

TOWN OF UPTON, MASSACHUSETTS

Management Letter

For the Year Ended June 30, 2010

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

We have audited the basic financial statements of the Town of Upton, Massachusetts, as of and for the year ended June 30, 2010, and have issued our reports thereon dated March 31, 2011. As part of our audit, we made a study and evaluation of the Town's system of internal accounting control to the extent we considered necessary to evaluate the system as required by generally accepted auditing standards. Under these standards, the purpose of such evaluations is to establish a basis for reliance on the system of internal accounting control in determining the nature, timing and extent of other auditing procedures that are necessary for expressing an opinion on the financial statements and not to provide assurance on internal control.

The management of the Town of Upton is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgments by them are required to assess the expected benefits and related costs of control procedures. The objectives of such a system are to provide reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with required authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

Because of inherent limitations in any system of internal accounting control, errors or irregularities may still occur without being detected. Also, projection of any evaluation of the system to future periods is subject to the risks that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation was not designed for the purpose of expressing an opinion on the internal accounting control and would not necessarily disclose all weaknesses in the system. However, as a result of our study and evaluation, and in an effort to be of assistance to the Town, we are submitting for your consideration comments and recommendations intended to improve operations and internal accounting control.

After you have had an opportunity to consider our comments and recommendations, we would be pleased to discuss them with you.



Borgatti Harrison & Co.

Framingham, Massachusetts

March 31, 2011

PRIOR YEAR RECOMMENDATIONS:

The following recommendations were made in the prior year and remain unresolved or in process of being resolved.

1. Implement a Risk Assessment Program

Comment:

When internal controls are initially implemented, they are usually designed to adequately safeguard assets. However, over time, these controls can become less effective, or ineffective, due to changes in technology, operations, etc. In addition, changes in personnel and structure, as well as the addition of new programs and services, can add risks that did not previously exist. As a result, all municipalities should periodically perform a risk assessment to anticipate, identify, analyze and manage the risk of asset misappropriation. Risk assessment, including fraud risk assessment, is one element of a system of internal controls.

Recommendation:

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

The risk assessment program should be formally documented, become part of the Town's financial policies and procedures manual and be performed by management-level employees who have extensive knowledge of the Town's operations.

The risk assessment would consist of conducting interviews or lead group discussions with personnel who have knowledge of the Town's operations, its environment, its processes, the assets vulnerable to misappropriation, and the operations that involve heightened levels of risk. When conducting the assessment, the following questions should be asked:

1. What assets are susceptible to misappropriation?
2. What departments receive cash receipts?
3. What departments have movable inventory or assets?
4. What operations are the most complex?

5. How could assets be stolen?
6. Are there any known internal control weaknesses that would allow misappropriation of assets to occur and remain undetected?
7. How could potential misappropriation of assets be concealed?
8. What prior internal control issues could still continue to be problematic?

Once the areas vulnerable to risks have been identified, a review of the Town's systems, procedures, and existing controls related to these areas should be conducted and a recommendation of additional controls, if any, that need to be implemented to reduce the identified risks.

Management's Response:

While a program such as you describe may be an important tool safeguard the Town's assets, we do not believe it is necessary to establish a formal program at this time. The Town has made good strides to implement internal controls since the hiring of a new Town Accountant in 2008. Many new procedures have been put in place to improve processes that are important to lowering risk. Also, the Town hired a Town Manager a year ago, with the goal of improving Town operations. In essence we have already established an ad hoc program by these staff making efforts to analyze areas of Town government as they deem necessary. In the past year we have analyzed the process by which ambulance runs are invoiced and paid. We have identified improvements to this system and anticipate a higher level of revenue generation utilizing an outside firm to manage this for us when the new fiscal year begins. We have also analyzed the process by which fuel is received, dispensed and paid for amongst several town departments to ensure that is managed effectively. Furthermore, to effectively establish a program we believe we would need to hire an outside consultant and we believe that the cost for this would outpace the savings we might achieve through improved processes.

2. Establish an Audit Committee

Comment:

The establishment of audit committees is recommended by the American Institute of Certified Public Accountants (AICPA), the Securities and Exchange Commission (SEC), and other organizations concerned with financial reporting and fiduciary duties of organizations.

