

***TOWN OF GROVELAND, MASSACHUSETTS***

***MANAGEMENT LETTER***

***JUNE 30, 2012***



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To the Honorable Board of Selectmen  
Town of Groveland, Massachusetts

In planning and performing our audit of the financial statements of the Town of Groveland, Massachusetts (the Town), 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 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.

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, 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 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 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 have identified these findings in the material weakness section of this report.

In addition, we became aware of other matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions concerning the other matters.

We will review the status of these other matters and material weaknesses during our next audit engagement. We have already discussed these comments and suggestions with various Town personnel, and will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

This communication is intended solely for the information and use of management of the Town of Groveland, Massachusetts and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

July 2, 2013

TOWN OF GROVELAND, MASSACHUSETTS

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## ***Material Weakness #1***

### **INADEQUATE DESIGN OF INTERNAL CONTROL OVER THE PREPARATION OF FINANCIAL STATEMENTS BEING AUDITED AND OVER BUDGETARY CONTROL**

#### Comment

The following matters, reported as material weaknesses and significant deficiencies in our previous four audits, were not completely resolved during our audit of the Town for fiscal year ending June 30, 2012. Overall our comments in this section relate to three control deficiencies that we believe should continue to be regarded as material weaknesses in internal accounting control.

1. Ineffective oversight of the Town's financial reporting and internal control by those charged with governance.
2. Identifications by the auditors of material misstatements in the financial statements for the period under audit that were not initially identified by the Town's internal controls.
3. Employees or management who lack the qualifications and training to fulfill their assigned functions, i.e. the person responsible for the accounting and reporting function lacks the skills and knowledge to apply GAAP in recording the Town's financial transactions and preparing its financial statements.

In addition to the points mentioned above, we noted a separate set of books on an Excel spreadsheet listing operational and financial information. This spreadsheet is outside the scope of the Town's internal control structure and it does not reconcile to the general ledger. Additionally, it is outside the scope of the system controls for accuracy and completion.

The accounting department has completed its installation of new accounting software and has been in the process of designing new and updated policies and procedures under the direction of the Finance Director, and is also obtaining municipal accounting and software training on an on-going basis. However we continue to note the lack of internal controls over financial reporting and we believe these observations are still applicable during our audits of the financial statements for the year ended June 30, 2012.

#### Continuing Recommendation

In order to strengthen internal control over financial reporting, we recommend that management continually re-evaluate the roles and responsibilities of the accounting and finance departments to ensure that the books and records of the Town are being maintained in accordance with internal policy and with legally prescribed external requirements. It is also recommended that only one set of books be maintained that is covered by the Town's internal controls in order to increase the dependability and accuracy of the information and to ensure that all users are working from the same information in order to make wise, informed decisions in their respective responsibilities.

## ***Material Weakness #2***

### **JOURNAL ENTRY SUPPORT**

#### Comment

During our review of journal entries posted to the Town's general ledger we noted instances where the journal entry documentation that was being maintained was inadequate to support the transactions selected for testing.

We also noted instances where journal entries in significant dollar amounts were made to "true up" the general ledger to the Excel spreadsheets mentioned in the previous comment. These journal entries were made with no supporting documentation and we were unable to obtain sufficient audit evidence to satisfy ourselves as to the sufficiency of the overall internal controls over maintenance of the general ledger.

#### Continuing Recommendation

In order to strengthen internal controls over financial reporting we recommend that all entries posted to the general ledger be made only after adequate supporting documentation has been obtained and made available for review by others.

## ***Material Weakness #3***

### **RECORDING ACTIVITY DIRECTLY TO FUND BALANCE**

#### Comment

We noted that a significant number of revenue and expenditure transactions were recorded directly to fund balance accounts in the general ledger rather than the subsidiary revenue and expenditure ledgers.

Recording amounts directly to fund balance prevents the general ledger from reporting an accurate and complete account of all financial activity and circumvents the budgetary controls in place in the appropriation ledger. Consequently, numerous accounts had to be manually analyzed to report all revenues and expenditures. Such a process significantly inhibits timely and accurate internal financial reporting and external reporting.

