

TOWN OF KINGSTON, MASSACHUSETTS

Management Letter

For the Year Ended June 30, 2010

TABLE OF CONTENTS

	<u>PAGE</u>
INTRODUCTORY LETTER	1
 <u>STATUS OF PRIOR YEAR RECOMMENDATIONS:</u>	
1. Improve Departmental Receipt Procedures	3
2. Other Prior Year Issues	4
 <u>CURRENT YEAR RECOMMENDATIONS:</u>	
3. Implement Regular Departmental Internal Audits	5
4. Other Current Year Recommendations	6



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To the Audit Committee and Board of Selectmen
Town of Kingston, Massachusetts

In planning and performing our audit of the financial statements of the Town of Kingston, Massachusetts as of and for the year ended June 30, 2010, in accordance with auditing standards generally accepted in the United States of America, we considered 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 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.

Additional Offices:

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

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 Audit Committee, 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 + Company P.C.

Andover, Massachusetts

February 24, 2011

STATUS OF PRIOR YEAR RECOMMENDATIONS:

The following comments were discussed in our prior year management letter, however, have not yet been fully addressed by the Town. They have been repeated because we believe they are still worthy of consideration.

1. Improve Departmental Receipt Procedures

In our prior-year testing of departmental receipt procedures, we noted the following departmental receipt related deficiencies which were not resolved in fiscal 2010:

Council on Aging

- All incoming receipts should be recorded on a departmental receipt log.
- Prenumbered receipts should be issued to all customers paying by cash.

Town's Response:

The Council of Aging has a new director. The accounting office will work with her on developing a departmental receipt log. The item regarding pre-numbered receipts for cash payments has been addressed in FY 2011. The only cash received by the COA is for luncheons. The auditors agreed that the newly implemented system of purchasing a ticket that had to be turned in to receive the lunch was adequate to comply with the comment since giving a receipt to each person would not be practical.

Harbormaster

- Receipt records should be reconciled to the Town's general ledger on at least a quarterly basis.

We continue to recommend the Town implement corrective action for the above noted deficiencies. We also recommend that all departmental receipt turnover forms be preprinted to include applicable departmental revenue account numbers, and that the Town Accountant periodically perform internal audits of selected departmental receipt records. This will improve documentation and oversight over departmental receipt records.

Town's Response:

A quarterly revenue report is given to all departments. The accounting office will work with the Police Department – Harbormaster Division to reconcile receipts.

2. Other Prior Year Issues

In the prior year we noted the following miscellaneous deficiencies which were not resolved in fiscal 2010:

Monitor/Close Inactive Accounts – The Town's general ledger reflected certain inactive capital project accounts. We recommended the Town determine whether these projects were completed and take action to close or re-appropriate remaining balances.

Town's Response:

The Town works to address this on an annual basis with the Town Accountant monitoring the balances and providing this information during the budget proceedings. MGL has regulations on what purposes these can be used for depending on the original purpose and length of the loan. A portion of the available fund balances will be appropriated at the 2011 Annual Town Meeting for capital equipment expenditures. Some of the accounts remain open as there are no similar purposes/duration projects under consideration.

Formalize Sewer Betterment Adjustments – The Town did not have policies to formally document and approve sewer betterment receivable adjustments. We recommended all sewer betterment receivable adjustments be documented, approved, and be forwarded to the Tax Collector and Town Accountant for posting.

Town's Response:

The Collector has a policy for documenting betterment payoffs. The difficulty with such adjustments is the timing and multiple sources of information provided for the pay-off information. We are working to collaborate on the process for a property owner to request such information so that the pay-off amount includes all sums, and proper transmittal of documentation among Town departments. We look forward to any assistance/recommendations from the Auditors.

Allocate Interest – Since pooled cash is being maintained, the Treasurer should allocate interest for specific accounts such as water and sewer.

