

TOWN OF LEE, MASSACHUSETTS

Management Letter

For the Year Ended June 30, 2011

TABLE OF CONTENTS

	<u>PAGE</u>
INTRODUCTORY LETTER	1
CURRENT YEAR ISSUES	
1. Improve Procedures Over Water and Sewer Commitments and Abatements	3
2. Improve Procedures Over Expenditures	3
3. Improve Reporting for Free Cash	4
4. Improve Equipment Management Procedures for Federally-Acquired Equipment (Clean Water Capitalization Grant)	4
5. Other Issues	5
PRIOR YEAR ISSUES	
6. Reconcile Cash and Other Balance Sheet Accounts	6



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To the Board of Selectmen
Town of Lee, Massachusetts

In planning and performing our audit of the financial statements of the Town of Lee, Massachusetts 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 Lee's internal accounting control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the 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 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 was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses. In addition, because of the inherent limitation in internal control, including the possibility of management's override of controls, misstatements due to error or fraud may occur

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and not be detected by such controls. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

During our audit we became aware of other matters that we believe represent opportunities for strengthening internal controls and operating efficiency. The recommendations that accompany this letter summarize our comments and suggestions concerning those matters.

The Town's written responses to our comments and suggestions have not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

This communication is intended solely for the information and use of management, the Board of Selectmen, and others within the Town, and is not intended to be and should not be used by anyone other than these specified parties.

After you have had an opportunity to consider our comments and recommendations, we would be pleased to discuss them with you.

Melanson Heath + Company P.C.

Greenfield, Massachusetts
July 23, 2012

CURRENT YEAR ISSUES:

1. IMPROVE PROCEDURES OVER WATER AND SEWER COMMITMENTS AND ABATEMENTS

During testing of water and sewer receivables we found the following issues:

- Neither the Town Collector's office nor the DPW office was able to locate the signed January 2011 commitments for water and sewer amounting to \$ 237,657 and \$ 381,192, respectively.
- \$ 2,823 of original water and \$ 12,121 of original sewer abatement forms were missing from both the Collector and DPW offices.
- The Accountant posted abatements based on the Collector's activity, rather than from DPW approved abatement forms.
- The Accountant does not receive all commitments directly from the DPW.

We recommend the Town improve procedures by maintaining original documents and requiring DPW to provide copies of water and sewer commitments and abatements to the Accountant directly. This will help ensure that records are maintained and that activity posted in the general ledger is properly authorized.

Town's Response

Pertinent staff, some of whom are new employees, reviewed our process and recorded our procedures which are compliant with the auditor's recommendations.

2. IMPROVE PROCEDURES OVER EXPENDITURES

During testing of 44 vendor invoices we found the following exceptions:

- Three invoices for SPED residential and educational services and two invoices for supplies lacked documented approval.
- One reimbursement request was only approved by the employee requesting the reimbursement.

In addition to documentation and invoice review, authorization procedures are an integral part of a sound internal controls system and provide assurance that the Town's expenditures are legitimate and authorized.

We recommend that all invoices be reviewed for proper approvals before payment is processed. This will help ensure that invoices are authorized.

Town's Response

The School Department has made changes to improve its invoice approval process.

3. IMPROVE REPORTING FOR FREE CASH

Reports submitted for the fiscal year 2011 Free Cash Certification did not identify deficits clearly, which may have resulted in understating the amount of free cash certified.

Specifically, approximately \$ 27,000 of expenditures (against an available budget) were treated as deficits, and subsequent receipts that would have covered deficits in two funds (approximately \$ 135,000) were not recognized in the free cash calculation.

We recommend that the balance sheet and other reports submitted for free cash certification be scrutinized for clarity and accuracy and that the Accountant work with the Department of Revenue to ensure any reductions to free cash are bona fide. This will ensure that the Town's certified free cash balance reflects actual available funds.

Town's Response

The Town will scrutinize the balance sheet and other reports to be submitted for free cash certification and communicate with the Department of Revenue (DOR) to ensure that DOR free cash reductions are bona fide.

4. IMPROVE EQUIPMENT MANAGEMENT PROCEDURES FOR FEDERALLY-ACQUIRED EQUIPMENT (CLEAN WATER CAPITALIZATION GRANT)

Although the Town Department of Public Works maintains equipment records, the records for the Clean Water capitalization grant (solar panels project) do not include the source of the financing, the percentage of federal ownership, nor the cost of the equipment, as required for assets acquired with federal funds.

We recommend the Town modify existing records to include the required information.

Town's Response

The Town is working on tagging equipment and updating its list.

5. OTHER ISSUES

The following section of the management letter identifies several other current and prior year recommendations for improvements. These issues are reported in a summarized manner and we will be available to discuss their status with the Town in more detail if desired.

Current year

- Collector tax stubs do not always indicate whether payment was made with cash or check. A trail of cash receipts should exist from the time of collection to the bank deposit. Cash receipts should be noted on the tax stubs to facilitate this audit trail.
- The Town's Highway (Chapter 90) Fund was in deficit by approximately \$ 265,000 and \$ 217,000, respectively, in fiscal years 2011 and 2010. Deficits negatively affect certified free cash and the Town's cash flow. Requests for reimbursements should be performed more frequently and at year end to minimize deficit balances.
- At June 30, 2011, the Tritown Special Revenue Fund had a surplus of almost \$ 5,000, apparently mostly from fiscal year 2010 activity. This surplus should be analyzed and returned to the contributing towns if it is determined to be a result of overpayments.
- Dog fee revenues are posted to the Tritown Special Revenue Fund instead of a separate fund, resulting generally in reconciliation difficulties, and specifically in the omission of approximately \$ 10,000 in transfers to the General Fund in fiscal year 2011. These revenues should be posted to a separate fund set up solely for that purpose.
- During our audit of the Town's federal grant reporting we found that the IDEA ARRA grant final report was filed late. It was due by November 30, 2011 but was submitted on December 24, 2011.

Town's Response

The Town agrees with the recommendations. More care will be taken to record cash vs. checks. The Town has been and will continue to keep the Chapter 90 requests current. The Town agrees to analyze the Tritown surplus and clarify the situation. There is now a separate dog fee fund. The School Department will not be late again in their grant reporting.

PRIOR YEAR ISSUES:

6. RECONCILE CASH AND OTHER BALANCE SHEET ACCOUNTS

As in fiscal year 2010, we found that general ledger balances for cash and health insurance withholding were misstated. Specifically:

- Cash balances in the general ledger were more than the Treasurer's balances by approximately \$ 11,693 at June 30, 2011. The variance in fiscal year 2010 was \$ 13,000.
- The health insurance withholding balance was overstated by approximately \$ 69,000, due largely to the omission of a prior year correcting entry. After adjusting for this omission, the balance appears to be understated by approximately \$ 10,000. The variance in fiscal year 2010 was \$ 17,000.
- Accrued payroll was understated by approximately \$ 14,000, which is comparable to the prior year and appears to be due largely to a prior year error.

We recommend that all balance sheet accounts be fully reconciled to supporting documents before closing to ensure that the balances and corresponding activity is accurate and supportable. In addition, we recommend that these variances be analyzed and corrected or, if consistent, the general ledger be adjusted.

Town's Response:

The variances were caused by timing issues and the omission of a prior year correcting entry. The Treasurer and Accountant continue their work on reconciling the overstated health insurance withholding balance. The Treasurer is working with the School Department to correct the payment schedule for teachers' deductions so that they will pay for health insurance for July and August in the prior school year months. This adjustment will take 2 years and we will then address reconciling and making an adjustment if there is still a variance.