

TOWN OF LEE, MASSACHUSETTS

Management Letter

For the Year Ended June 30, 2010

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Melanson Heath & Company, PC

Certified Public Accountants

Management Advisors

51 Davis Street

Greenfield, MA 01301

Tel (413) 773-5405 Fax (413) 773-7304

www.melansonheath.com

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, 2010, 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. In addition, because of inherent limitations in internal control, including the possibility of management's override of controls, misstatements due to error or fraud may occur and not be detected by such controls. However, as discussed below, we identified a certain deficiency in internal control that we consider to be a significant deficiency.

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

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entity's financial statements will not be prevented, or detected and corrected on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

A significant deficiency is a deficiency, or a 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. Significant deficiencies are noted in the table of contents and comment headings.

During our audit we also 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

September 21, 2011

CURRENT YEAR ISSUES:

1. RECONCILE CASH AND OTHER BALANCE SHEET ACCOUNTS (SIGNIFICANT DEFICIENCY)

In fiscal year 2010 we found that general ledger balances for cash, ambulance receivables, accrued payroll and health insurance withholding were misstated. Specifically:

- Cash balances in the general ledger were more than Treasurer's balances at June 30, 2010 by approximately \$ 13,000, after corrections to the reconciliation were found during the audit process.
- The ambulance receivable balance in the general ledger was approximately \$ 30,000 more than the balance maintained by the outside billing company. Since this receivable is fully deferred there was no effect on fund balance from the adjustment needed to bring the two in balance.
- The health insurance withholding balance was understated by approximately \$ 17,000, due in part to a misunderstanding of when insurance was withheld for school employees. (see Comment 2)
- Accrued payroll was overstated by approximately \$ 13,000, apparently due to a prior year error and may also be related to the cash variance noted above.

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.

Town's Response:

The Town agrees to reconcile to supporting documents before closing. Points 1 and 4 are related. There was a timing error in the recording of the accrued payroll entry of the prior year which resulted in the overstatement of General Ledger Cash and Payroll Liability. Point 2 refers to a Deposit in Transit that subsequently was recorded in the General Ledger the following year.

2. CONSIDER CHANGING PROCEDURES FOR WITHHOLDING SCHOOL HEALTH INSURANCE

Currently health insurance is withheld from teachers and other school-year employees from September through June for the 12 months ending June 30. As a result, the Town pays the full cost of health insurance for these employees for two months of the year (July and August) and isn't reimbursed until withholdings begin in September. This procedure increases the risk that

the Town may not receive the employee's share of health insurance if, for example, an individual doesn't return to the school in the fall.

We recommend that the Town consider modifying its withholding procedures so that health insurance is withheld from employee pay before insurance is provided.

Town's Response:

The Town and School officials agree that for the school year starting September 2012, they will be withholding health insurance premiums.

3. OBTAIN SUSPENSION/DEBARMENT CERTIFICATION (SPED 94-142)

For contracts paid from federal funds for goods or services for \$ 25,000 or more, the Town must verify that the contractor is not suspended or debarred or otherwise excluded. This regulation applies to all subrecipients as well. This verification may be accomplished by: (1) obtaining a certification from the contractor or subrecipient, (2) adding a clause or condition in the contract, or (3) checking the *Excluded Parties List System (EPLS)* maintained by the General Services Administration (GSA).

The Town awarded a SPED-funded contract to New England Center for Children without verifying that the vendor was not suspended, debarred or otherwise excluded.

We recommend that the Town comply with suspension and debarment regulations by using one of the verification methods identified above prior to awarding any contract in excess of \$ 25,000 and all subrecipients.

Town's Response:

The Town and School agree that contractors will be verified by a Suspension Certification check before awarding a Federally funded contract.