

***TOWN OF CHELMSFORD, MASSACHUSETTS***

***MANAGEMENT LETTER***

***JUNE 30, 2007***



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To the Honorable Board of Selectmen  
Town of Chelmsford, Massachusetts

In planning and performing our audit of the basic financial statements of the Town of Chelmsford as of and for the fiscal year ended June 30, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered Chelmsford's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions 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 control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be 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. The memorandum that accompanies this letter summarizes our comments and suggestions concerning those matters.

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

A handwritten signature in cursive script that reads "Powers &amp; Sullivan".

November 26, 2007

TOWN OF CHELMSFORD, MASSACHUSETTS

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JUNE 30, 2007

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## ***Comments and Recommendations***

## **Statement No. 45 of The Governmental Accounting Standards Board**

### Prior Comment

The Governmental Accounting Standards Board (the GASB) issued Statement No. 45 *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. This Statement requires that:

1. a systematic, accrual-basis measurement and recognition of other postemployment benefits (OPEB) cost over a period that approximates employees' years of service and;
2. information about actuarial accrued liabilities associated with OPEB be reported and whether, and to what extent, progress is being made in funding the plan.

To implement GASB 45 the Town will have to adopt actuarial calculations for OPEB that are similar to pension calculations. This means the Town will have to have an actuarial valuation performed. This actuarial valuation is similar in nature to pension plan valuations in that future OPEB costs are considered to be part of today's employee costs. It is intended to answer the question "How much should the contribution be today to finance tomorrow's cost?"

The actuarial valuation will be required at least biennially for OPEB plans with a total membership (including employees in active service, terminated employees who have accumulated benefits but are not yet receiving them, and retired employees and beneficiaries currently receiving benefits) of 200 or more, or at least triennially for plans with a total membership of fewer than 200. Failure to obtain an actuarial valuation will result in a qualification to the independent auditors' opinion on the basic financial statements. The Town is required to implement GASB 45 in fiscal year 2009.

Additionally, it has been recognized that communities that have filed for Medicare Part B will have a lower liability in the GASB 45 calculation because Part B of the Medicare Program is medical insurance. This coverage helps pay for medical and surgical services by physicians, as well as certain other health benefits such as ambulance transportation, durable medical equipment, outpatient hospital services, and independent laboratory services. Any costs assumed by Medicare Part B will reduce the Town's OPEB obligation

### Recommendation

We recommend that management obtain an actuarial valuation and review the different insurance options that may reduce the liability.

Current Status – *Resolved*. Management has awarded the contract for actuarial services and is on line to meet the fiscal 2009 implementation date.

## **Formal Accounting Procedures And Policy Handbook**

### Prior Comment

We noted that there no written policies and procedures for key administrative and financial functions of the Town. Because of the fact that there is a limited number of staff supporting key positions, a formal manual that identifies and documents key areas of administration and operations would reduce the risk to the Town in the event that personnel have extended absences.

## Recommendation

We recommend that the Town document all key managerial functions in a manual that includes, among other items, 1) job descriptions; 2) daily, monthly, and yearly work procedures; and 3) other specific information relative to the function being documented.

Current Status – *Unresolved*. Management expects to make progress on this comment during fiscal 2008.

Management Response - Management recognizes the need for the development of a procedures manual, which includes job descriptions, daily, monthly and yearly work procedures, and other specific information relative to the functions of being documented. It is the intent of management to have such a handbook prepared by the end of FY2008.

## **Fraud Risk Assessment**

### Prior Comment

The opportunity to commit and conceal fraud exists where there are assets susceptible to misappropriation and inadequate controls to prevent or detect the fraud. To address this risk, we recommend that the Town perform a risk assessment to identify, analyze, and manage the risk of asset misappropriation. Risk assessment, including fraud risk assessment, is one element of internal control. Thus, ideally, the Town's internal control should include performance of this assessment, even though our annual financial statement audits include consideration of fraud.

