

TOWN OF HUBBARDSTON, MASSACHUSETTS
MANAGEMENT LETTER
FOR THE YEAR ENDED JUNE 30, 2020

TOWN OF HUBBARDSTON, MASSACHUSETTS

Management Letter

Year Ended June 30, 2020

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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, 2020, 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

December 15, 2020

CURRENT YEAR COMMENTS AND RECOMMENDATIONS - Other Matters

1. Year-End Closing Procedures

Comment:

During our audit we noted improvement can be made with regard to year-end closing and reporting. We recommend a procedure be implemented to proof free cash amount using the year-end general ledger reports before documents are submitted to DOR for free cash certification. By implementing this procedure it would reduce the risk of free cash being certified at an incorrect amount and improve the efficiency of the process.

2. Town Accountant Sign Vendor Warrants

Comment:

During our audit we reviewed the procedures and controls over the expenditure process and noted that the Town Accountant is not signing the vendor warrants. One of the key controls in the expenditure process is having the Town Accountant review the invoices to determine if expenditure is allowable and reasonable, account being charged is appropriate, funding is available, payment is being charged to proper fiscal year, compliance with procurement laws and proper authorizations have been obtained. An indicator that this control is being performed is with a signature of the Town Accountant on the warrant. We recommend that the Town review this matter and implement the necessary procedures to ensure that this control is being done. In prior fiscal years the Town Accountant was signing the warrant; however the Town in fiscal year 2020 had a change in personnel for the Town Accountant position and changed accounting software.

3. Other Areas

- Implementation of future GASB statements.
- Consider closing old outstanding check list – Payroll account.

PRIOR YEAR COMMENTS AND RECOMMENDATIONS - Other Matters

1. Cash and Investment Reconciliation Procedures

Prior Year 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:

- Individual bank statement reconciliations were not being properly reconciled to the cashbook. The adjusted bank statement balances were \$22,400 higher than the cashbook balance at June 30, 2019.
- Various reconciling items either could not be located or were not supported by proper backup documentation.
- Subsequent to June 30, 2019 up through our fieldwork (October 2019), the Treasurer and Accountant have implemented procedures 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 2020 Audit:

The Town has implemented procedures to reconcile cash and investments on a monthly basis. These procedures have rectified the prior year situation. The prior year variance has been adjusted on the general ledger and all reconciling items with the individual bank statements have proper documentation.

2. Health Insurance Expenditure

Prior Year Comment:

The Town employees have health insurance coverage through the Quabbin Regional School District (QRSD) plan. During our fieldwork we noted that the Town overpaid its June premium by \$6,024 and was never credited to their account as of October 2019. We further noted that the Town pays the amount based on an internal calculation.

We recommend the Town receive an invoice from the QRSD for their monthly share of health insurance premiums before payment is made. This would allow the Town to review the bill for accuracy and research any discrepancies.

Status- Fiscal Year 2020 Audit:

The Town has implemented procedures to review and monitor the health insurance expenditures. The overpayment has been credited back to the Town in fiscal year 2020.

3. 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 2020 Audit:

The situation remains the same for fiscal year 2020. However, the Town plans on implementing procedures to ensure all capital assets are accounted for by end of fiscal year 2021.