

TOWN OF MARBLEHEAD, MASSACHUSETTS

MANAGEMENT LETTER

JUNE 30, 2019



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To the Honorable Board of Selectmen
Town of Marblehead, Massachusetts

In planning and performing our audit of the financial statements of the Town of Marblehead, Massachusetts, as of and for the year ended June 30, 2019, in accordance with auditing standards generally accepted in the United States of America, we considered the Town of Marblehead, Massachusetts' internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified.

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. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

However, during our audit we became aware of several matters which we believe represent opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions concerning other matters.

We will review the status of this comment during our next audit engagement. We have already discussed this comment and suggestions with various Town personnel and will be pleased to discuss it in further detail at your convenience, to perform any additional study of the matter, or to assist you in implementing the recommendations.

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

Powers & Sullivan LLC

December 19, 2019

TOWN OF MARBLEHEAD, MASSACHUSETTS

MANAGEMENT LETTER

JUNE 30, 2019

TABLE OF CONTENTS

Current Year Comment.....1

 Cash Reconciliations2

Prior Year Comment.....3

 Prior Material Weakness - Special Education Tuition Bills4

Current Year Comment

Cash Reconciliations

Current Year Comment

The Town's bank accounts were not all reconciled from the bank balances to the Treasurer's Cashbook during fiscal year 2019. The Treasurer's Cashbook was maintained in 2 separate Excel spreadsheets that contained formula errors providing inaccurate information and over complicating the reconciliation process. Subsequent to year end, during the audit, most accounts have been reconciled and the unknown variance is approximately \$39,000, which the Town is continuing to investigate. The Town does not have a process to document the reconciliation of balances from the banks to the Treasurer's Cashbook and to the general ledger. Had there been a process for documenting and approving the monthly cash reconciliations, the absence of account reconciliations would have been detected earlier in the year.

Both the Treasurer and the Town Accountant play a key role in developing and monitoring a sound internal control structure. The Treasurer is responsible for establishing and maintain procedures to 1) properly safeguard the Town's cash and investments and 2) assure that all receipts and disbursements are reported accurately and timely. The Town Account is responsible for establishing and maintaining procedures to assure that all Town receipts and disbursements are properly authorized and recorded in the general ledger accurately and timely.

One of the most effective controls to detect and correct errors in a timely manner is a timely process of reconciling bank balances to the Treasurer's Cashbook and then reconciling those reconciled Treasurer's Cashbook balances to the Town's General Ledger. Performing these monthly reconciliations helps to ensure that errors are detected and corrected timely and that the Town's records are complete and accurate.

Recommendation

We recommend the Town implement a month-end checklist that is used to verify that all required reconciliation procedures have been completed and reviewed on a timely basis. As part of this process, there should be a review of the outstanding items between the bank balances and the Treasurer's Cashbook to ensure that transfers are recorded timely and that the differences are limited to timing differences such as outstanding checks and deposits in transit. In the event that the reconciliations are not completed, there should be a process to notify the Town's Finance Director. We also recommend the Town evaluate the use of two separate Excel spreadsheets to maintain the Treasurer's Cashbook. Although Excel can be used to maintain a Cashbook, it requires a significant amount of manual input and if formulas are overwritten or amounts are entered incorrectly, it can be time consuming to identify and correct errors. For fiscal year 2020, the Town has begun to use the Cashook available through the SoftRight system. This Cashbook is integrated with the Town's general ledger and will likely simplify the recordkeeping and reconciliation process.

Prior Year Comment

Prior Material Weakness - Special Education Tuition Bills

Prior Year Comment

In the prior year, we noted that School management intentionally withheld submitting \$592,783 in special education tuition invoices during Fiscal 2018 with the intent to charge the expenditures to Fiscal 2019, even though they knew they were Fiscal 2018 expenditures. This was an intentional violation of the compliance with Massachusetts General Law Chapter 44, Section 31. School management was aware that they can only incur expenditures up to their lawfully approved budget. Massachusetts finance laws and regulations have a process to approve any prior year bills through a Town Meeting vote. This process should have been done for the entire \$592,783.

Current Status

In 2019, the Town followed the Bureau of Accounts recommendation and voted to approve the payment of these prior year bills at Town Meeting. During fiscal year 2019 the Town and School have also implemented procedures to strengthen controls to provide reasonable assurances that expenditures are properly reported in the Town's financial records in the proper periods and that School operated within their appropriated budget.