

TOWN OF GROVELAND, MASSACHUSETTS

MANAGEMENT LETTER

JUNE 30, 2009



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To the Honorable Board of Selectmen
Town of Groveland, Massachusetts

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Groveland, Massachusetts for the year ended June 30, 2009 (except for the Groveland Municipal Light Department which is as of and for the year ended December 31, 2008), and have issued our report thereon dated July 20, 2010. Our opinions on the financial statements and this report, insofar as they relate to the Groveland Municipal Light Department, are based solely on the report of another auditor. In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Groveland, Massachusetts (Town) as of and for the year ended June 30, 2009, in accordance with auditing standards generally accepted in the United States of America, we considered the Town'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 Town's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control.

A control deficiency exists when the design of operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be 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, as discussed in the memorandum that accompanies this letter, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

We also became aware of other matters that are opportunities for strengthening internal controls and enhancing operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions concerning those matters.

This communication is intended solely for the information and use of management, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

Wakefield, Massachusetts
July 20, 2010

TOWN OF GROVELAND, MASSACHUSETTS

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Significant Deficiencies

INADEQUATE DESIGN OF INTERNAL CONTROL OVER THE PREPARATION OF FINANCIAL STATEMENTS BEING AUDITED

Comment

The following matters, reported as material weaknesses and significant deficiencies in our previous two audits, were not completely resolved during our audit of the Town for fiscal year ending June 30, 2009. Overall our comments in this section relate to three control deficiencies that we believe should continue to be regarded as significant deficiencies in internal accounting control.

1. Ineffective oversight of the Town's financial reporting and internal control by those charged with governance.
2. Identifications by the auditors of material misstatements in the financial statements for the period under audit that were not initially identified by the Town's internal controls.
3. Employees or management who lack the qualifications and training to fulfill their assigned functions, i.e. the person responsible for the accounting and reporting function lacks the skills and knowledge to apply GAAP in recording the Town's financial transactions and preparing its financial statements.

The accounting department has completed its installation of new accounting software and has been in the process of designing new and updated policies and procedures under the direction of the Finance Director, and is also obtaining municipal accounting and software training on an on-going basis. We have seen notable improvements in internal control over financial reporting however; we believe these observations are still applicable during our audits of the financial statements for the year ended June 30, 2009.

Continuing Recommendation

In order to strengthen internal control over financial reporting, we recommend that management continually re-evaluate the roles and responsibilities of the accounting and finance departments to ensure that the books and records of the Town are being maintained in accordance with internal policy and with legally prescribed external requirements.

MANUAL ADJUSTMENTS TO THE LEDGER AND JOURNAL ENTRY SUPPORT

Comment

During our review of journal entries posted throughout fiscal year 2009 we became aware that several manual adjustments were posted through an edit function that effectively overrode and circumvented the normal double-sided journal entry process. In addition, we noted instances where the journal entry documentation that was being maintained was inadequate to support the transactions selected for testing.

Recommendation

In order to strengthen internal controls over financial reporting we recommend that manually adjusting and editing balances be prohibited as it does not adequately show a proper detail of accounting transactions and we also recommend that all entries posted to the system be made only after adequate supporting documentation has been obtained and made available for review by others.

Status – *Partially Resolved*. The Town has prohibited manually adjusting and editing balances in the ledger; however we continue to note areas where adequate documentation of journal entries is not being maintained.

Other Matters Previously Reported

FRAUD RISK ASSESSMENT

Comment

The opportunity to commit and conceal fraud exists where there are assets susceptible to misappropriation and inadequate controls to prevent or detect the fraud. To address this risk, we recommend that the Town perform a risk assessment to identify, analyze, and manage the risk of asset misappropriation. Risk assessment, including fraud risk assessment, is one element of internal control. Thus, ideally, the Town's internal control should include performance of this assessment, even though our annual financial statement audits include consideration of fraud.

