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March 26, 2021

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, 2020, 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.

**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 reformed 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 was effective December 26, 2014.

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

A municipality must have an audit conducted under the standards of the Single Audit Act when they have \$750,000 of federal expenditures in a fiscal year. In recent years, the Town has not been required to have an audit under the requirements of the Single Audit Act because the federal expenditure threshold has not been met. However, the recent influx of federal funds from the various stimulus grants may cause the Town to have expenditures that exceed the threshold for requiring an audit that falls under the requirements of the Single Audit Act.

We recommend that the Town become familiar with the requirements of the Uniform Guidance and develop **written internal control policies and procedures** in order to comply with the Guidance.

We have provided the Town with an example that can be used as a resource when preparing the internal control document.

### **Unclaimed Checks**

The Town has a few outstanding vendor checks that date back several years. Although the checks are not material in amount, it is important to have policies and procedures to clear the old checks from the outstanding check lists. Some of the outstanding vendor checks may be payable to active vendors. Therefore, it is possible that those outstanding checks were replaced by checks written on a subsequent warrant, but not voided in the accounting system. Other outstanding checks may fall under the State's abandoned property law (Massachusetts General Laws Chapter 200A Section 9A).

We recommend that the Town review the current outstanding list. The Treasurer should determine whether the outstanding checks represent an amount still due to the vendor or if they have been replaced by other checks. If the check has been replaced already, the outstanding check should be voided. If the vendor still has a valid claim, the outstanding check should be voided and replaced. When the vendor cannot be located, the procedures outlined in Massachusetts General Laws Chapter 200A Section 9A should be followed. Amendments to the law have changed the period of time that a check must be outstanding (one year provided the face of the check bears the statement "void if not cashed within 1 year from date of issue") before the abandoned property process may begin. The amended law also changed the required method for notifying the payees that checks remain unclaimed. A summary of the procedures is noted below.

1. All Town checks should include the verbiage "void if not cashed within one year from date of issue" on their face.
2. After a check has been outstanding for one year the abandoned property process should begin.

3. Annually, the Treasurer should prepare a list of checks that have been outstanding for one year (date of check, check number, payee and amount). The bank should be notified to stop payment on the checks and the checks should be removed from the Town's outstanding check list. The Treasurer's cash book should be increased by the total of the list. In addition, the Treasurer should provide the Town Accountant with a copy of the list.
4. The Town Accountant should make a journal entry (or post an electronic batch created by the Treasurer) in the general ledger to increase the cash and the unclaimed checks liability accounts.
5. The Treasurer should begin the "notification" process in accordance with M.G.L. Chapter 200A, Section 9A which states:

The treasurer of the city, town or town may post such notice **using either of the following methods:** (1) by mailing the notice by first class mail, postage prepaid, to the last known address of the beneficiary or person entitled thereto; **or** (2) if the city, town or town maintains an official website, by posting the notice conspicuously on the website for not less than 60 days. If the apparent owner fails to respond within 60 days after the mailing or posting of the notice, the treasurer shall cause a notice of the check to be published in a newspaper of general circulation, printed in English, in the county in which the city or town is located.

In the event that funds appearing to be owed to a corporation, organization, beneficiary or person is \$100 or more and the deadline as provided in the notice has passed and no claim for the funds has been made, the treasurer shall cause an additional notice to be published in a newspaper of general circulation in the county in which the city, town or town is located; provided, however, that the notice shall provide an extended deadline beyond which funds shall not be claimed and such deadline shall be at least one year from the date of publication of the notice.

After the notice/publication/waiting period requirements have been met, any checks that remain unclaimed may be closed to the general fund's unreserved fund balance account.

### **Management's Response**

Letters have been sent to vendors notifying them of the outstanding check and a partial listing of the unclaimed checks was posted on our webpage in December 2020. [https://www.topsfield-ma.gov/sites/g/files/vyhlf5086/f/uploads/uncashed\\_checks\\_list\\_12-14-20.pdf](https://www.topsfield-ma.gov/sites/g/files/vyhlf5086/f/uploads/uncashed_checks_list_12-14-20.pdf)

The remaining outstanding checks are being researched at this time and appropriate action is being implemented.

### **Status of Prior Year's Findings**

#### **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.

**Current Status**

The recommendation has been implemented.

**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.

**Current Status**

The recommendation has been implemented.

**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**

The Town established a general ledger account for the ambulance accounts receivable. Billings and adjustments to billings were recorded in the general ledger account based on reports provided by the company responsible for billing and maintaining the ambulance accounts receivable records. However, the receipts received during the year were not recorded in the general ledger account.

**Recommendation**

We recommend that the Town establish a process for recording the ambulance receipts in the ambulance accounts receivable general ledger account. The general ledger account should be reconciled each month to the monthly reports provided by the company responsible for ambulance billings and maintenance of the accounts receivable.

In addition, we recommend that the Town establish a formal process for writing off old and uncollectable ambulance receivables. The process should include preparing a list of the uncollectable amounts and a written approval by an authorized person (i.e. the Fire Chief). The write-offs should be done quarterly. The Board of Selectmen should be provided a copy of the write-off lists for informational purposes.

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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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