

TOWN OF MARBLEHEAD, MASSACHUSETTS

MANAGEMENT LETTER

JUNE 30, 2020

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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, 2020, 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

March 15, 2021

TOWN OF MARBLEHEAD, MASSACHUSETTS

MANAGEMENT LETTER

JUNE 30, 2020

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Accounts Receivable Reconciliations

Current Year Comment

An integral part of ensuring that the financial statements are accurate and complete is ensuring that all amounts recorded to the Town's balance sheet are properly reconciled and supported with underlying source documentation.

As of June 30, 2020, several accounts receivable balances contained variances between the amounts recorded on the Town's general ledger and amounts that the Treasurer/Collector maintained as accounts receivable supporting detail. In one instance, the Town inadvertently posted a commitment for personal property taxes twice on the general ledger resulting in the Town's personal property receivable to overstated by approximately by \$395,000, this error was not identified and corrected until the Town's audit was being conducted. Had regular accounts receivable reconciliations been done throughout the year, these types of errors would have been corrected as part of the reconciliation process. Without timely reconciliations, the Town is at risk of relying on and reporting inaccurate balances in the general ledger, in the financial statements and in the accounts of individual taxpayers.

Recommendation

We recommend that the Town reconcile the accounts receivables balances between the general ledger and the Treasurer/Collector on a monthly basis and correct any errors or discrepancies discovered through this process in a timely manner. In addition, the Town should have the reconciliation reviewed by the Finance Director to ensure that reconciliation is accurate and any changes to the general ledger as a result of this process are properly authorized.

Document Key Administrative and Financial Functions

Current Year Comment

Over the past year, due to the turnover of critical personnel in the Town's finance positions, it became apparent that there are limited written policies and procedures for the key administrative and financial functions of the Town. Because there is a limited number of staff supporting key positions, a formal document that identifies and documents key areas of administration and operations would reduce the risk to the Town in the event that personnel have extended absences or leave the Town's employment. We recommend that the Town document all key managerial and financial functions that include, among other items, 1) daily, monthly, and yearly work processes and specific procedures; and 2) other specific information relative to the function being documented.

Recommendation

We recommend that the Town document all the daily, monthly and yearly key administrative and financial functions of the Town's financial departments.

Prior Year Comment

Cash Reconciliations

Prior Year Comment

The Town's bank accounts were not all reconciled from the bank balances to the Treasurer's Cashbook during fiscal year 2019 and again in fiscal year 2020. In fiscal year 2020, the Town converted the Treasurer's cashbook from Excel Spreadsheets to the SoftRight system to help facilitate the reconciling of the Town's cash balances but was still unable to reconcile the cash activity and balances between the Treasurer's cashbook and the banks and between the Treasurer's cashbook and the general ledger, in a timely manner and without the help of outside consultants.

The Town does not have any formal documentation of the procedures necessary to reconcile the cash balances. Turnovers in staff and a lack of documented procedures have increased the difficulties in this process. The Town also maintains over 150 individual bank accounts. This number of accounts is unnecessary and further impedes the reconciliation process.

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.

Current Status - Unresolved

The Town was unable to reconcile any of the cash balances during fiscal year 2020. Reconciliations all occurred subsequent to year end with the assistance of outside consultants. We continue to 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.