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February 21, 2020

Board of Selectmen
Town of Topsfield
Eight West Common
Topsfield, MA 01983

Dear Members of the Board:

In planning and performing our audit of the financial statements of the Town of Topsfield, 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 Topsfield, Massachusetts' internal 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 of Topsfield, Massachusetts' internal control. Accordingly, we do not express an opinion on the effectiveness of the Town of Topsfield, Massachusetts' 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 significant deficiencies or material weaknesses and therefore there can be no assurance that all such deficiencies have been 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 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 do not consider the following matters to be significant deficiencies or material weaknesses. However, they are matters we want to communicate to you.

Water Accounts Receivable

The Water Department is responsible for the water billing process and maintaining the receivable balances in the customers' accounts. When the billing is complete, a commitment is sent by the Water Department to the Town Accountant and the Treasurer-Collector. The Treasurer-Collector is responsible for receiving water payments (i.e. from lockbox, over the counter...). When payments are received by the Treasurer-Collector, a list of payors is provided to the Water Department. The Water Department records the payments in the customers, accounts.

The Water Department maintains an Excel "control sheet" that summarizes the daily activity of the water receivable, including Commitments, Payments, Refunds, Abatements and Balance Due. Each month the control sheet is sent to the Town Accountant and is, typically, reconciled to the Town Accountant's general ledger account. The Water Department reconciles the control sheet to the detailed outstanding list. At June 30, 2019, the control sheet varied from the Town Accountant's general ledger account and the Water Department's detailed outstanding list.

Currently, the Town Accountant only receives the Water Department's control sheet each month. The Town Accountant utilizes the control sheet to reconcile to the general ledger. We recommend that the Water Department include a pdf file of the detailed outstanding list along with the control sheet provided to the Town Accountant each month. The Town Accountant should verify that the control sheet and the detailed outstanding list agree.

Management's Response:

A full analysis of the water receivables has been completed by the Town Accountant. The discrepancy resulted from refunds that were issued and paid from the receivable account as opposed to the revenue accounts where the funds were originally deposited. In addition to the "Control Sheet" with the Board's Signatures, the Water Department will also provide a printout of the Accounts Receivable Summary Sheet each month to the Town Treasurer and Town Accountant. A spreadsheet has been created and will be used to reconcile the Accounts Receivable Summary Sheet, "Control" Sheet and General Ledger on a monthly basis.

Health Insurance Payment

The Town has historically paid twelve health insurance bills in a fiscal year. We noted that even though twelve health insurance bills were paid in fiscal year 2019, the bill for the month of June of 2019 was paid in fiscal year 2020. It has, apparently, been the Town's policy for a number of years to ensure that twelve health insurance bills were paid each year. As long as that was true, the date of service was not considered.

We believe that any bill for services rendered within a fiscal year should be charged to that year's budget. This can be done by encumbering an amount for the bill if it is not received timely.

We recommend that the Town pay from or encumber the current year's budget for all good or services provided within the current fiscal year.

Management's Response:

The Town's health insurance billing period generally is the first of the month to the last day of the month. In fiscal year 2020, the Town will pay 13 bills to include the last bill for the period of June 1 through June 30. If funds are not readily available in the existing budget, the Town will include as part of the year end appropriation transfers or through Special Town Meeting for fiscal year 2020.

Bills or Warrants for Payment

It is often difficult, particularly in summer months, to get a majority of the Board Members' approval for a warrant. In recognizing this fact, the Massachusetts Legislature enacted legislation that will allow Boards to delegate this responsibility to one member of the Board.

Massachusetts General Laws c.41, §56 allows multiple-member bodies, to delegate to a single member authority to review and approve bills and warrants for payment, and further requires such member to make available at the next meeting a record of all action taken. The Division of Local Services has indicated that it is also possible to designate a "back up" for this purpose. A Board's vote to make such a designation may take a form similar to the following:

I move that [name of board member], and if (s)he is unavailable or unable, [name of back up board member], be designated to approve all bills, drafts, orders and payrolls not otherwise presented for approval at a posted meeting to the full Board; provided, however, that if such bills, drafts, orders and payrolls are approved by [name of board member] or [name of back up board member], each shall make available to the Board, at the first meeting following such action, a record of such actions, and further, to ask [name of board chair and/or staff person] to include on the notice for each meeting of the Board an item for such purposes.

Whether one member of the Board or all members of the Board sign the warrant, it is important to remember that the **Board of Selectmen's review of the invoices and approval of the warrants is an important element in the internal control structure of the Town.** The signing member(s) review should not rely on the signature or approval of any other individual within the internal control environment. The member(s) review should include verification that a properly authorized invoice supports each payment on a warrant.

