

TOWN OF GRANBY, MASSACHUSETTS
MANAGEMENT LETTER
FOR THE YEAR ENDED JUNE 30, 2011

TOWN OF GRANBY, MASSACHUSETTS

Management Letter

Year Ended June 30, 2011

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To the Selectboard
Town of Granby
Granby, Massachusetts

Dear Members of the Board:

In planning and performing our audit of the basic financial statements of the Town of Granby as of and for the year ended June 30, 2011, in accordance with auditing standards generally accepted in the United States of America, we considered the Town of Granby's internal accounting control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the basic 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.

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 significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charges with governance.

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 over financial reporting was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

However, during our audit, we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. We have already discussed these comments and suggestions with Town personnel. We will be pleased to discuss them in further detail and to assist you in implementing the recommendations.

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 the management, the Selectboard, others within the entity and the Commonwealth of Massachusetts Department of Revenue and is not intended to be and should not be used by anyone other than these specified parties.

Scanlon & Associates, LLC
Scanlon & Associates, LLC
South Deerfield, Massachusetts

May 4, 2012

CURRENT YEAR COMMENTS AND RECOMMENDATIONS – Other Matters

1. Timely Submission of Departmental Receipts to the Treasurer

Comment:

All Town departments should remit receipts to the Town treasurer on a weekly basis or as soon as it is possible. In the last audit the school department, fire department and building department all had checks that were not remitted to the treasurer on a timely basis.

This year's audit indicated that the recreation department had 21 checks with a date range of February (the earliest being February 5, 2011) through May, 2011 that were included in a deposit dated August 16, 2011. In reviewing the deposit there were checks made out to the "recreation department", "Granby Softball" etc. The treasurer rejected the turnover as the checks were stale dated.

For the past two years departments have been lax in turning over their receipts to the treasurer's office.

We recommend that all Town departments remit receipts to the Town treasurer at least on a monthly basis. Checks should only be accepted with the checks made out to the "Town of Granby."

2. School Department

School Departmental Turnover Sheets

Comment:

Currently, the Treasurer requires a three-form turnover system where one copy goes to treasurer's office, one to the town accountant and retains one for the department. On the turnover sheets the treasurer and the department sign their copies to acknowledge the amount of receipts are accurate and in the presence of the treasurer. This procedure is consistently followed by Town departments.

The school administration office does not remit the school receipts when the treasurer is present and thus the treasurer's signature is not indicated on the turnover acknowledging the receipt. We recommend that the school department remit their receipts consistent with the other departments in the presence of the treasurer and obtain his signature on the turnover.

Management Response:

This is a known issue by the Town. However, the Treasurer should make himself available for school departmental turnovers more than just mornings, as it is not always convenient for the school to send someone in the morning.

School Response:

School department Business Office staff works part time only, two days a week. At times, the Treasurer's schedule makes for difficult compliance.

School Lunch Meals Tax

Comment:

The submission and remittance of the meals tax to the Commonwealth has been late and thus the Town has or will be assessed interest and penalties and in two instances reports have not been filed as of March 28, 2012. The following table shows the late filings.

Tax Period	Date Actually Filed	Amount of Tax
04/30/11	06/20/11	\$ 63.22
06/30/11	No record of filing	\$ -
07/31/11	No record of filing	\$ -
08/31/11	11/21/11	\$ 6.67
9/31/11	11/21/11	\$ 54.99

With respect to the June 30, 2011 tax, on April 27, 2012 the Town did receive a notice from the Department of Revenue that indicated the meals tax to be \$74.00 and assessed the Town interest and penalties of \$17.36 for a total of \$91.36. The comment on the deficiency notice was "assessment per MGL, Chapter 62C, Section 26d, failure to file."

We recommend that the school lunch meals tax be filed on a timely basis to avoid interest and penalties being assessed on the Town.

Sale of Scrap

Comment:

The School department sold items to a company for scrap. Upon inquiry the items belonged to the school department. The funds were deposited by the school into the student activity funds.

We recommend that the school and all Town departments follow the laws and procedures for disposing of Town owned property. Receipts that are received should be deposited into the Town treasury and credited to general fund revenues of the Town.

Management Response:

The Town is currently turning the all sale of scrap into the general fund of the Town.

School Department Response:

The Superintendent has informed School Building Administrators of requirements. This should not happen in the future.

Liquidation of School Encumbrances

Comment:

Subsequent to year end we reviewed the school encumbrances to determine if they were liquidated in the next fiscal year. Over review indicated that \$42,733 in fiscal year 2012 has been expended for encumbrances. The amount encumbered at the end of the year was \$21,345. The school is charging the excess to the current year's budget.

We recommend that the school review the encumbrances at the end of the year and insure that they are adequate and that there are no other bills that need to be encumbered.

Management Response:

The Town has met with school officials to discuss this. The Town is currently monitoring all charges to any encumbrance line item to ensure it is in compliance with what was encumbered.

Student Activity Checking Account Reconciliations

Comment:

The student activity checking accounts are not being reconciled by the faculty advisors. The guidelines for student activity funds authorize the treasurer to establish a "student activity checking account" to be controlled and operated by the school principal. In this respect bank reconciliations should be performed and reviewed by the school principals.

