

TOWN OF BROOKFIELD, MASSACHUSETTS
MANAGEMENT LETTER
FOR THE YEAR ENDED JUNE 30, 2019

TOWN OF BROOKFIELD, MASSACHUSETTS

Management Letter

Year Ended June 30, 2019

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To the Honorable Select Board
Town of Brookfield
Brookfield, Massachusetts

Dear Members of the Board:

In planning and performing our audit of the financial statements of the Town of Brookfield as of and for the year ended June 30, 2019, in accordance with auditing standards generally accepted in the United States of America, we considered the Town of Brookfield's internal control over financial reporting (internal control) 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 governmental unit's internal control. Accordingly, we do not express an opinion on the effectiveness of the governmental unit's internal control.

Our consideration of internal control over financial reporting was for limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore there can be no assurance that all such deficiencies have been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be a material weakness.

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 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. We consider the deficiencies in the Town's internal control and presented in Finding 2019-1, 2 and 3 to be a material weakness.

Also, 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.

The Town's written response to our comments and suggestions has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

This communication is intended solely for the information and use of management, the Select Board, 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

November 2, 2020

CURRENT YEAR COMMENTS AND RECOMMENDATIONS – Material Weakness

Finding 2019–1: Cash and Investment Reconciliation Procedures (Material Weakness)

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 that individual bank statement reconciliations were not being performed timely and properly with reconciling items documented. Furthermore, a Treasurer's cashbook was not properly maintained. The lack of maintaining a cashbook and reconciling individual bank statements prohibited an effective and periodic reconciliation of the Treasurer's records to the Town Accountant's general ledger.

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.

Town's Response:

In the beginning of FY 20 the Town retained an outside firm to provide Outsourced Accounting Services and was also able to retain a Consultant to perform the duties of Treasurer, mid-year. As such the two departments were able to work to straighten out past variances and start a process of cash reconciliations. In FY 21 the Town retained the same Treasurer's Consultant to stay on and perform Outsourced Treasurer Services. All cash reconciliations are now completed monthly between the Accountant and Treasurer's offices. The Treasurer's cashbook is also balanced properly to the bank statements.

Finding 2019-2 Water Department (Material Weakness)

Comment:

During our audit we noted the following control deficiencies within the water department policies and procedures:

- The accounts receivable subsidiary records for water were not effectively reconciled to the general ledger.
- The water department does not retain any support documentation (bill stub or proof of receipt) from customers paying their water bills.

- The water department clerk in charge of collecting payments was also the town treasurer. The same employee collected payments, prepared departmental turnovers and deposited into the town's bank account.

Effective internal controls require timely and proper reconciliation of the account receivable subsidiary records to the general ledger, retention of support documentation for payments received and segregation of duties between departmental functions. Failure to perform these tasks timely and properly increases the risk of misstatement due to error or fraud, prohibits the safeguarding of assets and does not provide for accurate and timely financial reporting.

We recommend that procedures be implemented to reconcile water accounts receivable on a monthly basis, retain support documentation from customer's payments and have segregation of duties between the water department and the town treasurer.

Town's Response:

The same process continued through FY 20, however, in FY 21, the Water department clerk was removed from all duties in the Treasurer's office. The Water department and the Accountant's Office began quarterly reconciliations, with a goal of monthly reconciliations by the end of FY 21.

2019-3 Accounts Receivable Reconciliations (Material Weakness)

Comment:

During our audit we found that effective procedures were not in place to reconcile the Tax Collector's accounts receivable subsidiary records to the general ledger. Effective internal controls require timely and proper reconciliation of the accounts receivable subsidiary records to the general ledger. Failure to perform these tasks timely and properly increases the risk of misstatement due to error or fraud, prohibits the safeguarding of assets and does not provide for accurate a timely financial reporting.

We have proposed several adjustments to the general ledger accounts receivable balances during our audit. We recommend that procedures be implemented to reconcile the Tax Collector's accounts receivable subsidiary records to the general ledger on a monthly basis. All variances should be investigated and resolved in a timely manner. To further strengthen this control the Town should document this process by having a sign off by the two departments.

Town's Response:

In the beginning of FY 20 the Town retained an outside firm to provide Outsourced Accounting Services. The Accountant and Collector now balance all Receivable accounts monthly and closed FY 20 with no variances.

