

**TOWN OF ASHBY, MASSACHUSETTS**

**Management Letter**

**For the Year Ended June 30, 2012**

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## To the Board of Selectmen

In planning and performing our audit of the financial statements of the Town of Ashby, 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 Ashby'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.

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.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses. In addition, because of the inherent limitation 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. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

During our audit we became aware of several 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, Board of Selectmen, and 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.*

March 5, 2013

## **CURRENT YEAR ISSUES:**

### 1. IMPROVE AUDIT TRAIL OVER CASH

During our review of departmental turnovers it was noted that not all turnover forms identified the breakdown of cash (currency) versus checks. Because of the increased exposure of risk in handling cash, it is very important that a clear audit trail exist from the time cash is accepted by the department to the time it is deposited at the bank.

We recommend that all departmental turnover forms provide the breakdown of cash and checks. In addition, we recommend that the amount of currency deposited in the bank be independently verified by the Accountant to departmental turnover forms and that sufficient documentation of this verification be retained. This will improve the controls over cash and will help minimize the risk of errors or irregularities occurring and going undetected.

#### Town's Response

The Town's receipt policy has been revised to address the issues raised in this comment.

### 2. PERFORM RECONCILIATIONS BETWEEN GRANT RECORDS AND THE TOWN'S GENERAL LEDGER – CDBG

In fiscal year 2012, the Town's CDBG grant was administered by an outside agency. During our audit of the grant, we found that reconciliation procedures between grant records and the Town's general ledger were not routinely performed. While the variances between CDBG program reports and the Town's general ledger were not for material dollar amounts, the lack of a routine reconciliation procedure increases the risk that the general ledger contains inaccurate or unsupported activity or balances. Reconciling activity to independently maintained documentation is an integral part of good internal controls.

We recommend the Town establish procedures to ensure the periodic reconciliation of general ledger activity to independent grant documents. This will provide additional assurance that general ledger balances are accurate, supportable and complete.

#### Town's Response

Attempts will be made by the Town Accountant to obtain quarterly CDBG reports from the Montachusett Regional Planning Commission in order to reconcile accounts on a more consistent basis. Accounts have been reconciled for both grants as of the February 27, 2013.

**PRIOR YEAR ISSUES:**

3. **RECONCILE OVERLAY ACCOUNT BALANCES IN ASSESSORS' OFFICE TO TOWN'S GENERAL LEDGER**

The Assessors' Office overlay log is not reconciled with the overlay accounts (allowance for abatements and exemptions) reported in the Town's general ledger for levy years 2010 and prior.

A regular reconciliation of key accounts is integral to a strong internal control system. The lack of reconciliation increases the risk that abatements may not be recorded (or recorded accurately) in the general ledger, thereby misstating both accounts receivable and overlay balances. Misstatement of the Town's overlay balances could result in the appearance of an overlay deficit which would be required to be raised through the Town's tax levy.

We recommend the Assessors' Office reconcile their overlay log (on a levy year basis) to the Town's general ledger on a regular basis. Implementation of this recommendation will ensure the accuracy of the Town's receivable and overlay balances and ensure that only legitimate overlay deficits are raised.

**Town's Response**

The Assessors' Office will adjust their logs for the levy years 2010 and prior. We will continue to reconcile all levy years as we move forward.