We recommend that the faculty advisors perform bank reconciliations and that these be reviewed by the school principals.

School Department Response:

The practice of the Treasurer reconciling all statements prior to releasing them to the principals has resulted in long delays in the receipt of the statements. The Superintendent and the Treasurer have discussed this issue and the Treasurer is in the process of meeting with the principals to set up online access to bank accounts so reconciliation can occur.

End of Year Pupil and Financial Report (EOYR)

Reconciliation with the Accounting records

Comment:

The Town Accountant is not receiving the EOYR report from the school. As a result the report is not being reconciled to the general ledger of the Town. After our audit of the report we proposed several amendments to the school department's report and these amendments were filed.

We recommend the school business office and the town accountant reconcile the End of Year Report with the Town's general ledger prior to submitting to the Department of Elementary and Secondary Education. This procedure will ensure proper financial reporting.

Certification

Comment:

At the time of the audit a signed certification was not available. The report was not given to the Town Accountant for verification. As part of the instructions for submitting EOYR to the Department of Elementary and Secondary Education (DESE) the certification statement is to be signed by the School Committee Chair, the

Superintendent, and Town Accountant. This statement is to be mailed to the DESE separately from the EOYR. We recommend that the school department comply with the requirements of the EOYR.

School Department Response:

The Business Manager is currently turning over the EOYR to the Town Accountant for input, review and has been instructed to insure compliance with acquiring the Town Accountant's signature, the School Committee Chair's and the Superintendent's signature prior to submitting to DESE.

3. Overdrawn Appropriations

Comment:

During our audit we noted appropriation accounts that were in deficit as indicated below. Two of the accounts became overdrawn because the amounts encumbered at the end of fiscal year 2011 were more than what was remaining in the budget. The deficits totaled \$46,337 and were as follows:

Account	Revised Budget	Expended	Available Balance Before Encumbrances	Encumbered	Overdrawn Balance
Selectmen wages	\$ 165,298	\$ 162,131	\$ 3,167	\$ 3,706	\$ (539)
Police wages	\$ 719,280	\$ 732,894	\$ (13,614)	\$ 18,957	(32,571)
Ambulance wages	\$ 335,427	\$ 335,200	\$ 227	\$ 13,454	(13,227)
Totals					<u>\$ (46,337)</u>

We recommend the Town implement procedures to avoid over expending the budget. If additional funds are needed then approved budget transfers should be made to the budgets prior to the end of the fiscal year. For the 2011 fiscal year the budget deficits need to be provided for.

Management Response:

These deficits occurred as a result of the change in accounting personnel. There were planned transfers between funds that would have eliminated most of these deficits. These deficits will be raised on the FY2013 tax recap as an appropriation deficit.

4. Use of Town's Tax ID Number

Comment:

Periodically the Town should review the use of the Town's tax ID number with local area banking institutions. This in an effective procedure to insure departments, boards or committees of the Town are not utilizing bank accounts that are not in custody of the Town Treasurer and are not being accounting for on the Town's general ledger.

5. School Lunch Program

Comment:

The general ledger indicated that the school lunch fund incurred an operating loss in fiscal year 2011 of \$16,164. The following is a summary of the general ledger activity for the past three fiscal years:

	Fiscal Year 2009	Fiscal Year 2010	Fiscal Year 2011
Income:			
Sales	\$ 199,269	\$ 246,766	\$ 274,339
Federal and State	78,041	94,782	100,879
Interest Income	-	507	20
Sub-Total	<u>277,310</u>	<u>342,055</u>	<u>375,238</u>
Expenditures	<u>287,778</u>	<u>389,288</u>	<u>391,402</u>
Operating Profit/(Loss)	<u>(10,468)</u>	<u>(47,233)</u>	<u>(16,164)</u>
Transfers in:			
General fund	<u>29,000</u>	<u>-</u>	<u>-</u>
Profit (Loss) after transfer	18,532	(47,233)	(16,164)
Beginning Balance	<u>354</u>	<u>18,886</u>	<u>(28,347)</u>
Ending Balance	<u><u>18,886</u></u>	<u><u>(28,347)</u></u>	<u><u>(44,511)</u></u>

As noted above, costs have increased over the past two years and the school lunch continues to incur a deficit. Although revenue increased as well, the revenues are not sufficient to cover the costs. If the school lunch program continues to operate at a loss it will have a financial impact on the Town. The School department currently has a private company operate the school lunch program.

We recommend that school and town management monitor this situation.

Management Response:

The Town Administrator and the Superintendent of Schools have discussed this situation. The Administrator explained that the Town will only transfer funds from the local appropriation into the school lunch program upon proof of a School Committee vote. The Superintendent will supply the Town a copy of the School Committee minutes whenever this vote occurs.

6. Proration of Retiree Health Insurance Premiums Between Employers

Comment:

The State Legislature amended chapter 32B when it enacted the fiscal year 2011 State budget. It inserted section 9 A1/2 which allows governmental units to prorate costs for retirees (after January 1, 2011) health insurance premiums to other governmental units. During our fieldwork we inquired to management on this matter and they were aware of the new amendment to Chapter 32B. Because of the complexities and financial impact of the new law we recommend to all our governmental clients to review and monitor the controls and procedures in place to insure compliance.

