

**TOWN OF HUBBARDSTON, MASSACHUSETTS**  
**MANAGEMENT LETTER**  
**FOR THE YEAR ENDED JUNE 30, 2018**

**TOWN OF HUBBARDSTON, MASSACHUSETTS**

**Management Letter**

**Year Ended June 30, 2018**

	<u><b>Page</b></u>
<b>TABLE OF CONTENTS .....</b>	<b>2</b>
<b>INTRODUCTORY LETTER .....</b>	<b>3</b>
 <b>CURRENT YEAR COMMENTS AND RECOMMENDATIONS – Other Matters</b>	
1. Implementation of Future GASB Statements .....	4
2. Other Areas .....	4
 <b>PRIOR YEAR COMMENTS AND RECOMMENDATIONS – Other Matters</b>	
1. Improve Cash and Investment Reconciliation Procedures .....	5
2. Tax Collector Bank Account .....	6
3. Improve Tax Account Reconciliations .....	6
4. Payroll Withholdings .....	7
5. Record all Receivables in the General Ledger .....	7
6. Capital Assets .....	8

To the Honorable Board of Selectmen  
Town of Hubbardston  
Hubbardston, Massachusetts

Dear Members of the Board:

In planning and performing our audit of the basic financial statements of the Town of Hubbardston as of and for the year ended June 30, 2018, in accordance with auditing standards generally accepted in the United States of America, we considered the Town of Hubbardston'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 the management, the Board of Selectmen, 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 10, 2019

## CURRENT YEAR COMMENTS AND RECOMMENDATIONS - Other Matters

### 1. Implementation of Future GASB Statements

#### Comment:

In an effort to enhance financial information of a government's financial statements, the GASB is continually issuing new pronouncements that will effect what is required to be reported in a government's financial statements. Over the past couple years GASB has been active in developing new standards. It is important that the Town be aware of the current and future statements. The following are some of new GASB pronouncements that will be required to be implemented in future fiscal years:

- GASB Statement No. 83 – *Certain Asset Retirement Obligations*. This statement is required to be implemented in fiscal year 2019.
- GASB Statement No. 84 – *Fiduciary Activities*. This statement is required to be implemented in fiscal year 2020.
- GASB Statement No. 87 – *Leases*. This statement is required to be implemented in fiscal year 2021.
- GASB Statement No. 88 – *Certain Disclosures Related to Debt*. This statement is required to be implemented in fiscal year 2019.

Given the significant impact of these GASB statements on the Town's financial accounting and reporting, we recommend that the Town familiarize and educate themselves with the aforementioned statements to ensure proper implementation.

### 2. Other Areas

- Review procedures for newly adopted Cable Access (MGL Chapter 44 Section 53 F3/4) receipts reserved for appropriation.
- Record unrealized gain/(loss) on investments in general ledger.
- Police Off-Duty recordkeeping.
- Bank transfers for Special Accounts (i.e. CPA, Trust Funds, Special Revenue).
- Review Ambulance outstanding accounts in excess of ninety days past due.

## PRIOR YEAR COMMENTS AND RECOMMENDATIONS - Other Matters

### 1. Cash and Investment Reconciliation Procedures

#### 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 that a variance of \$7,669.15 exists between the Treasurer's records and the Accountant's general ledger. The Treasurer's balance was higher than the Town's general ledger balance. We could not locate any supporting documentation to indicate the variance remained the same every month or the variances were being reviewed and researched.
- Individual bank statement reconciliations were not being properly reconciled to the cashbook. Various reconciling items either could not be located or were not supported by proper backup documentation.
- Subsequent to June 30, 2017 up through our fieldwork (April 2018), the Treasurer and Accountant are making efforts to reconcile cash on a monthly basis.

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.

#### Status - Fiscal Year 2018 Audit:

Improvements were made to the cash and investment reconciliation procedures during Fiscal Year 2018. Furthermore, in fiscal year 2019 the Town implemented a monitoring plan to ensure proper cash reconciliations are being performed timely and accurate. During our audit fieldwork we noted the Treasurer is carrying old reconciliation items that did not have proper backup at year end. We discussed these items during our fieldwork and have recommended these items be adjusted. In addition, we noted areas where improvements can be continued to be made, however we acknowledge the Town has addressed the major issues in rectifying the situation over cash and investment reconciliations.

