

TOWN OF HANOVER, MASSACHUSETTS

Management Letter

For the Year Ended June 30, 2017

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Additional Offices:

Nashua, NH
Manchester, NH
Greenfield, MA
Ellsworth, ME

To the Board of Selectmen
Town of Hanover, Massachusetts

In planning and performing our audit of the financial statements of the Town of Hanover, Massachusetts 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'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 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 was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

During our audit we became aware of 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.

This communication is intended solely for the information and use of management, the Board of Selectmen, and others within the organization 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

March 27, 2018

PRIOR YEAR RECOMMENDATIONS:

1. Improve Timeliness of Bank Reconciliations

Prior Year Issue:

In the prior year, we noted some improvements in the timeliness of reconciliations. However, reconciliations still contained old reconciling items that were not corrected in a timely manner. We recommended that any reconciling items be addressed in a timely manner.

Current Year Status:

At the time of this report, we noted that specific bank account reconciliations were current. However, the overall reconciliation between the cashbook and the general ledger has not been reconciled since August 2018. Additionally, the reconciliations still contained old reconciling items that were not corrected in a timely manner.

Further Action Required:

We again recommend that all reconciling items be addressed in a timely manner. Additionally, we recommend that the reconciliation between the cashbook and the general ledger be performed timely.

Town's Response:

As of today, the reconciliation between the cashbook and the general ledger is up to date. We are now working on researching and cleaning up any reconciling items that remain. The reconciliation of cash will be done on a monthly basis going forward. During the last six months of Fiscal Year 2017 and the first five months of Fiscal Year 2018 the Town Accountant was also serving admirably as the Acting Finance Director. Her return to the single, more manageable Town Accountant role will facilitate timely reconciliations.

2. Require Dual Signatures

Prior Year Issue:

In the prior year, we noted that although the Town performed many accounting, reconciling, and oversight procedures, the reconciliations typically were not signed by the preparer or reviewer. This could result in misunderstandings of who was responsible for the actual reconciliations or review process. We recommended the Tax Collector and Treasurer daily cash-out forms be signed by the preparer and a reviewer.

Current Year Status:

This issue is resolved.

3. Develop a More Formal Risk Assessment Process

Prior Year Issue:

In the prior year, we recommended that the Town continue to perform internal audits in an effort to implement a more formal risk assessment process that identifies areas where potential fraud or material misstatements to the basic financial statements may occur.

We also recommended the Town establish a formal employee fraud policy to provide staff with guidance in the event they observe or suspect fraud in the workplace.

Current Year Status:

During fiscal year 2017, the Accountant/Acting Finance Director performed two departmental walkthroughs and a fraud risk assessment policy was adopted. **This issue is resolved.**

4. Update Tax Liens

Prior Year Issue:

In the prior year, we noted that certain delinquent taxes remained on the books since they have passed the time frame for liening.

Current Year Status:

We understand the Town has contacted its attorney to investigate what additional actions can be taken at this point. We recommend the Town continue to follow up on whatever legal actions are available.

Town's Response:

The Town is in contact and working closely and frequently with Town Counsel to investigate what actions can be taken in regard to delinquent taxes that are past the timeframe in which they can be liened. The Director of Finance is also aggressively moving toward foreclosure where possible and pursuing the simplified Land of Low Value process where viable.

5. Establish Accounting and Administrative Policies and Procedures

Prior Year Issue:

In the prior year, we noted that the Town did not maintain formalized policies and procedures for the following administrative and accounting areas, including the use of cellular phones and authorization and use of petty cash.

We recommended the Town develop formal policies and procedures to provide departments with documented guidance over these administrative and accounting areas. This would result in Town-wide consistency, fewer internal conflicts, and minimize the risk of future irregularities or abuses occurring.

Current Year Status:

During fiscal 2017, the Town discontinued the use of petty cash, therefore policies and procedures are not necessary and **this issue is considered resolved**. The Town did not establish written policies and procedures relating to the use of cellular phones.