The fraud risk assessment can be informal and performed by a management-level individual who has extensive knowledge of the Town that might be used in the assessment. Ordinarily, the management-level individual would conduct interviews or lead group discussions with personnel who have extensive knowledge of the Town, its environment, and its processes. The fraud risk assessment process should consider the Town's vulnerability to misappropriation of assets. When conducting the self-assessment, questions such as the following can be considered:

- What individuals have the opportunity to misappropriate assets? These are individuals who have access to assets susceptible to theft and to records that can be falsified or manipulated to conceal the theft.
- Are there any known pressures that would motivate employees with the opportunity to misappropriate assets? Pressures may relate to financial stress or dissatisfaction. In assessing whether these pressures may exist, the assessor should consider whether there is any information that indicates potential financial stress or dissatisfaction of employees with access to assets susceptible to misappropriation.
- What assets of the Town are susceptible to misappropriation?
- Are there any known internal control weaknesses that would allow misappropriation of assets to occur and remain undetected?
- How could assets be stolen? Assets can be stolen in many ways besides merely removing them from the premises. For example, cash can be stolen by writing checks to fictitious employees or vendors and cashing them for personal use.

- How could potential misappropriation of assets be concealed? Because many frauds create accounting anomalies, the perpetrator must hide the fraud by running through an adjustment to another account. Generally, fraud perpetrators may use accounts that are not closely monitored.

#### Recommendation

We recommend that management develop and implement a fraud risk assessment program to identify, analyze, and manage the risk of asset misappropriation.

Current Status - Management has been working to identify and analyze key areas that are susceptible to fraud to ensure that proper policies and procedures are in place to minimize the potential for fraud to exist.

Management Response- Management will continue to work to identify and analyze key areas that are susceptible to fraud to ensure that proper policies and procedures are in place to minimize the potential for fraud to exist. Some examples of changes in policy or procedure that were implemented in FY2007 are: installation of a state-of-the-art camera surveillance system in the Collector & Treasurer's Office; installation of an internal door in the Collector's Office to prohibit the entrance of unauthorized personnel; and requiring that each clerk in the Collector's Office have her own cash drawer.

### **Develop Written Disaster Recovery Procedures**

#### Prior Comment

The Town does not have written disaster recovery procedures. The time to make contingency plans is before disaster strikes, so that all personnel will be aware of their responsibilities in the event of an emergency situation that precludes the use of the existing IT facilities.

#### Recommendation

We recommend that management develop a disaster recovery plan that includes, but is not limited to, the following matters:

1. Location of, and access to, off-site storage.
2. A listing of all data files that would have to be obtained from the off-site storage location.
3. Identification of a backup location (name and telephone number) with similar or compatible equipment for emergency processing. (Management should make arrangements for such backup with another organization, a computer vendor, or a service center. The agreement should be in writing.)
4. Responsibilities of various personnel in an emergency.
5. Priority of critical applications and reporting requirements during the emergency period.

Current Status – *Resolved*. Management has developed a written disaster recovery plan.

### **Unidentified Bank Accounts**

#### Prior Comment

As part of our audit procedures, we request area banks to provide us with a list of all bank accounts using the Town's federal tax identification number. This resulted in the identification of 3 bank accounts with approximately \$3,000 using the Town's federal identification number.

These accounts are not in the custody of the Treasurer or recorded in the cash book.

Experience has taught us that this type of occurrence is not unusual for a municipality. Often, the accounts belong to organizations, whose funds are controlled by their own Treasurers, which collect money for cultural, educational or other like kind purposes. However, if a misuse of funds occurs, the Town might be subject to redress under the assertion that the Town was sponsoring the activities of the organization.

There is also the possibility that Town funds are being improperly accounted for in some of these bank accounts and that the activity of these accounts is not subject to the internal control procedures of the Town. Therefore, Town funds may be deposited and disbursed without proper authorization.

#### Recommendation

We recommend the Treasurer/Collector develop an annual process of requesting from local banks a list of all of the accounts under the Town's federal tax identification number. For the accounts identified by the local banks, the Treasurer should then determine the purpose and owner of each bank account. For the accounts which are determined not to have a Town purpose, both the bank and owner must be instructed to change the tax identification number on the account and not to include a reference to the Town of Chelmsford in the account name. Any bank account that is identified to be recording cash activity for a Town operation must be closed and all future activity must be recorded on the Town's books. In addition, a complete accounting of all prior activity should occur.

