

**TOWN OF COLRAIN, MASSACHUSETTS**  
**MANAGEMENT LETTER**  
**FOR THE YEAR ENDED JUNE 30, 2016**

**TOWN OF COLRAIN, MASSACHUSETTS**

**Management Letter**

**Year Ended June 30, 2016**

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To the Honorable Select Board  
Town of Colrain  
Colrain, Massachusetts

Dear Members of the Board:

In planning and performing our audit of the basic financial statements of the Town of Colrain as of and for the year ended June 30, 2016, in accordance with auditing standards generally accepted in the United States of America, we considered the Town of Colrain'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 charged 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.

This communication 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

June 7, 2017

## **CURRENT YEAR COMMENTS AND RECOMMENDATIONS – Other Matters**

### **1. Improve Timeliness of Cash Reconciliations**

#### Comment:

During our audit fieldwork, (April 2017), we reviewed and inspected the bank reconciliations subsequent to the year-end and noted the last bank reconciliation performed was through September 30, 2016. In order to have an effective system of internal control cash reconciliations must be performed timely and accurately. Based on the above time frame we would consider the cash reconciliations not to be timely.

The absence of having timely and proper cash reconciliations significantly increases the risk that misstatement due to error or fraud may occur and not be detected, prohibits the safeguarding of assets and does not provide for accurate and timely financial reporting.

We cannot emphasize enough the importance of the timely cash reconciliations in order to have an effective system of internal controls. We strongly recommend management closely monitor this situation to ensure that cash is reconciled in a timely manner. We believe that this situation has not risen to a material weakness or significant deficiency in internal control, but if attention to these matters are not rectified it could lead to a one of those categories.

#### Town's Response:

The Treasurer has established a new excel cashbook which has enabled her to move forward quickly in reconciling July 2016 thru January 2017 as of May 12, 2017. She expects to be caught up with reconciliations of the remaining months of FY 17 by the end of FY 17 and expects to complete the reconciliations on a monthly basis thereafter.

### **2. Improve Reconciliation of Tax Accounts Receivable**

#### Comment:

One of the most important control procedures in a government is to have timely and proper reconciliation of the tax accounts receivable subsidiary records and the Town's general ledger. During our audit we noted that the Town does have procedures in place to reconcile the general ledger to account receivable records. However, we noted that improvements could be made. During fieldwork we found items that affected the tax accounts receivable and have proposed adjustments to the general ledger, furthermore we noted variances still exist between the general ledger and the tax collector records at June 30, 2016.

In addition, upon review of subsequent to year-end transactions we could not locate documentation of accounts receivable reconciliations for fiscal year 2017. We believe that this situation has not risen to a material weakness or significant deficiency in internal control, but if attention to these matters are not rectified it could lead to a one of those categories.

#### Town's Response:

The Accountant and the Collector have implemented procedures to ensure a quarterly reconciliation of Tax Account Receivables.

### **3. Departmental Receipts**

Comment:

During our audit we reviewed certain departmental receipts into the treasury. We noted that departments are not indicating whether the receipts were cash or check. Because of the higher risk of currency (cash) transactions it is important that a trail exists from time of collection to bank deposit. Therefore, the departmental turnover forms and departmental receipt documentation should indicate whether the receipt is cash or check. We believe this additional procedure will improve the internal control over departmental receipts.

Town's Response:

The Treasurer has designed a new Schedule of Departmental Payments to Treasurer Form to replace the current form. The form is triplicate in nature and, upon submission, will be copied to the Accountant and the Treasurer with the third retained by the Department making the turnover. The new form has addition fields, Account Number, Description, Cash Total, Check Total and Grand Total.

### **4. Expenditures**

Comment:

During our review of various Town expenditures we found several invoices that were dated in excess of thirty days from the warrant date of payment. It is not sound financial practice to hold invoices in excess of thirty days before processing them for payment on a warrant. Holding invoices in excess of thirty days increase the risk of errors or misstatements, intentional or unintentional, in financial reporting.

We recommend that communication be made to all Town departments that invoices should be submitted in a timely manner for payment.

Town's Response:

The Town acknowledges that the timely submission of invoices from departments to the Accounting Department for payment has been an ongoing issue. From the time invoices are received for payment, to the release of the check by the Treasurer normally averages less than 5 business days. We will be working with departments more closely to ensure that invoices are submitted for payment in an appropriate timeframe so that payments will be received by the vendors before the due date.

## 5. Other Areas

- Future GASB's (OPEB, etc.).
- Internal Control Policies and Procedures Manual.
- Reconciliation of Payroll Withholdings.
- Capital Assets.

### Town's Response:

#### Reconciliation of Payroll Withholdings:

The Treasurer and Accountant will develop an action plan to allow for monthly or quarterly payroll withholding reconciliations.

#### Capital Assets:

The Town now has a formal Capital Plan which has been adopted by the Selectmen. This was in draft form at the time of the audit and, therefore not available. The plan includes a summation of the Town's capital assets which will be modified to a format that will allow for compliance with GASB 34 for the FY 17 Financial Statements.