CURRENT YEAR COMMENTS AND RECOMMENDATIONS – Other Matters

1. Capital Assets

Comment:

The Town has not accounted for its capital assets and therefore is not in compliance with GASB statement No. 34. This is one of the factors that contributed to the adverse opinion on the Town's financial statements. We recommend that the Town review this situation to determine if it would be feasible to establish and account for its capital assets for future financial statements. We further recommend that the Town adopt a formal policy and a procedure with regard to capital assets. Having a policy and a procedure in place will insure that all capital assets are being accounted for under the financial reporting model of GASB statement no. 34.

Town's Response:

The Town has taken under advisement and plans to implement in FY 21.

2. Financial Reporting for Post-employment Benefits Other Than Pension Plans (OPEB)

Comment:

GASB Statement No. 75 (which is in effect for fiscal year 2019) requires the Town to calculate the amount of the annual post-employment benefit costs other than pensions, such as healthcare benefits and other types of post-employment benefits, such as life insurance. Once determined, the cost is then presented and recognized on the financial statements of the Town. The OPEB statements (GASB 45 and 75) have been effective beginning for the year ending June 30, 2010.

The Town currently offers post-employment benefits other than pensions (health and life insurances) which would require the Town to be subject to the provisions GASB statement No. 75 and account for OPEB costs on their financial statements.

As a result of the Town not recording OPEB expense in accordance with GASB statement No. 75 an adverse opinion on the financial statements was issued. We recommend that the governing body of the Town evaluate the cost/benefit of this issue to determine whether the Town will comply with GASB Statements for OPEB.

Town's Response:

An OPEB Trust was established at the FY 21 ATM and the Town plans to implement in FY 21.

3. Ambulance Receivable

Comment:

During our audit we noted the accounts receivable for the ambulance charges activity for the year was not recorded on the Town's general ledger. We recommend that the ambulance accounts receivable activity be recorded on the Town's general ledger. The receivable should be periodically reconciled to source documents (i.e. ambulance billing reports).

Town's Response:

The Town has taken under advisement and plans to implement in FY 21.

4. Reconciliation of Employee Withholding Accounts

Comment:

During our audit we noted that there are several employee withholding accounts being utilized on the general ledger. We also noted that the account balances are not being properly reconciled. Because these accounts have significant annual activity and carry with them statutory responsibilities, we recommend that these accounts be accounted for accurately and consistently. A proper and timely reconciliation of the employee withholdings would minimize and control potential discrepancies from occurring.

We recommend that the employee withholding accounts be reconciled periodically (i.e. monthly, quarterly) to the applicable governmental regulations and source documents to ensure that proper employee and retiree contributions are being properly accounted for.

Town's Response:

All Employee withholding accounts thru FY 20 were reconciled by the Accountant in FY 20. All prior year variances were looked into and removed. A new process for reporting withholdings has been established and put into place for FY 21.

5. Police Off-Duty Detail Account

Comment:

The Town maintains an agency fund to account for the police off-duty details. These funds are allowed by law and are designed to act as an agent between businesses and Town public safety personnel where the businesses pay 100% of cost of detail worked plus a 10% administration fee. The Town activity for this account was approximately \$36,500 during fiscal year 2019. At June 30, 2019 the police detail account has a cash deficit of approximately \$12,825. The deficit should represent the business's outstanding bills and the police department should have a detail equaling to this deficit.

We noted that the police department maintains records for police detail activity. We further noted that there are no procedures to reconcile the police department records to the town accountant's general ledger. We recommend that the police department reconcile their police off-duty detail records with the general ledger on a periodic basis.

Town's Response:

The Town has taken under advisement and plans to implement in FY 21.

6. Other Areas

- Implementation of future GASB's.

Town's Response:

The Town has taken under advisement and plans to implement in FY 21-FY 22.

- Review overdrawn accounts (Chapter 90, Complete Streets, etc.).

Town's Response:

The Accountant reviewed all accounts in FY 20 and made all necessary corrections

- Recordkeeping for over the counter health insurance billing.

Town's Response:

The Accountant and Treasurer started the process in FY 20 and are continuing in FY 21.

- Tax Foreclosure detailed list.

Town's Response:

The Treasurer is looking into in FY 21.

- Review current banks to ensure current Treasurer is authorized signor.

Town's Response:

The Treasurer has reviewed all bank information and has completed in FY 21.