The fraud risk assessment can be informal and performed by a management-level individual who has extensive knowledge of the Town that might be used in the assessment. Ordinarily, the management-level individual would conduct interviews or lead group discussions with personnel who have extensive knowledge of the Town, its environment, and its processes. The fraud risk assessment process should consider the Town's vulnerability to misappropriation of assets.

When conducting the self-assessment, questions such as the following can be considered:

- What individuals have the opportunity to misappropriate assets? These are individuals who have access to assets susceptible to theft and to records that can be falsified or manipulated to conceal the theft.
- Are there any known pressures that would motivate employees with the opportunity to misappropriate assets? Pressures may relate to financial stress or dissatisfaction. In assessing whether these pressures may exist, the assessor should consider whether there is any information that indicated potential financial stress or dissatisfaction of employees with access to assets susceptible to misappropriation.
- What assets of the Town are susceptible to misappropriation?
- Are there any known internal control weaknesses that would allow misappropriation of assets to occur and remain undetected?
- How could assets be stolen? Assets can be stolen in many ways besides merely removing them from the premises. For example, cash can be stolen by writing checks to fictitious employees or vendors and cashing them for personal use.
- How could potential misappropriation of assets be concealed? Because many frauds create accounting anomalies, the perpetrator must hide the fraud by running through an adjustment to another account. Generally, fraud perpetrators may use accounts that are not closely monitored.

Recommendation

We recommend that management develop and implement a fraud risk assessment program to identify, analyze, and manage the risk of asset misappropriation. Department heads should provide information detailing any activities within their departments that may lend themselves to potential fraud, i.e. identification of idle cash or collections that don't get turned over daily or instances where internal controls over Town assets are not in place or are not functioning as intended.

Status – *Unresolved*. The Town has not developed or implemented a fraud risk assessment.

INTERNAL PROCEDURE MANUALS

Comment

We noted that most departments do not maintain a formal internal procedure manual documenting day-to-day processing and controls. Since the Town is limited in the number of employees, the Town is at risk if critical tasks cannot be completed due to an extended absence.

Recommendation

We recommend that an internal procedures manual be developed for each department. The document should be written in sufficient detail so that a person unfamiliar with the department's operations could complete the day-to-day critical tasks. Additionally, this document should be updated for any system changes. A master manual of all procedures should be maintained and stored in a secure, centralized location.

Status – *Unresolved*. The Town has not developed an internal procedures manual.

DEVELOP WRITTEN DISASTER RECOVERY PROCEDURES

Comment

The Town does not have well-defined, written disaster recovery procedures. The time to make contingency plans is before disaster strikes, so that all personnel will be aware of their responsibilities in the event of an emergency situation that precludes the use of the existing IT facilities.

Recommendation

We recommend that management develop a disaster recovery plan that includes, but is not limited to, the following matters:

1. Location of, and access to, off-site storage.
2. A listing of all data files that would have to be obtained from the off-site storage location.
3. Identification of a backup location (name and telephone number) with similar or compatible equipment for emergency processing. Management should make arrangements for such backup with another organization, a computer vendor, or a service center.
4. Responsibilities of various personnel in an emergency.
5. Priority of critical applications and reporting requirements during the emergency period.

Status – *Unresolved*. The Town has not developed formal disaster recovery procedures.

RECORDING ACTIVITY DIRECTLY TO FUND BALANCE

Comment

We noted that a significant number of revenue and expenditure transactions were recorded directly to fund balance accounts in the general ledger rather than the subsidiary revenue and expenditure ledgers.

Recording amounts directly to fund balance prevents the general ledger from reporting an accurate and complete account of all financial activity and circumvents the budgetary controls in place in the appropriation ledger. Consequently, numerous accounts had to be manually analyzed to report all revenues and expenditures. Such a process significantly inhibits timely and accurate internal financial reporting and external reporting.

Recommendation

We recommend that no activity be recorded directly to fund balance accounts other than reclassifications between the components of the fund balances.

Status – *Partially Resolved*. The Town has updated the chart of accounts to reflect revenue and expenditure accounts for most funds, there is still activity in certain funds being posted directly to fund balance.