

TOWN OF LEE, MASSACHUSETTS

Management Letter

For the Year Ended June 30, 2012

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MELANSON HEATH & COMPANY, PC

CERTIFIED PUBLIC ACCOUNTANTS
MANAGEMENT ADVISORS

51 Davis Street
Greenfield, MA 01301-2422
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, 2012, 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 certain deficiencies in internal control that we consider to be significant deficiencies.

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. 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, 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.

June 21, 2013

CURRENT YEAR ISSUES:

1. IMPROVE CONTROLS OVER BUDGETARY APPROPRIATIONS (SIGNIFICANT DEFICIENCY)

Massachusetts General Laws prohibit municipal organizations from over expending budgeted appropriations. In fiscal year 2012, the Town over expended two departmental budgets by approximately \$ 9,500. The Building Inspector budget was over expended by \$ 9,294 due to an error in posting year-end adjustments, and the Street Lights budget was over expended by \$ 172 as a result of using more than what was available for year-end transfers. We recommend that budgetary adjustments be proofed before posting to ensure correct accounts are used and sufficient funds are available. Remaining deficits should be funded by including the total over expenditure on the tax recap.

In addition, an appropriation for \$ 65,838 was voted at a fiscal year 2012 Special Town Meeting in May 2012, but was not added to the internal budget reports. The line item was not fully expended in fiscal year 2012 and because the budget had not been entered, the unexpended balance was not encumbered; however, the funds were spent in fiscal year 2013. The Town should fund this technical over expenditure in fiscal year 2013 or raise it on the fiscal year 2014 tax recap.

Town's Response:

An interdepartmental transfer of \$ 5,000 was done on July 10, 2012 from the Street Lights budget. At the time it had a surplus of \$ 5,404.39. On July 11, 2012 a bill from Henry's Electric for \$ 576.75 came in for the July warrant, but it was for work done on 6/15, so it was mistakenly paid in the last June 30, 2012 warrant. Thus the Street Lights department was over by \$ 172.

With regard to the Building Department budget, an interdepartmental transfer that was intended to be made from the Snow and Ice budget having an \$ 89,000 surplus was taken from the Building Department instead, due to a typo of the account number on the interdepartmental transfer worksheet. This caused the Building Department deficit. Going forward, we intend to look more to the reserve fund for transfers and less to interdepartmental transfers. Also, the Town will review year-end transfers for available funds and accuracy and, if any deficits remain unfunded, will include them in the recap.

Regarding the appropriation for \$ 65,838, due to the transition to new staff it was not properly carried over to fiscal year 2013. It will be reported on the fiscal year 2014 recap.

2. ENSURE COMPLIANCE WITH MASSACHUSETTS PROCUREMENT LAWS (COMPLIANCE FINDING)

In testing for compliance with MGL Chapter 30B, "The Procurement Act", we noted two instances of noncompliance:

In the first case, no quotes were obtained for the purchase of police laptops totaling \$ 15,341. They were purchased from a vendor that had been used in the past and used to be on the State bid list (until 2009). Under MGL 30B however, either the vendor needs to be on the current State bid list (for the items purchased), or three quotes need to be solicited and the bid awarded to the lowest qualified bidder.

In the second case, the Town did not follow all required procedures related to an emergency procurement to address frozen pipes at a school. Under MGL Ch. 30B emergency purchases may circumvent normal procurement procedures, but require documentation of the procurement to be submitted to the Goods and Services Bulletin within a specific period of time after the emergency has passed. The Town did not submit the information to the Bulletin.

In order to avoid this situation in the future, we recommend the Town review procurement requirements and ensure that proper procedures are followed for applicable purchases.

Town's Response:

The School Business Coordinator and Police Chief will attend MCCPO training. The School Business Coordinator will become certified as a purchasing agent. The Town Accountant has taken the initial procurement overview class and will take the more detailed goods and services procurement class in fiscal year 2014. The School will review procurement policies with the administration in order to avoid this situation in the future. Going forward we will verify that all state purchasing contracts are valid.

3. IMPROVE SCHOOL LUNCH VERIFICATION PROCEDURES (COMPLIANCE FINDING)

Under Federal School Lunch Program regulations, the School Department is required to verify eligibility for a sample of applications that it has approved for free or reduced price meals. The verification sample size is based on the total number of approved applications on file on October 1st.

We examined all six of the verifications performed by the School Department and noted the following exceptions:

- The School's verification summary report was not completed correctly; the report said 5 verifications were performed but the School Department actually verified 6 applications. No change in status was reported but in fact 2 of the verifications resulted in a change (see next bullet).
- No changes were made as a result of verification testing; however, the School's results showed that two of the determinations should have been changed. In one case, the determination should have been changed from reduced to paid, and in the other case the determination should have been changed from reduced to free.
- Documentation supporting the verification was not available for two of the six verifications tested.
- Documentation of all income sources was not obtained or evaluated for one application.

Improper verification testing may result in incorrect eligibility determination and consequently improper meal prices paid.

We recommend the School Department review its verification procedures to ensure that forms are completed properly, verifications are complete and fully documented and, if applicable, the student's eligibility status is changed as a result of verification process.

