



TOWN OF CONCORD, MASSACHUSETTS

Management Letter
For the Year Ended June 30, 2020

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To the Select Board
Town of Concord, Massachusetts

In planning and performing our audit of the basic financial statements of the Town of Concord, Massachusetts (the Town) as of and for the year ended June 30, 2020, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, 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 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. A reasonable possibility exists when the likelihood of an event occurring is either reasonably possible or probable as defined as follows:

- *Reasonably possible.* The chance of the future event or events occurring is more than remote but less than likely.
- *Probable.* The future event or events are likely to occur.

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.

Merrimack, New Hampshire
Andover, Massachusetts
Greenfield, Massachusetts
Ellsworth, Maine



The Town's written responses to our comments and suggestions have not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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

Andover, Massachusetts
January 27, 2021



CURRENT YEAR RECOMMENDATIONS:

1. Improve Year-end Cut-off Procedures

Our testing of year-end cut off procedures disclosed two capital project related invoices (non-budgetary accounts) for goods provided in fiscal year 2020 that were instead charged to the subsequent fiscal period. Without a comprehensive cut-off of all invoices (capital and operating) an understatement of capital assets, liabilities, and expenditures can occur.

We recommend that the Town apply its general fund year-end cut-off procedures to all funds, not simply budgetary basis funds.

Town's Response:

We agree with this recommendation and going forward will apply the general fund year-end cut-off procedures to all funds, including the two- (2) capital projects funds (funds 3 and 30).

2. Prepare for GASB Statements 84 and 87

Governmental Accounting Standards Board (GASB) Statement 84 and Statement 87 are applicable to the Town in fiscal year 2021 and 2022 respectively. Statement 84 will require changes in how the Town accounts and reports certain activities. Specifically, the Town has various Agency Funds that need to be reclassified as Custodial or Special Revenue Funds and may necessitate the need for additions and deductions (revenue and expenditure) accounts under the new Standard. Statement 87 addresses Lease accounting.

We recommend that the Town prepare for these accounting changes by reviewing the Statement 84 Implementation Guide published by the GASB to determine if reclassification of funds is needed and modify the chart of accounts as required. We also recommend that the Town perform a comprehensive review of all leases (lease and lessor) to ensure implementation is ready for fiscal year 2022.

Town's Response:

We understand the importance of being prepared to implement any and all GASB Statements, including #84 and #87. As we have done in the past, we will also be prepared to implement these new requirements at the appropriate intervals.

PRIOR YEAR RECOMMENDATIONS:

Our prior Management Letter included recommendations that the Town had planned to implement in the spring or summer of 2020. Implementation was deferred with the focus being on the administration of COVID-19. We recommend that the Town establish timelines to complete implementation of the following prior recommendations that have been updated through June 30, 2020.

3. Align the Encumbrance Policy and Practice

The Town's policy regarding carrying forward unspent appropriations at year-end states that the encumbrance shall be for a "specific purpose at some later date". The Town's practice is not aligned with the current policy as the practice has been to encumber certain funds without a specific vendor or purpose. Over time, these unspecified amounts have grown to over \$1m.

We recommend that the Town review the encumbrance procedures and ensure that the policy and practice are aligned. We understand that the Town is aware of the inconsistency noted above and is in the process of implementing corrective action, which will likely take multiple fiscal years to phase in. We will consider this matter resolved if in subsequent years adherence to the policy is maintained.

Town's Response:

As we stated last year, we fully agree that practice should match policy, but the issue with practice and policy being out of sync has occurred over a long period of time and we have worked diligently over the past several years to align both, though our efforts were somewhat hampered due to the pandemic. Nevertheless, in FY20, we were able to reduce our placeholder encumbrances by approximately one third. We expect this trend to continue in the coming years.

4. Improve Reconciliation of Utility Receivables

The Town implemented a new utility billing system in the Spring of 2019. The process of bringing the existing accounts receivable balances to the new system resulted in variances with amounts from the prior system. In addition, the new system does not consistently cut off at month end making the reconciliation process cumbersome. Finally, billing registers and adjustments are not sent to the Finance Department for inclusion in the general ledger increasing the complexity of the reconciliations. At June 30, 2020 the variances (approximately \$83k and \$180k for Sewer and Water, respectively) remained unresolved and have continued into fiscal year 2021.

We recommend that the Town continue to work with the software provider to resolve the issues noted and develop formal (documented) reconciliation procedures. The

benefits of the reconciliation process are: (1) to provide a means of identifying recurring differences in the way transactions are processed within the accounting system(s), and (2) to ensure that financial statement balances (general ledger) are supported by detail accounts maintained separately.

Town's Response:

The Town acknowledges the need to improve reconciliation of utility receivables. During the upcoming year, we will work towards implementing the noted recommendations, including developing formal documented reconciliation procedures in order to identify and track variances between NISC and ADMINs to ensure information is accurately reflected in the general ledger.

5. Analyze Withholding Accounts

The Town's general ledger contains certain payroll withholding accounts with credit balances that appear to be growing rather than zeroing out. Another account has a debit balance that is essentially unchanged from the prior year.

We continue to recommend that the Town analyze all withholding balances to ensure their accuracy and, if necessary, adjust the general ledger balances accordingly. We further recommend that all withholding accounts be reconciled monthly to the applicable governmental regulations (FICA, Medicare, etc.) and health insurance contracts.

Town's Response:

The Town has formulated a strategy to address the debits and credits in the payroll withholding accounts related to group insurance, specifically life and long-term disability. We have worked with our vendor to transition the Town from a long-standing "self-billing" process to a new "roster billing" process monthly. The roster bill approach will facilitate a full monthly reconciliation of individual benefit enrollments with the corresponding payroll withholdings for individuals included on Town, Concord Public Schools, Concord Retirement System, and Massachusetts Teachers' Retirement System payrolls. We had hoped to implement the roster bill as of February 1, 2020, but have not yet been able to do so due to issues with the vendor. We are prepared to take this up with the vendor and hope to be successful in our efforts on or before June 30, 2021.

Once we transition to list bill, the Town will employ a monthly analysis and reconciliation process of all payroll withholding accounts and individual enrollments. The enhanced technique will ensure superior accuracy and identify monthly variances attributed to the timing of withholdings to billing and payments that will be readily available to account for inconsistencies. Upon our first full reconciliation utilizing the roster bill, we will prepare the necessary journal entries to adjust to the general ledger balances, as appropriate. Going forward, we are confident that this new approach will yield the utmost accuracy.