Current Status – Resolved. Letters were sent to local banks instructing them not to open an account using the Town's tax ID number without the approval of the Treasurer.

### **Agency Accounts**

#### Prior Comment

While reviewing the Town's general ledger we noted that a significant number of agency liability accounts have had little to no activity for several fiscal years and that there are a large number of performance bond and deposit accounts that do not have sufficient documentation to substantiate their balances. We are not aware of any reconciliation procedures between Town Departments related to these accounts.

If reconciliation procedures reveal that these liabilities have already been liquidated a significant amount of free cash may be available for transfer to the Town's general fund.

#### Recommendation

We recommend that the Town Accountant's Office and all affected Departments work to reconcile all Agency liability accounts. Any accounts not able to be substantiated or deemed to have already been paid out should be closed out to the General Fund.

Current Status - Partially Resolved. Management has made progress in this area and hopes to review the remaining accounts during fiscal 2008.

Management Response- The Town Accountant's Office will continue to work with affected Departments to reconcile all Agency liability accounts. Management will resolve the remaining accounts by the end of FY2008.

## **Overhead Charges to the Child Care Revolving Fund**

### Prior Comment

We noted that overhead charges are being charged directly to child care related revolving funds. Although it is acceptable to charge these costs to the revolving fund, Town and School financial personnel should develop, document and agree to a permanent methodology in allocating these costs. Otherwise, it could lead to a situation where improper or excessive amounts will be charged to the various funds.

### Recommendation

We recommend that Town and School financial management personnel determine a reasonable method of allocating indirect costs to the child care revolving funds and review the approved methodology yearly.

Current Status – *Resolved*. The Board of Selectmen, School Committee and the Finance Committee has implemented a policy that is acceptable to all involved parties.

## **School Compensated Absences**

### Prior Comment

A required part of the fiscal audit is the compilation of the sick and vacation liability. This information is utilized to develop the expenditure accrual to be recorded within the Town's financial statements. While the School Department made a timely submission of their information for this year's audit, we noted that estimated values were used rather than actual amounts, as is normally the case. Normally, the liability is calculated using actual hours/days accrued multiplied by the appropriate rate.

### Recommendation

We recommend that the School Department develop procedures to accurately track the compensated absence balances by employee and actual rate.

Current Status – *Unresolved*. The School Department is currently using an estimated method of providing the required compensated absence information.

Management Response- Management will work with the School Business Office to document compensated absences, through Munis.

## **Student Activity Accounts**

### Prior Comment:

During our review of the student activity accounts we noted the following:

- The Treasurers Office does not receive deposit slips in a timely manner, sometimes two months after the deposit has been made. This causes the reconciliation process to be more cumbersome by creating more reconciling items.

- The student activity checking balances are significantly higher than the amount approved by the School Committee.
- Bank statement reconciliations are not sent to the Treasurers Office in a timely manner. This occurs especially in the summer months.

Recommendations:

- We recommend that the School Department work with Town personnel to develop procedures to assure that deposit slips are received timely to allow for a complete and accurate reconciliation process.
- We recommend that the School Department transfer any amounts in excess of the approved balances to their savings account.
- The School implement procedures to process account reconciliations in a timely manner all year.

Current Status - Partially Resolved. Progress has been made as to the timeliness of deposit turnovers and also the reconciliation process. However, at times the information is still lagging.

Management Response- The Assistant Treasurer will continue to work with the School Business Office to insure that deposit turnovers and monthly reconciliations are performed in a timely manner.

**Annual Audit of Student Activity Accounts**

Prior Comment

Chapter 71, Section 47 of Massachusetts Law states that there should be an annual audit of the student activity funds and that such audit be conducted in accordance with procedures as agreed upon between the school committee and auditor based upon guidelines issued by the department of education.