## **2. Tax Collector Bank Account**

### *Comment:*

The Tax Collector maintains a bank account to deposit daily tax receipts. The Tax Collector then prepares a detailed turnover of monies collected and transfers the amount to an operational bank account (in custody of treasurer) at least once a week. The remaining balance in that account should be identified to ensure that all payments received are properly posted and turned over. The account was not reconciled as of June 30, 2017 to identify the balance.

We recommend that the tax collector implement procedures to reconcile the bank statement on a monthly basis and identify any deposits that have not been recorded.

### *Status - Fiscal Year 2018 Audit:*

The tax collector's bank account is now included in the treasurer's cashbook and is reconciled on a monthly basis.

## **3. Improve Tax Accounts Receivable Reconciliations**

### *Prior Year Comment:*

The Town Accountant and Tax Collector have procedures to reconcile on a periodic basis the tax account receivables. The Tax Collector maintains a manual control log for the taxes receivable activity and this is utilized for the reconciliation process with Town Accountant. The Tax Collector accounts receivable subsidiary ledgers are maintained with a computer software program. To improve the reconciliation process the Tax Collector should implement procedures to reconcile the manual control log to the reports generated from the software program utilized to maintain the accounts receivable subsidiary ledger. Or the manual control log can be eliminated and reports generated directly from the Tax Collector's accounts receivable software can be utilized in the reconciliation process with the Town Accountant. During our audit we found items that were not recorded on the general ledger tax accounts receivable and have proposed adjustments to the general ledger. Furthermore, we noted that immaterial variances exist between the general ledger accounts and the tax collector's subsidiary ledgers.

### *Status - Fiscal Year 2017 Audit:*

The status remains the same during Fiscal Year 2017. The Town has implemented new procedures to improve the tax accounts receivable reconciliation process during Fiscal Year 2018. Furthermore, adjustments have been made to the general ledger to eliminate the variances.

### *Status - Fiscal Year 2018 Audit:*

The town implemented procedures that improved the tax accounts receivable reconciliation process during the year. The implementation of these procedures has rectified our prior year comment. Furthermore, in fiscal year 2019 the Town implemented a monitoring plan to ensure proper tax accounts receivable reconciliations are being performed timely and accurate.

#### **4. Payroll Withholdings**

*Prior Year Comment:*

During our audit we noted that payroll withholding account balances are not being properly reconciled. One of our tests performed found that only 11 months of the Town's health insurance premiums were expended in fiscal year 2014, when in fact 12 should have been expended. Because these accounts have significant annual activity and carry with them statutory tax liabilities, among other responsibilities, we recommend that the payroll withholding accounts be accounted for accurately and consistently. A proper and timely reconciliation of payroll withholdings would minimize and control potential discrepancies from occurring.

We recommend that all withholding accounts be reconciled monthly to the applicable governmental regulations and source documents to ensure that proper employee contributions are being made and relieved.

*Status - Fiscal Year 2017 and 2018 Audit:*

The situation is the same as of June 30, 2018. The Town has taken our recommendation under advisement and is currently in the process of reviewing the payroll withholding accounts.

#### **5. Record all Receivables in the General Ledger**

*Prior Year Comment:*

During our audit we noted that the Town does not record accounts receivables for the ambulance, septic, CPA portion of tax liens and veteran benefits. To establish an effective and sound internal control system we recommend that these accounts receivable be recorded on the general ledger. Also, as with all receivables, they should be periodically reconciled to source documents.

*Status - Fiscal Year 2017 Audit:*

The Town Accountant has set up the CPA portion of tax liens on the general ledger. However, the other account receivables remain the same at June 30, 2017. The Town has taken our recommendation under advisement.

*Status - Fiscal Year 2018 Audit:*

There has been no change since the 2017 Audit. The Town has taken our recommendation under advisement.

## **6. Capital Assets**

### *Prior Year Comment:*

The Town has compiled a list of capital assets that are required to be on the financial statements to be in compliance with GASB No. 34 in previous years. During our current audit we tested the capital assets and found that the Town did not keep adequate records with regard to additions, deletions and depreciation.

We recommend that the Town implement procedures to ensure that all capital assets are being accounted for under the financial reporting model of GASB No. 34.

### *Status - Fiscal Year 2017 and 2018 Audit:*

The situation remains the same at June 30, 2017 and June 30, 2018. The Town has taken our recommendation under advisement.