Management's Response:

The Town Treasurer cannot issue a check unless the Board of Selectmen signs the warrants of authorization. This affects the Town's payroll as well as payments to all other vendors. This is an important role in overseeing the operation of the Town and completing the circle of checks and balances. Checks and balances are installed as a measure to prevent and detect fraud. It also ensures that no one person has control over all parts of the financial transaction throughout the process.

The Town will initiate a policy that a thorough review of the vendor and payroll warrant is encouraged at each level where signatory authority is enacted. Specifically, for the Board of Selectmen, the complete warrant and all the backup documentation (e.g. computer-generated reports, timesheets and/or invoices) will be presented with the warrants when signature is requested. Furthermore, the Board of Selectmen will regularly review the Vendor and Payroll Warrants that have been signed by the Board's Authorized Signatory as part of their meeting agenda.

Status of Prior Year's Findings

Capital Assets

The Town Accountant maintains an Excel spreadsheet to account for the Town's capital assets and the related depreciation. At the end of the year, the Town Accountant reviews the capital related expenditure accounts and updates the spreadsheet for new acquisitions. Assets traded in or otherwise taken out of service are removed from the capital asset list.

The capital asset listing is an important piece of the Town's financial information and is utilized in preparing the Town's audited financial statements. In order to provide assurance that all new assets have been capitalized (added to the spreadsheet) and that all assets no longer in service have been removed from the capital asset list, we recommend that the Town Accountant send Department Heads an updated list of the capital assets under control of their departments. The Department Heads should review their list, note any updates, initial the list and send it back to the Town Accountant.

Current Status

In fiscal year 2019, the Town Accountant requested Department heads to review the existing lists of capital assets under their department. Additions and deletions were updated on the Capital Assets Schedule. This process will be repeated annually in March to ensure that the Capital Assets lists is updated regularly. Additionally, the Town is working with the Board of Selectmen's office, where the vehicle fleet schedule is maintained, with the goal of ensuring that both lists are aligned.

Landfill Post-Closure Liability

When the Town closed the landfill there were substantial closure costs. The Environmental Protection Agency (EPA) has post-closure regulations related to the closed landfill. The EPA regulations require that *"These sites must monitor and maintain liners, final covers, leachate collection and removal systems, leak detection systems, and gas collection systems to protect the surrounding environment and population from releases of hazardous constituents. The standard post-closure care period is 30 years, but this can be shortened or extended on a case-by-case basis by the permitting authority"*. The Town has fulfilled its requirements under the regulations to date and has a contract to continue to do so for fiscal year 2019.

As of June 30, 2018, the Town has approximately twelve years remaining in the standard thirty year post-closure care period. The Town's audited financial statements include a liability for the estimated remaining amount that will be paid during the remaining post-closure period. The liability estimate was made by an engineering firm approximately six years ago.

We recommend that the Town ask its current engineering firm to update the estimate for the remaining years of the post-closure period. An updated estimate will assure that the Town's Statement of Net Position more accurately presents the liability related to landfill post-closure costs.

Current Status

The Town is currently 20 years into a 30-year agreement with DEP for Landfill Monitoring. Tentatively, 30 years is the length of time that the Town is required to monitor the landfill. However, the Town would be obligated until the DEP approves such an end date.

In fiscal year 2020 and fiscal year 2021, the expected cost for Landfill Monitoring is estimated at \$38,700 and \$46,200, respectively. The Town has recently submitted 2 contracts to the DEP for approval. The first would reduce gas monitoring from quarterly to semi-annually and reduce 3rd party inspection from annual to semi-annual. The cost savings of this contract would result in savings of \$70,000 over the next 10 years. The second contract would replace the gas vent flare with a passive vent which spins to let air out. If approved, this could result in a savings of over \$100,000 over the next 10 years.

The timeline for a response from DEP could be up to 6 months. Once the Town receives a response, the Town will meet with Weston & Sampson to conduct a new cost analysis of the project.

Ambulance Services

The Town provides ambulance services through its Fire Department. Billings for the ambulance services are prepared and maintained by a third-party vendor. The Fire Chief provides the Town's oversight over the third-party billing/collection/receivable process by reviewing the monthly billing/collection/receivable reports provided by the third-party contractor.

Currently, the Town reports the ambulance revenues as a departmental receipt (similar to licenses and permits). The general ledger does not include an ambulance receivable account.

Maintaining a general ledger account receivable account for revenue sources that have a billing process can enhance the internal control over the related accounts receivable.

We recommend that the Town establish and maintain a general ledger accounts receivable account for the ambulance services. The monthly billing and the billing adjustments/write-off transactions should be recorded in the general ledger from the monthly reports provided by the third party. The Fire Chief should sign off on the billing adjustments/write-offs to indicate that they are in accordance with the Town's policies. The cash receipts should be recorded through the cash receipts cycle. The general ledger balance should be reconciled with the detailed outstanding list monthly.