Town's Response:

Verifications have been previously done at each School. It is now required to be done on the Virtual Gateway (VG) and the School Business office will be doing the verifications. The School Business office is writing procedures regarding school lunch applications and is having a meeting with all involved in the application in July. We believe that these processes will eliminate the issues that were found.

4. IMPROVE PROCEDURES IN SCHOOL LUNCH PROGRAM

Several issues were found in our audit of the School Lunch Program:

- The School's Meals Charge Policy states that high school students are not allowed to charge any school meals; however, we found high school students charging meals during our observation of a school lunch period.

We recommend that the School Department either change or adhere to the policy.

- The daily cash receipts are not always counted by someone other than the person cashing out or creating the deposit slip. In addition, the Daily Cash Out form is not being signed by the cashier or the reviewer.

We recommend that a second person count all daily cash receipts and that both the preparer and reviewer sign or initial the Daily Cash Out form to document this procedure.

- The School Lunch Program's cash out procedures call for a comparison between the daily cash out total and the deposit slip; however, we found this was not being performed.

When the School Business Manager performed this comparison, the amount deposited appeared to be \$ 30 less than it should have been for 3 months in a row. This discrepancy would have been caught at the time if the program's stated procedures had been performed.

We recommend this comparison be made for each deposit.

- Under Federal regulations, vendors receiving individual awards for \$ 25,000 or more must certify that the organization and its principals are not suspended or debarred. We found the School Department did not obtain suspension or debarment certifications from School Lunch vendors, although a number of them were paid in excess of \$ 25,000.
- Although procurement procedures are followed for the larger program expenditures such as milk, bread and paper goods, and comparison shopping is done for vegetables and fruits, regular comparative price shopping is not done for other items for which vendors may have been paid over \$ 5,000. (MGL Ch. 30B requires quotes for annual purchases exceeding \$ 5,000.)

We recommend that, annually, the Food Service Director comparative price shop for items expected to cost over \$ 5,000 for the year and use that information to update a list of qualified vendors. In addition, documentation of comparative price shopping results should be maintained.

Town's Response:

a) The School's Meal Charge policy will be adhered to in the future. The Food Service Director, Principals, and School Business Office are working together to find solutions for this challenge. We are going to have an online payment system for parents which will automatically notify them if their child's account is below a certain level.

b) The Cafeteria Director is going to be the second person counting daily receipts.

c) The Cafeteria Director will price shop annually for those items over \$ 5,000 per vendor that are not on the Berkshire County Cafeteria bid. This will be documented.

5. ADHERE TO SCHOOL DEPARTMENT POLICY REGARDING APPROVAL OF SCHOOL LUNCH FREE/REDUCED ELIGIBILITY

The School Department's policy regarding School Lunch eligibility calls for the determination form to be signed by both a "determining official" and a "confirming official". The policy also names these individuals annually.

During our testing of 15 determinations we found two that did not have the determining official's signature and only one of the 15 had a confirming official's signature. Additionally, in this case the confirming official was not the individual designated as such in the policy. Our recalculation of eligibility did not find any exceptions.

We recommend that all applications be signed by the determining and confirming officials as stated in the School's policy.

Town's Response:

All applications will be signed by a determining official and a confirming official as stated in the School's policy.

6. IMPROVE PROCEDURES OVER EXPENDITURES

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

- One invoice charged to the SPED grant and 5 invoices charged to the School Lunch program were not approved.
- Electronic payments are put on a "manual" warrant which is only approved by the Town Accountant, rather than by the Board of Selectmen as are other non-manual warrants.

In addition to documentation and invoice review, authorization and approval 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 and that all warrants be approved by the Board.

Town's Response:

All invoices, including manual warrants, are being reviewed and authorized properly prior to processing for payment.

PRIOR YEAR ISSUES:

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

As in the past two fiscal years, we found that general ledger balances for cash and accrued payroll were misstated. Specifically:

- As of April, 2013, receivables had not been reconciled between the Collector's controls and the general ledger since June 30, 2012 because activity had not been posted in the general ledger. Activity should be posted in the general ledger in the month it occurs and reconciliations should be performed at least quarterly.
- Cash balances in the general ledger were more than the Treasurer's balances by approximately \$ 12,635 at June 30, 2012, \$ 11,693 at June 30, 2011 and approximately \$ 13,000 at June 30, 2010.

In addition, we found that as of April 2013, cash had not been fully reconciled between the general ledger and Treasurer since June 2012.

- Accrued payroll was understated by approximately \$ 14,000, which is comparable to prior years and appears to be due largely to a prior year error.

We recommend that these variances be analyzed and, if they continue to remain consistent, that the general ledger be adjusted. We also recommend procedures be established to reconcile cash and receivables between the general ledger and the Treasurer or Collector records on a monthly basis.

Town's Response:

As of now, receivables are posted and reconciled on a quarterly basis, so the first 3 quarters of fiscal year 2013 have been posted and reconciled. We are working on reconciling cash monthly and are planning to have the general ledger variance (which seems to be accrued payroll from 2008 and prior) adjusted for our next audit. Budget Sense training was done in June of 2013 as well, to allow use of some new reports to make cash reconciliations and reporting easier.

* * *

All other prior year issues have been satisfactorily resolved or repeated as current year issues.