The Association of School Business Officials (ASBO) has a publication, "Internal Audit Guide for Student Activity Funds", that provide guidance in establishing procedures. The procedures should include a requirement for an annual audit of these accounts, as required by the statute and, at a minimum, such audits should include:

- a reconciliation of the cash balances as shown in the checkbook and bank statements;
- a review of compliance with the school committee's adopted procedures; and
- a review of the supporting documentation for a randomly selected sample

The annual audits can be conducted by personnel in the school business office or the municipal finance office. For accounts with authorized limits exceeding \$25,000, consideration should be given to having the audit conducted by an outside accounting firm at least every two or three years. We are not aware of such audits having taken place in recent years.

Recommendation

We are aware that the Business Manager audits the activity of the student activity accounts in great detail however we are not aware of such audits being documented and reported to the school committee in recent years. We recommend that annual audits be conducted on all student activity funds and be formally reported upon to the school committee.

Current Status – *Unresolved*. The Town and School Department have not come to an agreement as to whether an outside audit is necessary.

Management Response- The Town and School will reach agreement by the end of FY2008 as to whether an outside audit is necessary.

## **Contracts**

### Prior Comment

Massachusetts General Laws Chapter 41§57 states that the Town Accountant shall have custody of all municipal contracts entered into. The Town Accountant is responsible for approving all requests for payment upon receipt of the goods or service and assuring that funds are available for payment.

We noted that the Town Accountants Office does not receive copies of all School department contracts in a timely manner.

### Recommendation

We recommend that the School department and the Town Accountants Office develop a procedure that assures that copies of all contracts (labor, construction, vendor) are forwarded to the Town Accountants Office.

Current Status - *Partially Resolved*. The School Department is sending contracts to the Town Accountant upon request but has not implemented procedures to automatically do so.

Management Response- The Town Accountant's Office will develop and implement procedures with the School Business Manager to receive contracts automatically.

## **Sewer Receivables**

### Comment

There are currently no formal reconciliation procedures between the Sewer Department, the Treasurers Office and the Town Accountants Office related to Sewer User Fees and Sewer Betterment receivables.

In order to ensure proper valuation of the above accounts, we recommend that these reconciliations be performed monthly and that any reconciling items be resolved promptly.

A reconciliation of accounts receivable from the general ledger to the accounts receivable detail ledgers should be prepared to check that the recording of transactions is accurate and proper and that any adjustments to or write-offs of accounts receivable have been approved.

Variances were discovered as of June 30, 2007 and correcting journal entries have been recorded.

### Recommendation

We recommend that management institute a policy related to the reconciliation of accounts receivable balances and that these reconciliations occur on a monthly basis.

Management Response- The Auditor's Recommendation is that management institute a policy related to the reconciliation of accounts receivable balances and that these reconciliations occur on a monthly basis. Management agrees with this recommendation and will institute a procedure for monthly reconciliation.

**Tax Foreclosures**

Comment

Although monthly reconciliation procedures are taking place related to the activity within tax foreclosures a variance of approximately \$66,000 exists between the detail records maintained by the Treasurers Office and the balance reported in the general ledger.

Recommendation

We recommend that the Treasurers Office and the Town Accountants Office determine the cause of the variance and propose the applicable correcting entries.

Management Response- The Auditor's Recommendation is that the Treasurer's Office and the Town Accountant's Office determine the cause of the variance and propose the applicable correcting entries. Management agrees with this recommendation. The variance has been on the books for a number of years and needs to be resolved prior to the end of FY2008.

**Chapter 90**

Comment

We noted that there are currently no reconciliation procedures in place between the Department of Public Works and the Town Accountants Office. As of June 30, there is an approximate \$70,000 deficit balance in the fund that is unsupported by requests for reimbursement. The deficit may represent expenditures of prior projects that have not been requested as of that date however, with no reconciliation procedures in place, it is hard to ascertain whether the balance is correct.

Recommendation

We recommend that reconciliations be implemented between the Town Accountants Office and the Department of Public Works on a quarterly basis.

Management Response- The Auditor's Recommendation is that reconciliations be implemented between the Town Accountant's Office and the Department of Public Works on a quarterly basis. Management agrees with this recommendation and will institute, at a minimum, quarterly reconciliations.