Recommendation:

We recommend the Town consider forming an audit committee. By establishing an audit committee, the Board of Selectmen may achieve an increased understanding of (a) the role of the independent auditors and the nature and limitations of their work and (b) the importance of accounting, financial, and operating controls to the successful management of the Town and reliable financial reports.

An audit committee should consist of a majority of outside members with no connection to the Town's operations and should have a working knowledge of financial reports, basic business practices, and, ideally, be familiar with generally accepted accounting principles (GAAP) and auditing standards (GAAS).

An audit committee should be distinct from the Town's finance and/or budget committee(s) and should have objectives, authority and responsibilities set forth in writing by the Board of Selectmen. Some of the general duties would include:

1. Approve the selection of the independent auditor, as well as, review the arrangements for and the scope of the audit.
2. Consider the comments from the independent auditor, including those with respect to weaknesses in internal control and the corrective actions taken by management.
3. Discuss matters of concern with the auditors or management relating to legal or ethical concerns, the Town's financial statements, or the results of the audit.
4. Review internal accounting procedures and controls with the Town's financial and accounting staff.
5. Review the activities and recommendations of the Town's financial personnel.
6. Review of financial statements and other financial information distributed by the Town to the public.
7. Review of changes in accounting principles
8. Review of non audit services performed by the independent auditor.

Management's Response:

While this may be a recommendation made as a best practice by several national organizations, we do not believe it is necessary for the Town at this time. Starting this year we will ask that the auditors present the annual audit to the Selectmen to help them better understand the role of an audit to a Towns overall financial health.

This year the Selectmen have begun receiving monthly financial reports, and have a greater understanding of the importance of the audit to Town operations. Furthermore, the Town Manager has taken on some of the aspects of what an audit committee would do, which is an expectation of the Board of Selectmen. The Manager will for the first time respond to comments of the auditor, and review procedures and controls with the Town's financial and accounting team.

3. Preparation of a Financial Policies and Procedures Manual

Comment:

The preparation of a formal policies and procedures manual would improve and standardize the Town's financial policies and procedures. Without formalized written policies and procedures, the Town is inherently subject to everyday inconsistencies in its operations and it is difficult to measure performance and efficiencies without a baseline.

Recommendation:

We recommend that the Town develop and implement a formal financial policies and procedures manual. This manual should include policies and procedures relative to all financial functions and processes, including, but not limited to, the following:

1. Budgeting
2. Financial Reporting
3. Accounts Receivable
4. Cash receipts
5. Purchasing
6. Cash Disbursements
7. Payroll
8. Personnel
9. Grant Administration
10. Administration of Student Activity Funds
11. Month-end and Year-end Closing Procedures

The manual should also clearly define the objectives, responsibilities and authorizations for all employees/job positions.

Management's Response:

While a policy and procedures manual is a laudable long term goal, we do not believe it is necessary for the Town of Upton at this time. As mentioned in comment #1 the Town has begun to put in place a more effective management team that has already begun to address some of the aspects of what would be in a formal policies and procedures manual. Purchasing procedures are being updated and streamlined to ensure we are in full compliance with M.G.L. Chapter 30B. Processes have been enacted to ensure that payroll and personnel records are complete and that controls are in place to document changes in employee payroll status effectively. The Board of Selectmen have as a long-term goal the hiring of a Finance Director for the Town and it would be a major goal of that position to establish a formal financial policies and procedures manual.

CURRENT YEAR RECOMMENDATIONS

1. GASB Statement #54

Comment:

GASB Statement #54, Fund Balance Reporting and Governmental Fund Type Definitions is the latest official release of the Governmental Accounting Standards Board that will impact the Town.

The objective of this Statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

This Statement is effective for fiscal year ending June 30, 2011.

Recommendation:

We recommend that the Town Accountant familiarize himself with this new Statement and begin the process of identifying funds based upon the new fund type definitions early in fiscal 2011 so as to be ready for the year ending June 30, 2011.

Management's Response:

The Town Accountant will begin the process of familiarizing himself with this latest statement and the process of identifying funds so that the Town will be ready for the year end closing of June 30, 2011.

