

**TOWN OF COLRAIN, MASSACHUSETTS**  
**MANAGEMENT LETTER**  
**FOR THE YEAR ENDED JUNE 30, 2017**

**TOWN OF COLRAIN, MASSACHUSETTS**

**Management Letter**

**Year Ended June 30, 2017**

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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 financial statements of the Town of Colrain as of and for the year ended June 30, 2017, in accordance with auditing standards generally accepted in the United States of America, we considered the Town of Colrain'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 governmental unit's internal control. Accordingly, we do not express an opinion on the effectiveness of the governmental unit'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.

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 Items 2017-1 and 2017-2.

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 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

May 14, 2018

## **CURRENT YEAR COMMENTS AND RECOMMENDATIONS – Significant Deficiency**

### **Finding 2017–1: Cash and Investment Reconciliation Procedures (Significant Deficiency)**

*Comment:*

The Treasurer's and Accountant's offices are responsible to complete timely reconciliations of activity and balances of the cash and investments. Internal control procedures should be designed in a manner that ensures all activity is recorded in the cashbook prepared by the Treasurer as the transactions occur. At the same time as the activity is being posted to the cashbook a corresponding posting would be made to the general ledger maintained by the Accountant's office. The cashbook balance and the general ledger cash balance must match at all times. At the end of each month the Treasurer would complete a reconciliation between the cashbook and the individual bank statements. The Treasurer and Accountant would then reconcile the cashbook and the general ledger shortly thereafter.

During our audit we noted the following with regard to cash and investment reconciliation procedures within the Treasurer's office:

- As of June 30, 2017, we noted a variance of \$3,251, after proposed adjustments from items identified during audit fieldwork, exists between the Treasurer's records and the Accountant's general ledger. Furthermore, we could not locate any supporting documentation to indicate the variance remained the same every month or the variances were being reviewed and researched.
- We could not locate or determine that the Treasurer's office and Accountant's office performed reconciliations for cash and investments each month during fiscal year 2017. Furthermore, subsequent to June 30, 2017 up through our fieldwork (January 2018) we could not locate or determine that the Treasurer's office and Accountant's office performed reconciliations for cash and investments.
- We noted that a complete and accurate cashbook is not being utilized by the Treasurer. During our fieldwork we reviewed and communicated to the Treasurer where improvements could be made to the cashbook.
- We noted warrants payable was not set up correctly on the general ledger, which affected the cash balance.
- We noted a pay down of the BAN (\$50,000) for Hurricane Irene Fund was incorrectly recorded on the general ledger, which affected the cash balance.
- We noted a budget entry that was incorrectly recorded to cash in the amount of \$27,500, which affected the cash balance.

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 further recommend the Treasurer maintain a current cashbook and perform individual bank statement reconciliations with all reconciling items properly documented in a timely and accurate manner.

## **CURRENT YEAR COMMENTS AND RECOMMENDATIONS – Significant Deficiency**

### **2017-2 Tax Accounts Receivable Reconciliations (Significant Deficiency)**

*Comment:*

The Treasurer's and Accountant's offices are responsible to complete timely reconciliations of activity and balances of the accounts receivable. During our audit we found that effective procedures were not in place to reconcile the Tax Collector's accounts receivable subsidiary records to the general ledger. 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. Effective internal controls require timely and proper reconciliation of the accounts receivable subsidiary records to the general ledger. Failure to perform these tasks timely and properly increases the risk of misstatement due to error or fraud, prohibits the safeguarding of assets and does not provide for accurate and timely financial reporting.

During our audit we noted the following with regard to tax accounts receivable reconciliations:

- We found two receipt batches posted to the tax collector's subsidiary ledger and not posted to the general ledger. Furthermore, we could not locate documentation (i.e. bill stubs) to support payment and was only able to trace one of the two batch receipts to a bank deposit.
- We found three refund batches that were posted to the tax collector's records and were never put on warrants, therefore not posted to the general ledger.
- We found payments that were posted to real estate 2017 in the tax collector's records but were posted to motor vehicle 2017 on the general ledger.
- We found several receipt batches that were missing support documentation (i.e. bill stubs)

We recommend that procedures be implemented to reconcile the Tax Collector's accounts receivable subsidiary records to the general ledger on a monthly basis. All variances should be investigated and resolved in a timely manner. To further strengthen this control the Town should document this process by having a sign off by the two department heads.

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

### **1. 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.

We noted this same situation in our 2016 audit. During our 2017 audit we found that improvements have been made and management addressed the issue. However, improvements can still be made and we communicated these items during field work.

### **2. Other Areas**

- Future GASB's (OPEB, etc.).
- Internal Control Policies and Procedures Manual.
- Reconciliation of Payroll Withholdings.
- Capital Assets.
- Improve Timeliness of Year-End Reporting to DOR (Free Cash and Schedule A)