

TOWN OF MONTEREY, MASSACHUSETTS
MANAGEMENT LETTER
FOR THE YEAR ENDED JUNE 30, 2019

TOWN OF MONTEREY, MASSACHUSETTS

Management Letter

Year Ended June 30, 2019

	<u>Page</u>
TABLE OF CONTENTS	2
INTRODUCTORY LETTER	3-4
CURRENT YEAR COMMENTS AND RECOMMENDATIONS – Significant Deficiency	
Finding 2019-1 Segregation of Duties	5
CURRENT YEAR COMMENTS AND RECOMMENDATIONS – Other Matters	
1. Police Off-Duty Detail Account	6
2. Other Areas	6
PRIOR YEAR COMMENTS AND RECOMMENDATIONS – Other Matters	
1. Community Compact Grant Deficit	7
2. Library Construction Project	8

To the Honorable Select Board
Town of Monterey
Monterey, Massachusetts

Dear Members of the Board:

In planning and performing our audit of the basic financial statements of the Town of Monterey as of and for the year ended June 30, 2019, in accordance with auditing standards generally accepted in the United States of America, we considered the Town of Monterey'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 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. *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 charged with governance.

Our consideration of internal control over financial reporting was for limited purpose described in the first paragraph of this section 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 over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies in internal control over financial reporting. *A significant deficiency* is a deficiency, or combination of control deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiencies to be significant deficiencies in internal control:

A significant deficiency was identified as Item 2019-1.

Also, 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.

This report is intended solely for the information and use of management, the Select Board, 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 and Associates, LLC

Scanlon & Associates, LLC
South Deerfield, Massachusetts

May 18, 2020

CURRENT YEAR COMMENTS AND RECOMMENDATIONS – Significant Deficiency

Finding 2019–1: Segregation of Duties (Significant Deficiency)

Comment:

The Town has one employee within each department comprising its finance team (Tax Collector, Treasurer and Town Accountant). Each employee has both custodial and recordkeeping responsibilities for all financial transactions in their department. One employee in each department is responsible for collecting and depositing cash receipts, reconciling bank accounts and maintaining subsidiary ledgers. An internal control weakness is created when one individual has both custodial and recordkeeping responsibilities for the same asset.

The Town has hired a consulting firm to perform the duties of the Treasurer and Town Accountant. Ideally, critical key financial duties and responsibilities in the aforementioned departments should be segregated among different employees to reduce the risk of error, misuse or fraud. We understand that complete segregation of duties is often impractical given the nature, size and financial constraints of a small town. Management should design alternative control activities to address the operational constraints and risks imposed by a lack of segregation of duties.

In order to mitigate the risks associated with a lack of segregation of duties, we recommend that Town management consider taking action to modify the existing system of internal controls. Reconciliation procedures within the key financial offices of the Town should be formally documented in a consistent manner throughout the fiscal year. Reconciliation control activities should be reviewed by management (Select Board) on a periodic basis to provide additional oversight of financial practices.

Prospective Information:

This condition existed for fiscal year 2019. However, The Town, subsequent to June 30, 2019, has hired new personnel for the Treasurer's and Accounting positions who are independent of one another (different consulting firms). Furthermore, we noted the new firms implemented monthly reconciliation procedures over key accounts.

CURRENT YEAR COMMENTS AND RECOMMENDATIONS – Other Matters

1. Police Off-Duty Detail Account

Comment:

The Town maintains an agency fund to account for the police off-duty details. These funds are allowed by law and are designed to act as an agent between businesses and Town public safety personnel where the businesses pay 100% of cost of detail worked plus a 10% administration fee. At June 30, 2019 the police detail account has a cash deficit of approximately \$9,300. The deficit should represent the business's outstanding bills and the Town should have a detail equaling to this deficit.

We recommend that the Town review the police off-duty detail accounts and establish procedures to periodically monitor the police detail account.

Prospective Information:

The new consulting firm that was hired for accounting services subsequent to June 30, 2019 implemented procedures to reconcile the police off-duty detail account. There is a deficit balance that the Town will need to provide for.

2. Other Areas

- Bank Transfers for Accounts that Retain its Investment Income.
- Implementation of Future GASB's (No. 84 and No. 87).

PRIOR YEAR COMMENTS AND RECOMMENDATIONS – Other Matters

1. Community Compact Grant Deficit (Significant Deficiency)

Prior Year Comment:

Special Revenue Funds account for and report receipts from specific revenue sources that are legally restricted to expenditure for specified operating purposes. Special Revenue Funds are established by statute. The resources accounted for in Special Revenue Funds include Federal and State Grants, Revolving Funds, Receipts Reserved for Appropriation, Gifts and Donations and Other. The Town has a Special Revenue account on its financial statements for the Community Compact grant.

During our audit we noted the following with regards to the Community Compact Grant:

- Grant agreement for the account could not be located.
- Support documentation for the expenditures charged to the account was not on file with the approved warrant.
- The account had a deficit balance of \$24,597 at year-end.
- A transfer from the general fund was recorded on the general ledger to cover the deficit without any approval from management.

We recommend that all Special Revenue account either have a grant agreement or are established by statute. The Town should implement procedures to review all deficit accounts to determine why they are in deficit and how the deficit will be provided for or eliminated. We recommend further that Departments also monitor their respective accounts to ensure deficit accounts are properly provided for.

Status - Fiscal Year 2019 Audit:

The consulting firm that was hired to perform accounting and treasury duties during that time frame has repaid the Town and monies were received in July 2019. Furthermore, the Town has improved their procedures over support documentation for expenditures and grant agreements.

2. Library Construction Project

Prior Year Comment:

The Library Construction Project was authorized at Annual Town Meeting on May 6, 2017 in the amount of \$3,100,000. The project is authorized to be paid from a grant from the Commonwealth of Massachusetts Board of Library Commissioners and borrowing proceeds. The Town is accounting for the project with three separate accounts (Revolving, Grant and Borrowing proceeds). Due to the size and complexity of this project, we recommend the Town implement procedures to reconcile the Organizational Project Manager (OPM) records to the general ledger on a periodic basis. We recommend that this reconciliation be documented and any discrepancies should be researched.

Status - Fiscal Year 2019 Audit:

The new consulting firm that was hired for accounting services subsequent to June 30, 2019 implemented procedures to reconcile the Library Construction Project and as of the date of our audit report the general ledger is reconciled to the OPM records.