PRIOR YEAR COMMENTS AND RECCOMENDATIONS – Other Matters

7. GASB Statement No. 45, Accounting and Financial Reporting by Employers for Post-Employment Benefits other than Pension Plans

Prior Comment:

GASB requires the Town to calculate the amount of the annual post-employment benefit costs, such as healthcare benefits and other types of post-employment benefits, such as life insurance. Once determined, the cost is then presented and recognized on the financial statements of the Town. The implementation date that the Town is required to present the liability is the fiscal year ending June 30, 2009. The Town did not have an actuarial valuation completed. As a result of the Town not presenting the liability the auditor's report is considered a qualified opinion. The qualified opinion could affect the Town's bond rating.

Status:

The same condition exists for the fiscal year 2011 audit.

8. GASB Statement No 54 - New Accounting and Financial Reporting Requirement for Fund Balances

Prior Comment:

The GASB has issued Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions. The objective of this Statement is to enhance the usefulness of the fund balance information by providing clearer fund balance classifications that can be more consistently applied and to clarify the existing governmental fund type definitions. This Statement establishes fund balance classifications that compromise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

The initial distinction that will be made in reporting fund balance information is identifying amounts that are considered nonexpendable, such as fund balances associated with inventories. This statement also provides for additional classification as restricted, committed, assigned, and unassigned based on the relative strength of the constraints that control how specific amounts can be spent.

Governments will also be required to classify and report amounts in the appropriate fund balances classifications by applying their accounting policies that determine whether restricted, committed, assigned, and unassigned amounts are considered to have been spent. Disclosure of the policies in the notes to the financial statements will be required.

The requirements of this statement are effective for financial statements for periods beginning after June 15, 2010 (FY 2011). Given the significance of the Town's fund balance amounts, the new reporting requirement will have an impact on the Town's financial statements. We recommend that the Town become familiar with the new financial reporting requirement to insure that the Town will be in compliance.

Status:

The Town has implemented GASB Statement No. 54 in fiscal year 2011.

9. Accounting/Financial Policies and Procedures Manual

Prior Comment:

The Town does not have a current and comprehensive accounting policies and procedures manual. All governments should document their accounting policies and procedures. Although other methods might suffice, this document is traditionally in the form of an accounting policies and procedures manual. This manual should document the accounting policies and procedures which make up the Town's internal control system.

An accounting policies and procedures manual will enhance employees' understanding of their role and function in the internal control system, establish responsibilities, provide guidance for employees, improve efficiency and consistency of transaction processing, and improve compliance with established policies. It can also help to prevent deterioration of key elements in the Town's internal control system and can help to avoid the circumvention of Town policies.

We recommend the Town finance team develop and document the accounting policies and procedures manual. The accounting policies and procedures manual should be prepared by appropriate levels of management and be approved by the Board of Selectmen to emphasize its importance and authority. The documentation should describe procedures as they are intended to be performed, indicate which employees are to perform which procedures, and explain the design and purpose of control-related procedures to increase employee understanding and support controls.

Status:

The same condition exists for the fiscal year 2011 audit.

Management Response:

The Town has established a financial a management team who is currently in the process of developing this manual.

10. Risk Assessment and Monitoring

Prior Comment:

When internal controls are initially implemented, they are usually designed to adequately safeguard assets. However, over time, these controls can become ineffective due to changes in technology, operations, etc. In addition, changes in personnel and structure, as well as the addition of new programs and services, can add risks that previously did not exist. As a result, all municipalities should periodically perform a risk assessment to anticipate, identify, analyze and manage the risk of asset misappropriation. Risk assessment, including fraud risk assessment, is one element of internal control. The Town, like most Massachusetts municipal organizations, does not adequately perform this assessment.

The fraud risk assessment can be formal or informal, and should be performed by a management-level employee who has extensive knowledge of the Town's operations. Ordinarily, the management-level employee would conduct interviews or lead group discussions with personnel who have extensive knowledge of the Town's operations, its environment, and its processes. The fraud risk assessment process should consider the Town's vulnerability to misappropriation of assets. When conducting the assessment, the following questions should be considered.

- What assets are susceptible to misappropriation?
- What departments receive cash receipts?
- What departments have movable inventory?
- What operations are the most complex?
- How could assets be stolen?
- Are there any known internal control weaknesses that would allow misappropriations of assets to occur and remain undetected?
- How could potential misappropriation of assets be concealed?

Once the areas vulnerable to fraud have been identified, a review of the Town's systems, procedures, and existing controls related to these areas should be conducted. The Town should consider what additional controls (if any) need to be implemented to reduce the risk.

After the risk has been assessed and controls implemented the Town should periodically monitor these controls to evaluate the operational effectiveness.

Status:

The Town had contacted us after last year's audit regarding risk assessment procedures. At the conclusion of this year's audit we will provide the Town with our questionnaires for the Town to implement risk assessment procedures.