2. Budgeted Estimated Revenues and Other Financing Sources

Comment:

The Town does not utilize the revenue budget function of its automated accounting system. Through this function, the Town can enter the estimated revenues for the fiscal year into the accounting system and produce reports that will measure budget versus actual revenue performance.

The Town monitors the departmental expenditures on a monthly basis through the use of the appropriation budget function. It is also important to monitor revenues during the fiscal year to detect and correct problems on a timely basis.

Recommendation:

We recommend that the Town utilize the revenue budget function of the automated accounting system and include revenue analysis reports as part of the monthly management reports produced by the system.

Management's Response:

The Town Manager, Accountant and Treasurer/Collector will work together to play a greater role in the development of annual revenue estimates. These will then be entered into the revenue budget function so that monthly reports can be generated which give a clearer picture of the Town's financial position each month.

3. Improve Controls Over Payroll

Comment:

We noted during our audit that election workers are not paid through the payroll system but rather as vendors. The Department of Revenue has confirmed in the past that election workers must be paid as employees. We also noted that off duty detail payments for out of town officers are made directly to the officers rather than being paid as employees of either the sending town or the Town of Upton.

Recommendation:

First, we suggest that the Treasurer begin paying its election workers as employees through the payroll system.

Second, we recommend that the Town make a decision as to who is the employer of out of town officers hired to perform off duty details in town. If the decision is for these officers to become Hopkinton employees, than they must be placed on the Town's payroll. If the decision is that these officers belong to the sending town, then the payment for their services is made to the sending town and the sending town pays them through their payroll system.

Management's Response:

With the upcoming election in May we will take steps to pay election workers through the payroll process rather than as vendors. We will ensure that this takes place now and in the future. We will also meet with the Police Department to discuss the use of outside detail officers and whether they will be treated as employees of the Town of Upton or from the Town/Department where they regularly work. Procedures will be put in place to ensure they are paid appropriately.

4. Post Retirement Benefits

Comment:

The Town provides health insurance benefits for all personnel who attain retirement age while in the employment of the Town. These costs are appropriated and expended in the fiscal year incurred.

An actuarial valuation performed for the Town as of July 1, 2009 indicates that the Town has an unfunded liability as a result of these post retirement benefits in the amount of \$4,298,116.

Recommendation:

We recommend that the Town begin the process of addressing this unfunded liability. The first step in the process is having an Other Post Employment Benefits (OPEB) Plan approved at town meeting. The next step is to create an OPEB Irrevocable Trust so that future contributions can be made to the Plan.

Management's Response:

With the completion of the GASB 45 report we have included an article on the 2011 Annual Town Meeting Warrant to obtain approval to establish an OPEB Irrevocable Trust and make an initial deposit into that trust of \$5,000. We will also contract with the consultant that completed our GASB 45 report to complete a plan on how the Town can achieve funding the liability for these benefits over time

5. Improve Tax Recapitulation Sheet Preparation

Comment:

There are a couple of fund balance reservations that should have been used as available funds of Form DE-1, which is part of the Town's tax recapitulation sheet (tax recap). This tax recap is the formal process of obtaining a tax rate from the department of revenue.

Recommendation:

We recommend that the tax recap preparation be a team effort consisting of the Board of Assessors, the Treasurer/Collector and the Town Accountant. Each of these department heads has vital information necessary in the preparation of a complete and accurate tax recapitulation sheet.

Management's Response:

During the tax recap process that took place in the fall of 2010 we utilized the team approach of the Board of Assessors, Treasurer/Collector & Town Accountant working together. We intend to continue this process in the future to ensure success in the process of obtaining tax rate approval from the DOR.

6. Improve Controls over Disbursements

Comment:

We several instances where controls over vendor disbursements could be improved. We noted several vendor expenditure vouchers that did not contain a department head approval signature and we noted that monthly payments to Alert Ambulance Service are not supported by an invoice from the company.

Recommendation:

We recommend that the Town Accountant review its internal control procedures vendor disbursements and with all department heads.

Management's Response:

We will review our internal control procedures for vendor disbursements to ensure that all department heads are completing their vendor warrants and ensuring that adequate backup is received prior to processing payment.