

**TOWN OF WARWICK, MASSACHUSETTS**  
**MANAGEMENT LETTER**  
**FOR THE YEAR ENDED JUNE 30, 2012**

**TOWN OF WARWICK, MASSACHUSETTS**

**Management Letter**

**Year Ended June 30, 2012**

	<u>Page</u>
<b>TABLE OF CONTENTS</b> .....	2
<b>INTRODUCTORY LETTER</b> .....	3
<b>CURRENT YEAR COMMENTS AND RECOMMENDATIONS – Other Matters</b>	
1. Establish Broadband Accounts Receivable on General Ledger.....	4
2. Obtain Yearly Accounting Report for Emergency Preparedness Zone	
Funds from Fire Association .....	4
3. Capital Assets .....	4
4. Transfer of Funds in Bank Accounts.....	5
5. Unrealized Gains and Losses on Investments.....	5
6. Timely Submission of Receipts to the Treasurer .....	6
7. Surety Bonds .....	6

To the Selectboard  
Town of Warwick  
Warwick, Massachusetts

Dear Members of the Board:

In planning and performing our audit of the basic financial statements of the Town of Warwick as of and for the year ended June 30, 2012, in accordance with auditing standards generally accepted in the United States of America, we considered the Town of Warwick's internal accounting control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the basic 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 significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charges with governance.

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 over financial reporting was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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, during our audit, we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. We have already discussed these comments and suggestions with Town personnel. We will be pleased to discuss them in further detail and to assist you in implementing the recommendations.

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

*Scanlon & Associates, LLC*  
Scanlon & Associates, LLC  
South Deerfield, Massachusetts

January 7, 2013

## **CURRENT YEAR COMMENTS AND RECOMMENDATIONS – Other Matters**

### **1. Establish Broadband Accounts Receivable on General Ledger**

*Comment:*

The Town in fiscal year 2010 established a Broadband enterprise fund to account for operations to provide high speed internet access to Town facilities and residents. The Town has not established an accounts receivable on the general ledger. During our audit we applied alternate testing to verify the accounts receivable activity. Furthermore we noted that there is a lack of segregation of duties as the billing, collection and accounts subsidiary records are maintained by one individual, which is common in smaller governments.

We recommend that an accounts receivable be establish on the general ledger and reconciled to the accounts subsidiary ledger on a periodic basis. This will establish a compensating control for the lack of segregation of duties.

### **2. Obtain Yearly Accounting Report for Emergency Preparedness Zone funds from Fire Association**

*Comment:*

During our audit we noted that the Emergency Preparedness Zone monies (Vermont Yankee) were being turned over to the Warwick Firemen's Association as voted by the Selectboard on August 25, 2008. We recommend that the Town receive a yearly accounting report of these monies from the association.

### **3. Capital Assets**

*Comment:*

GASB No. 34 requires that capital assets be on the financial statements for tier 3 governments starting in fiscal year 2004. The Town in previous audits had compiled a list of capital assets and was in compliance with GASB No. 34. During our audit we tested the capital assets and found that the Town did not keep adequate records with regard to additions, deletions and depreciation.

We recommend that the Town adopt a procedure to records additions and deletions to its capital assets. Having a procedure in place will insure that all capital assets are being accounted for under the financial reporting model of GASB # 34.

#### **4. Transfer of Funds in Bank Accounts**

Comment:

As a result of the Town having various special accounts that earn interest (i.e. trust funds and enterprise funds), actual cash transfers are necessary between accounts, for such items as Town meeting votes or actual expenditures that are paid out of the general cash but not paid out of the specific bank account. By not transferring funds, this causes accounting problems and also results in the specific funds not receiving the correct amount of interest.

During our audit we noted that bank account transfers were not made on a timely basis in fiscal year 2012. The Town had a change in personnel for the Treasurer's position in July 2012. The bank transfers were reconciled and completed in fiscal year 2013 when the new Treasurer's took over. We feel that the lack of timely bank transfers was an isolated incident in fiscal year 2012 and not a common practice. However, we would recommend that this area be monitored by Town management to insure that transfers are made timely.

#### **5. Unrealized Gains and Losses on Investments**

Comment:

One of the requirements of GASB Statement Number 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, is that governmental entities record their investments at their fair value as opposed to their historical cost. While GASB Statement Number 31 is a governmental accounting requirement, some municipalities in Massachusetts continue to record their investments at their historical carrying value for their free cash/internal financial statements and an adjustment is made to record the market value in the audited financial statements.

In July 2010, the Department of Revenue (DOR) issued a letter to all Massachusetts municipalities setting forth the DOR's requirements for the certification of free cash and the presentation of financial information. This letter clearly indicated that investment funds must be reported at fair value in accordance with GASB Number 31.

Currently the Town records its investments at historical cost and not at market value.

We recommend that at each year end, at a minimum, the Town analyze the difference between the recorded value of its investments and the fair value of its investments as reported by the financial institutions managing these investments. The difference between the recorded value in the Town's accounting system and the reported fair value should be recorded as an unrealized gain or loss in the Town's accounting records.

## **6. Timely Submission of Receipts to the Treasurer**

Comment:

Our review of the receipts into the Town treasury indicated that the some receipts are not being made on a timely manner. During our review we found several instances where receipts were held in excess of 30 days.

We recommended that all departments submit their receipts to the Town Treasurer on a timely basis.

## **7. Surety Bonds**

Comment:

During our audit fieldwork we found that the current Treasurer did not have a surety bond. We communicated this to management and subsequent to our fieldwork the Treasurer obtained a surety bond.

We recommend a log be kept in a centralized place (Town Clerk or Town Administrator) to track all surety bonds on town personnel. In this way it will insure that all proper employees have a surety bond and the amount is appropriate.