

TOWN OF ERVING, MASSACHUSETTS
MANAGEMENT LETTER
FOR THE YEAR ENDED JUNE 30, 2017

TOWN OF ERVING, MASSACHUSETTS

Management Letter

Year Ended June 30, 2017

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

Dear Members of the Board:

In planning and performing our audit of the basic financial statements of the Town of Erving as of and for the year ended June 30, 2017, in accordance with auditing standards generally accepted in the United States of America, we considered the Town of Erving'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 27, 2018

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. 75 – *Accounting and Financial Reporting for Post-employment Benefits Other Than Pensions*. This statement is required to be implemented in fiscal year 2018.
- 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. 85 – *Omnibus 2017*. This statement is required to be implemented in fiscal year 2018.
- GASB Statement No. 87 – *Leases*. This statement is required to be implemented in fiscal year 2021.

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 Items

- Reconciliation of Payroll Withholding Accounts.
- Internal Control Policies and Procedures Manual.
- Consider Allocation Retirement Assessment to Water and Wastewater Funds.

PRIOR YEAR COMMENTS AND RECOMMENDATIONS – Other Matters

1. School Departmental Accounting Records

Prior Year Comment:

The School Department maintains departmental accounting records for all their financial accounts (budget, grants and revolving funds, etc.), which are used in the reconciliation process to the Town's general ledger. During our audit we reviewed the School's records and their reconciliation process and noted the following:

- The School does not track revenues for their special revenue fund (i.e. revolving funds) in their accounting system.
- Only payroll expenditures for school lunch are tracked through the school's accounting systems. Expenditures for vendors (non-payroll) are not tracked in the school's accounting system.

We recommend the School department account for revenues of all their special revenue funds and school lunch vendor expenditures within their accounting system. We believe that this will improve and enhance the reconciliation process between the School's accounting records and the Town's general ledger.

Status – Fiscal Year 2017 Audit:

The School has made implemented procedures to track revenues for special revenue funds and all expenditures for school lunch in their accounting records. This procedure was implemented in fiscal year 2018; therefore the condition in fiscal year 2017 was the same as 2016.

2. Surety Bonds – Treasurer and Collector Positions

Prior Year Comment:

The Treasurer and Collector positions currently have surety bond amounts of \$100,000 each. The current recommend bond amount, as outlined in the Massachusetts Collector and Treasurer's manual, applicable to the Treasurer and Collector positions for the Town of Erving would be \$150,000 for the Treasurer's position and \$120,000 for the Collector's position. We recommend management review this situation to determine if the surety bond amount should be increased.

Status – Fiscal Year 2017 Audit:

The Town has taken our recommendation under advisement.

3. Deficit Account – School Lunch Revolving

Prior Year Comment:

During our audit fieldwork we noted the school lunch revolving fund has a deficit balance of (\$14,475) at June 30, 2016. A summary of the account is as follows:

| | | | |
|------------------------------|----|---------------|------------------------|
| Balance July 1, 2015 | | \$ | 1,380 |
| Revenues: | | | |
| Sales | \$ | 11,999 | |
| Federal and State | | 47,518 | |
| Transfer from Budget | | <u>12,890</u> | 72,407 |
| Expenditures: | | | |
| Operating | | <u>88,262</u> | <u>88,262</u> |
| Balance June 30, 2016 | | \$ | <u><u>(14,475)</u></u> |

Deficit accounts can be an indicator that the program revenues are not sufficient to cover program costs (not self-supporting), expenditure or revenues have been reported incorrectly, or a combination of both. During our testing we did not find any revenues or expenditures that were reported incorrectly. We recommend the School department review the school lunch revolving account to determine why the account is in deficit and also provide for the deficit.

Status – Fiscal Year 2017 Audit:

The Town and School have implemented procedures to review and monitor the school lunch fund. The deficit at June 30, 2017 has been provided for.