Further Action Required:

We again recommend that the Town establish written policies and procedures relating to the use of cellular phones.

Town's Response:

With the onboarding of the new Town Manager on April 30, 2018, the Town intends to pursue the establishment of a cellular phone policy.

6. Write Off Uncollectible Ambulance Receivables

In the prior year, we noted the Town had a large ambulance receivable consisting of several balances that were over a year old. The existence of large past-due receivables impedes cash flow and, as time passes, increases the risk that these receivables will be uncollectible.

In the prior year, we recommended that:

- The Town determine the collectability of these receivables and either write them off or actively pursue them.
- The Town formalize policies and procedures for the collection of delinquent ambulance receivables.
- The Town formalize abatement procedures to periodically write off uncollectible accounts. This will simplify the maintenance of the accounting records.

Current Year Status:

In fiscal 2017, an Ambulance Billing & Collection Policy was voted by the Board of Selectmen. **This issue is resolved**.

7. Document Policies and Procedures Over Federal Awards

In the prior year, we recommended that the Town prepare for the single audit changes under new requirements of OMB's Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (UG) for single audits by establishing the new required policies and procedures.

Current Year Status:

The Hanover Public Schools established the necessary policies and procedures. However, the Town did not.

Further Action Required:

We continue to recommend Town ensure that written policies and procedures are compiled and adopted to ensure compliance with the Uniform Guidance (UG).

Town's Response:

The Town adopted a Federal Awards Policy on November 20, 2017.

8. Avoid Over-expended Appropriations

Prior Year Issue:

In the prior year, we noted that certain over-expenditures existed. Massachusetts General Laws prohibit municipal organizations from over-expending appropriations.

We recommended that in the future when an over expenditure is projected, that additional appropriations be authorized prior to the end of the fiscal year.

Current Year Status:

This issue is resolved.

9. Prepare for New Single Audit Guidelines Over Procurement

In the prior year, we recommended that the Town prepare for the new procurement requirements related to the Single Audit Act as a result of OMB's Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (UG). Included in these new requirements were new procurement rules over purchases made with federal grant funds, which differ in certain respects from Massachusetts procurement laws (MGL Ch. 30B, et al.). The OMB provided a grace period after the effective date of the Uniform Guidance to allow entities to comply with the new procurement standards. Consequently, the new procurement standards will become effective July 1, 2018.

Current Year Status:

The Hanover Public Schools established the necessary policies and procedures. However, the Town did not.

Further Action Required:

We recommend the Town review the new requirements and modify their own procurement policy to ensure compliance with Uniform Guidance.

Town's Response:

The Town adopted a Federal Awards Policy, including a section addressing the Town's procurement system, on November 20, 2017.

10. Prepare to Implement GASB 75 for OPEB

In the prior year, we recommended that the Town begin planning for the implementation of GASB 75, which includes gaining an understanding of the new requirements, educating applicable financial statement users, and ensuring that actuarial valuations are performed in a timely manner and in compliance with the new requirements.

Current Year Status:

At the end of fiscal 2017 the Town voted to establish an OPEB trust fund. The trust documents were signed in July 2018.

As a result of the Town establishing an OPEB trust fund, beginning in fiscal year 2018, the Town will be required to implement the Governmental Accounting Standards Board (GASB) Statement 74 Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (OPEB), as well as GASB Statement 75 as previously discussed.

Further Action Required:

We continue to recommend the Town plan for the implementation of GASB 74 and 75, specifically related to ensuring that timely actuarial reports are completed.

Town's Response:

The Town is prepared for the implementation of GASB Statement 75. The Town has been working with its actuary from Odyssey Advisors to ensure the actuarial valuations are performed in a timely manner and in compliance with the new requirements. The Town will have two valuation reports done with a measurement date of July 1, 2017: the first report to be prepared under GASB 45 during Fiscal Year 2017 (this has been completed) and the other to be prepared under GASB 75 during Fiscal Year 2018 (this is in process now).