Town's Response:

The Treasurer is aware of this issue. He has opened a separate account for school lunch so their interest is tracked and posted to their fund. The arts lottery interest has been pro-rated and transferred to their account in compliance with MGL. The water and sewer enterprises have not received their interest. The pooled cash accounts give the information needed to pro-rate the interest to the enterprise funds. Management will need to request that this be done.

Consider Cash Register: The Board of Health Department receives over \$ 90,000 in departmental receipts annually. We recommended the Town consider obtaining a simple cash register system to help control receipts and simplify the daily cash out process.

Town's Response:

The Board of Health was given this comment last year. We are investigating other options so that individual departments do not handle cash.

CURRENT YEAR RECOMMENDATIONS:

3. Implement Regular Departmental Internal Audits

Currently the Town does not perform regular departmental internal audits. Internal audits compliment the annual independent audit and provide important oversight over departmental accounting records throughout the year. Specific internal audit steps should include, but not be limited to:

- Departmental cash receipt monitoring
- Grant activity allowability
- Compliance with applicable Town policies and procedures
- Petty cash handling

We recommend the Town's Accounting Office establish a schedule for periodic internal audits of the Town's departmental accounting records. This will result in improved oversight and should reduce the risk of errors or irregularities occurring and going undetected.

Town's Response:

It is agreed that internal audits could be beneficial both for assisting the departments in reconciling and to prevent fraud. We are working to streamline information provided by or managed by departments outside of the Accounting office to better allocate Accounting staff's time to allow for such. The departments are given monthly budget reports and quarterly revenue reports which we help them to reconcile and the Accounting office requires a budget reconciliation form to be signed off by each department every month. Periodically the balance in all special revenue accounts is reconciled with the department and we are working to improve that. When time permits, a procedure will be developed for the audits and then a schedule can be implemented.

4. Other Current Year Recommendations

During our fiscal 2010 audit we identified recommendations for improvement in various departments which are summarized below. We will be available to discuss these in further detail with the Town.

<u>Department</u>	<u>Issue</u>
Board of Selectmen -	Incoming receipts should be secured in a locked box or file. A formal "change fund" should be established to provide funds to make change for customers (similar to a petty cash fund).
Town Clerk -	Nontypical/miscellaneous receipts should be recorded in a receipt log similar to other receipt logs currently maintained by the Clerk. All receipt logs should document whether the receipt was in the form of currency or check.
Tax Collector -	Support should be retained to document all cash reconciling items such as NSF checks.

<u>Department</u>	<u>Issue</u>
Assessor -	Abatement forms should be consecutively numbered to provide an improved audit trail to aid in the receivable reconciliation process. Tax commitment forms should be reconciled to actual billing report totals to ensure consistency and accuracy.
Treasurer -	All departments should be reminded to use new pre-coded departmental receipt turnover forms to streamline receipt processing.
Accountant -	Establish policies and procedures to reconcile withholding liability accounts on a monthly basis.
Accountant/Collector -	Establish policies and procedures to record betterment payoffs consistently, accurately and timely.

Town's Response:

Board of Selectmen will address the issue of locking up receipts for security purposes.

Town Clerk – The Accounting office will work with the Clerk in instituting a log for miscellaneous receipts.

Tax Collector – The Accountant will work the Collector to make sure there is support for reconciling items. The Treasurer keeps a record of all the NSF checks and verifies they are recorded through their cash receipts.

Assessors-Abatements are done through MUNIS. The program numbers the abatements consecutively so this is not an issue. The tax commitments at times differ from the commitment book which we are working to address, but will need assistance from management in resolving this issue.

Treasurer – Most departments are coding their turnover sheets. We need to develop a standardized system for coding – Treasurer codes or account numbers.

Accountant – The Accountant and Treasurer’s office staff are working to reconcile the health and life insurance withholding accounts with the assistance of the auditors. We hope to have everything in place by the end of the fiscal year.

Accountant/Collector – The Collector has a procedure but it needs to be improved as it does not address some of the items the Accountant has requested.