

TOWN OF WINCHESTER, MASSACHUSETTS

MANAGEMENT LETTER

JUNE 30, 2017



CliftonLarsonAllen

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To Management
Town of Winchester, Massachusetts

In planning and performing our audit of the financial statements of the Town of Winchester, Massachusetts (Town) as of and for the year ended June 30, 2017, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, we considered the Town's 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.

However, during our audit we became aware of matters that are opportunities to strengthen your internal control. The memorandum that accompanies this letter summarizes our comments and recommendations regarding those matters. This letter does not affect our report dated November 24, 2017, on the financial statements of the Town.

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

The Town's written responses to the matters identified in our audit have not been subjected to the audit procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

This communication is intended solely for the information and use of management, the Audit Advisory Committee, the Board of Selectmen and others within the Town, and is not intended to be, and should not be, used by anyone other than these specified parties.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Boston, MA
November 24, 2017

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Comments and Recommendations

Financial Policies and Procedures

Comment

Several years ago, the Town developed and implemented formal, written financial policies and procedures. With some exceptions, the policies and procedures have not been formally reevaluated and updated since the initial implementation.

Financial policies and procedures should be periodically evaluated and modified to:

- Verify they accurately reflect current practice
- Determine they are complete and address all aspects of the Town's financial transactions
- Reflect changes in laws, regulations, technology, operations, etc.

Recommendation

We recommend management collaborate with all Town departments to evaluate its existing financial policies and procedures and update them accordingly.

Management's Response

Town Management realizes the importance of maintaining current and updated policies and procedures. We will continue to work with Town Departments to ensure that what we have formally documented is relevant and includes essential financial operations.

Police Off-Duty Details

Comment

As of June 30, 2017, approximately \$119,000 of accounts receivable related to Police off-duty details were greater than two (2) years old. As also reported in the prior year Management Letter, given the aging of these accounts receivable, the majority of the balance may be uncollectable, which would require the Town to fund the Police Off-Duty Details Fund by other available funds (e.g., free cash).

Recommendation

We recommend the Town review its Police off-duty details accounts receivable and write off accounts receivable that are deemed uncollectable.

We recommend any deficit in the Police Off-Duty Detail Fund be funded with available funds.

Management's Response

The Town Manager, together with the Town Treasurer and the Chief of Police have been working toward reducing the deficit in the police detail fund. The Treasurer's Office recently completed an extensive demand billing for all outstanding detail accounts and has been successful in collecting payments on a number of older accounts. The Treasurer and Chief of Police are currently reviewing the remaining accounts to determine those to be deemed uncollectible, with the goal of requesting the funding of these outstanding receivables at Spring 2018 Town Meeting. Furthermore, the Town Manager issued a memorandum to the various parties involved in the detail process. This memorandum outlined new guidelines for the assignment, processing and collection of police details. The changes have either been implemented or are in the process of being implemented.

Risk Assessment and Monitoring

Comment

In previous years, the Town implemented the following risk assessment and monitoring policies and procedures:

- A monthly MUNIS reporting process was developed to assist department heads in managing their budgets
- All vendor procurements over \$3,000 are required to be formally approved by the Town Manager's Office
 - Effective July 1, 2015, the threshold was changed to \$10,000 to better align with Massachusetts General Laws Chapter 30B
- The Recreation Department underwent a cash procedures review by the Treasurer/Collector
- Fraud Prevention and Detection and Financial Policies and Procedures manuals were finalized

In addition:

- During fiscal years 2014 through 2017, the Town's finance team took steps to identify risk areas to focus on as part of a formal risk assessment and monitoring program
- The finance team has conducted monitoring procedures with the Recreation department to discuss updated cash handling processes and collections in general
- The finance team continues to perform vital monthly reconciliation procedures (cash, accounts receivable, etc.) to mitigate financial reporting risks

While these efforts relate to risk assessment and monitoring, continued measures must be taken to fully establish a comprehensive risk assessment and monitoring program.

The risk assessment process should consider the Town's vulnerability to misappropriation of assets. It should also address operations that involve heightened levels of risk. Once the areas vulnerable to risks have been identified, a review of the Town's systems, procedures, and existing controls related to these areas should be conducted. The Town should consider what additional controls (if any) need to be implemented to reduce risk.

After risk has been assessed, periodic monitoring of the identified risk areas must be performed in order to evaluate the controls that have been implemented to mitigate the risks. Since control-related policies and procedures tend to deteriorate over time, the monitoring process ensures that controls are fully operational and effective.

Recommendation

We recommend management develop and implement a risk assessment program to periodically anticipate, identify, analyze, and manage the risk of asset misappropriation. The risk assessment program should be formally documented and become part of the Town's written financial policies and procedures.

We recommend management develop and implement a monitoring program to periodically evaluate the operational effectiveness of internal controls. The monitoring process should be documented in order to facilitate the evaluation of controls and to identify improvements that need to be made.

Management's Response

Town Management agrees with this recommendation and it continues to be a goal to dedicate more resources to this task. The Town plans on expanding the scope of the task to include all of the internal control components to have a well-documented and implemented system of internal control. We realize that this task is a major undertaking which will require dedication of various department managers as well as the core financial team. Most importantly, to address the recommendation above, the internal control policy will include a formal documentation of how the Town anticipates, identifies, analyzes and manages the various risks each department is exposed to, including, but not limited to the risk of asset misappropriation. The internal control policy will also incorporate monitoring procedure to periodically evaluate internal control effectiveness in each department as processes, technology and other factors change.

Future Pronouncements Related to Other Post Employment Benefits (OPEB)

Comment

Several years ago, the Governmental Accounting Standards Board (GASB) issued new pronouncements related to OPEB:

- Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*
- Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*

Statement No. 75 is effective beginning in fiscal year 2018. This Statement requires the net OPEB liability to be measured as the portion of the present value of projected benefit payments (actuarially determined) to be provided to current active and inactive employees that is attributed to those employees' past periods of service, less the amount of the OPEB plan's fiduciary net position. This Statement also expands footnote disclosures and required supplementary information.

Recommendation

We recommend management continue to familiarize itself with GASB Statement No. 75 to prepare for implementation in fiscal year 2018.

Management's Response

Town Management will take the necessary measures to become familiar with GASB Statement No. 75 in preparation of its implementation in fiscal year 2018.