

TOWN OF COLRAIN, MASSACHUSETTS
MANAGEMENT LETTER
FOR THE YEAR ENDED JUNE 30, 2021

TOWN OF COLRAIN, MASSACHUSETTS

Management Letter

Year Ended June 30, 2021

	<u>Page</u>
TABLE OF CONTENTS	2
INTRODUCTORY LETTER	3
 CURRENT YEAR COMMENTS AND RECOMMENDATIONS – Other Matters	
1. Reconciliation of Broadband Accounts Receivable	4
2. Other Areas	4
 PRIOR YEAR COMMENTS AND RECOMMENDATIONS – Other Matters	
1. Improve Cash Reconciliations	5
2. Improve Tax Accounts Receivable	6
3. Deficits	6

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, 2021, 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

July 26, 2022

CURRENT YEAR COMMENTS AND RECOMMENDATIONS – Other Matters

1. Reconciliation of Broadband Accounts Receivable

Comment:

The Town utilizes a third party (Westfield Gas and Electric) for billing and collecting for its Broadband user fees. The Treasurer has established procedures to reconcile the revenues received to the amounts deposited to the Town's bank account. However, we recommend that additional procedures be implemented to reconcile the accounts receivable to the third party's records. For instance, prepare a spreadsheet summarizing the accounts receivable activity (commitments – collections – adjustments/abatements = outstanding amount) and reconcile that spreadsheet to supporting documentation and detail outstanding lists. One of the most important control procedures in a government is to properly monitor and reconcile the accounts receivable subsidiary records.

2. Other Areas

- Future GASB's (Leases).
- Review Chapter 90 Fund Balance (Surplus approximately \$30,000).
- Treasurer/Collector Surety Bond.

PRIOR YEAR COMMENTS AND RECOMMENDATIONS – Other Matters

1. Improve Cash Reconciliations

Prior Year Comment:

The Treasurer's office and Accountant's office is responsible to complete timely reconciliations of activity and balances of the cash. We cannot emphasize enough the importance of the timely and accurate reconciliations of cash in order to have an effective system of internal controls.

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 regarding the cash reconciliation process:

- As of June 30, 2020 we noted that a variance of \$4,629 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. The Treasurer's balance was higher than the Town's general ledger balance.
- Individual bank statement reconciliations were not being timely and properly reconciled to the cashbook through-out the fiscal year. Various reconciling items either could not be located or were not supported by proper backup documentation. Furthermore, we noted improvements can be made to the treasurer's cashbook and have communicated these during our fieldwork.

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 reconciliation of cash in order to have an effective system of internal controls. We strongly recommend management closely monitor this situation to insure that cash is reconciled in a timely manner between the treasurer's records and the town accountant general ledger.

Status- Fiscal Year 2021 Audit:

The Town Accountant and Treasurer have implemented and established procedures to reconcile the cash on a monthly basis. There is a minimal variance at June 30, 2021 (approximately \$700). We recommend the variance be adjusted on the general ledger.

2. Improve Reconciliation of Tax Accounts Receivable

Prior Year 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 improvements can be made, specifically with timeliness and frequency of the reconciliations. During our fieldwork we noted a number of journal entries that were made at year-end for items that were incorrectly reported to the general ledger related to collections, abatements and commitments that happened throughout the fiscal year.

We recommend reconciliation procedures be implemented more frequently throughout the year.

Status- Fiscal Year 2021 Audit:

The Town Accountant and Tax Collector have implemented procedures to reconcile the accounts receivable at year-end. These new procedures were effective in reducing the variances; however we would recommend these procedures take place periodically throughout the year instead of just at year-end. We feel this would even further reduce the variances and number of journal entries.

3. Deficit Accounts

Prior Year Comment:

During our audit we noted several accounts that were in deficit at June 30, 2020. Deficit accounts can be an indicator that program revenues are not sufficient to cover program costs (not self-supporting), expenditure or revenues have been reported incorrectly, grant funds are not being submitted for reimbursement timely, misappropriation of assets or a combination of all. Deficit account balances can have a negative impact on the Town's free cash certification amount, as was the case noted for the fiscal year 2020 certification amount.

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.

Status- Fiscal Year 2021 Audit:

The Town has reviewed all the deficit accounts and has eliminated the deficits for the significant ones.