Current Status

In fiscal year 2019, the Town has contacted the current billing company and has set up a system for monthly reports to be provided to the Town Accountant. The Town has also drafted an Ambulance Service Collection Policy which will be presented to the Board of Selectmen for approval. Upon approval, the general ledger accounts receivable accounts will be implemented for the ambulance service.

Uniform Guidance

On December 26, 2013, OMB published its comprehensive overhaul of federal grant administrative, cost accounting, and audit policies in the Federal Register. This final guidance, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), supersedes and combines the requirements of eight existing OMB Circulars (A-21, A-50, A-87, A-89, A-102, A-110, A-122 and A-133). The Uniform Guidance significantly reforms federal grant making to focus resources on improving performance and outcomes with the intent to reduce administrative burdens for grant applicants and recipients and reduce the risk of waste, fraud, and abuse.

The Uniform Guidance is a substantial document that addresses (among many other topics) cost principles, internal controls, procurement requirements and audit requirements. The Uniform Guidance is effective December 26, 2014. New and incrementally-funded awards issued on or after December 26, 2014 will be subject to the Uniform Guidance. Audit Requirements will apply to audits of fiscal years beginning on or after December 26, 2014 (i.e. fiscal year 2016).

One of the primary focuses of the new Uniform Guidance (as it relates to grantees) is internal controls over federal grants. The meaning of “must” and “should” as they are used throughout the Uniform Guidance is clarified. “Must” is not optional, “should” is recommended.

Section 200.303 of the Uniform Guidance addresses internal controls and states:

The non-Federal entity (i.e. the Town) **must**:

- (a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls **should** be in compliance with guidance in “Standards for Internal Control in the Federal Government” issued by the Comptroller General of the United States and the “Internal Control Integrated Framework”, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).
- (b) Comply with Federal statutes, regulations, and the terms and conditions of the Federal awards.
- (c) Evaluate and monitor the non-Federal entity’s compliance with statute, regulations and the terms and conditions of Federal awards.
- (d) Take prompt action when instances of noncompliance are identified including noncompliance identified in audit findings.
- (e) Take reasonable measures to safeguard protected personally identifiable information and other information the Federal awarding agency or pass through entity designates as sensitive or the non-Federal entity considers sensitive consistent with applicable Federal, state and local laws regarding privacy and obligations of confidentiality.

The “Internal Control Integrated Framework” issued by the COSO commission identifies five components of internal control that they believe should be considered in every system of internal control.

The five components are:

- (1) **Control Environment** - The “tone at the top” should promote and expect ethical behavior.
- (2) **Risk Assessment** - Consider what could go wrong and what the impact is.
- (3) **Control Activities** - What controls have we established – reconciling, approvals, oversight...
- (4) **Communication and Information** - Is pertinent information captured, identified and communicated on a timely basis? Are records and information systems sufficient to provide reliable reporting and to demonstrate compliance with the federal award?
- (5) **Monitoring** - Are the internal controls operating as intended? Have controls become outdated or obsolete? Monitoring occurs in the course of everyday operations; it includes regular management & supervisory activities and other actions personnel take in performing their duties.

The Uniform Guidance requires that the internal control policies and procedures **must be in writing**. Topics that must be addressed in the internal control procedures document relating to **procurement** include the following:

- **Must** maintain oversight to ensure contractors perform within the terms, conditions and specifications of the contracts or purchase orders
- **Must** maintain written standards of conduct covering conflict of interest with respect to employees engaged in the selection, award and administration of contracts
- **Must** maintain written standards of conduct covering organizational conflict of interest.
- **Must** avoid acquisition of unnecessary or duplicative items

The Uniform Guidance raises the threshold for the requirement of an audit performed under the Single Audit Act to \$750,000 of federal expenditures in a fiscal year. Although the Town may not fall under the requirements of the Single Audit Act in the near future, we recommend that the Town become familiar with the new requirements of the Uniform Guidance and develop written internal control policies and procedures in order to comply with the Guidance.

Current Status

The previous Town Administrator was working on developing a policy relating to effective internal control over Federal awards. After a 7-month engagement with an Interim Town Administrator, the Town has hired a new Town Administrator who is currently working to finish the process of developing this policy and procedure and to have it adopted and implemented by the Town. The goal is that this will be implemented within the next year.

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The Town of Topsfield, Massachusetts’ written responses to the issues identified in our audit has not been subjected to the audit procedures applied in the audit of the financial statements and, accordingly, we express not opinion on it.

This communication is intended solely for the information and use of management, and those charged with governance and others within the organization and is not intended to be and should not be used by anyone other than those specified parties.

After you have had an opportunity to consider our findings and recommendations, we shall be pleased to discuss them further with you. We would like to thank you for the cooperation and courtesy extended to us during the course of the engagement.

Sincerely,

Giusti, Hingston and Company

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Certified Public Accountants