dual signatures over these key reconciling and accounting tasks will improve documented oversight to help ensure a proper segregation of duties and system of checks and balances exist.

Town's Response:

The Town agrees with the recommendation of Melanson Heath to require dual signatures over key reconciling and accounting tasks with the intent of improving documented oversight to ensure a proper segregation of duties and system of checks and balances.

8. Other Issues

The following section of the management letter identifies several other recommendations for improvements which are reported in a summarized manner. We will be available to discuss these with the Town in more detail to ensure that there is a clear understanding of the issues and recommendations.

- The Town should consider adopting a formal investment policy to ensure the financial instruments chosen by the Treasurer are in compliance with Massachusetts General Law and prudent practices.
- All reconciliations between the general ledger and grant/revolving balances maintained by departments should be documented.
- During our review of minutes we noted multiple instances where meeting minutes could not be located. Chapter 28 of the Acts of 2009, generally known as the Ethic's Reform Act, includes significant changes to the State's open meeting and public records law. We encourage the Town to advise all local boards and employees to become versed in this legislation, particularly in the regard to the recording of meeting minutes. Implementation of this recommendation will reduce the risk of Town boards and/or employees violating the State's public records law.
- While improvement has been made in the last several years related to obtaining supporting documentation for trust funds, we recommend the Town continue to work through the remaining issues, which revolve around the Cemetery Perpetual Care fund non-expendable balances

and the reconciliation (between the general ledger and Treasurer) of that fund's cash balance.

- In our review of the Town's Special Revenue funds, we found one instance where the fund does not appear to be properly classified. The Hydrant Fund receives fees from local businesses for hooking up their sprinkler systems to the Town's hydrant system and is used for hydrant operation and maintenance. This seems more appropriately classified as a local receipt which would be recorded in the general fund, with the work on the hydrant system being funded through appropriation.
- The general ledger balance of Highway Chapter 90 should be reconciled with state records to ensure receivable balances are in agreement.
- General ledger adjusting journal entries should be more organized by filing in a book and retaining supporting documentation.
- The general ledger tailings liability account should be periodically reviewed, and balances older than one year should be closed out to a general fund revenue account.

Town's Response:

The Town agrees to consider recommendations of the following:

- Adopting formal investment policy to ensure the financial instruments chosen by the Treasurer are in compliance with Massachusetts general law and prudent practices.
- Documenting all reconciliations between the general ledger and grant/ revolving balances.
- All boards, committees, commissions and departments will be advised to become versed in the state's open meeting and public records laws for transparency of meeting minutes.
- The Town Accountant and Treasurer will continue to work through the cemetery perpetual care fund non-expendable balances and the reconciliation, between the general ledger and Treasurer, of that fund's cash balance.
- We will begin review of the Town's special revenue funds with regard to classification.
- Chapter 90 funds will be reconciled with state records to ensure receivable balances are in agreement.
- Periodic review of the general ledger tailings liability account will occur and balances older than one year will be closed out to a general fund revenue account.