#### Continuing Recommendation

We recommend that no activity be recorded directly to fund balance accounts other than reclassifications between the components of the fund balances.

## ***Material Weakness #4***

### **RECONCILIATIONS OF CASH AND ACCOUNTS RECEIVABLE TO THE GENERAL LEDGER**

#### Comment

During our audit we were not provided with documented evidence that the Town Accountant is reconciling the Treasurer's cash balances to the general ledger on a monthly basis. When inquiring about this process, which we had been provided with in prior audits, we were informed that the monthly reconciliation is being performed however this information could not be produced for the 2012 audit.

In addition, we noted unreconciled variances in a number of accounts receivable accounts including significant variances in the water and sewer funds due to unposted commitments and betterments. It appears to us that there is a lack of communication occurring between the accountant's office and the collector as these variances were resolved for the most part during our audit fieldwork.

#### Continuing Recommendation

In order to strengthen internal controls over financial reporting we recommend that the Town Accountant develops and documents a monthly process for reconciling cash and accounts receivable balances to the general ledger from the source documents maintained by the Treasurer and Collector.

## ***Other Matters Previously Reported***

### **FRAUD RISK ASSESSMENT**

#### Comment

The opportunity to commit and conceal fraud exists where there are assets susceptible to misappropriation and inadequate controls to prevent or detect the fraud. To address this risk, we recommend that the Town perform a risk assessment to identify, analyze, and manage the risk of asset misappropriation. Risk assessment, including fraud risk assessment, is one element of internal control. Thus, ideally, the Town's internal control should include performance of this assessment, even though our annual financial statement audits include consideration of fraud.

The fraud risk assessment can be informal and performed by a management-level individual who has extensive knowledge of the Town that might be used in the assessment. Ordinarily, the management-level individual would conduct interviews or lead group discussions with personnel who have extensive knowledge of the Town, its environment, and its processes. The fraud risk assessment process should consider the Town's vulnerability to misappropriation of assets.

When conducting the self-assessment, questions such as the following can be considered:

- What individuals have the opportunity to misappropriate assets? These are individuals who have access to assets susceptible to theft and to records that can be falsified or manipulated to conceal the theft.

- Are there any known pressures that would motivate employees with the opportunity to misappropriate assets? Pressures may relate to financial stress or dissatisfaction. In assessing whether these pressures may exist, the assessor should consider whether there is any information that indicated potential financial stress or dissatisfaction of employees with access to assets susceptible to misappropriation.
- What assets of the Town are susceptible to misappropriation?
- Are there any known internal control weaknesses that would allow misappropriation of assets to occur and remain undetected?
- How could assets be stolen? Assets can be stolen in many ways besides merely removing them from the premises. For example, cash can be stolen by writing checks to fictitious employees or vendors and cashing them for personal use.
- How could potential misappropriation of assets be concealed? Because many frauds create accounting anomalies, the perpetrator must hide the fraud by running through an adjustment to another account. Generally, fraud perpetrators may use accounts that are not closely monitored.

#### Recommendation

We recommend that management develop and implement a fraud risk assessment program to identify, analyze, and manage the risk of asset misappropriation. Department heads should provide information detailing any activities within their departments that may lend themselves to potential fraud, i.e. identification of idle cash or collections that don't get turned over daily or instances where internal controls over Town assets are not in place or are not functioning as intended.

Status – *Unresolved*. The Town has not developed or implemented a fraud risk assessment.

## **INTERNAL PROCEDURE MANUALS**

#### Comment

We noted that most departments do not maintain a formal internal procedure manual documenting day-to-day processing and controls. Since the Town is limited in the number of employees, the Town is at risk if critical tasks cannot be completed due to an extended absence.

#### Recommendation

We recommend that an internal procedures manual be developed for each department. The document should be written in sufficient detail so that a person unfamiliar with the department's operations could complete the day-to-day critical tasks. Additionally, this document should be updated for any system changes. A master manual of all procedures should be maintained and stored in a secure, centralized location.

Status – *Unresolved*. The Town has begun the process of developing an internal procedures manual.