

TOWN OF WINCHESTER, MASSACHUSETTS
MANAGEMENT LETTER
JUNE 30, 2019



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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, 2019, 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 deficiencies in internal control (other than significant deficiencies and material weaknesses) that are opportunities to strengthen your internal control and improve the efficiency of your operations. We also want to make you aware of recently issued accounting standards that may significantly impact your financial statements in future years. The memorandum that accompanies this letter summarizes our comments and recommendations regarding those matters. This letter does not affect our report dated December 19, 2019.

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 select board 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, Massachusetts
December 19, 2019

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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 will be working with departments to make the necessary updates to the Financial Policies and Procedures manual so that we have updated, relevant documentation of essential financial operations.

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 2019, 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.

Risk Assessment and Monitoring (Continued)

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 realizes the importance of developing and implementing a formally documented risk assessment program and will work on this with the departments as time allows.

Fiduciary Activities (Informational Only)

Comment

In January of 2017, the Governmental Accounting Standards Board (GASB) issued Statement No. 84, *Fiduciary Activities*, which establishes new criteria for identifying and reporting fiduciary activities of state and local governments. The criteria generally focuses on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom the fiduciary relationship exists.

Activities meeting the criteria will be required to report (1) a statement of fiduciary net position and (2) a statement of changes in fiduciary net position in one of the following four fiduciary fund types in the basic financial statements:

1. Pension (and other employee benefit) trust funds
2. Investment trust funds
3. Private-purpose trust funds
4. Custodial funds

Furthermore, agency funds will no longer be reported and activities that do not meet the new fiduciary fund criteria will be reported as resources of the government.

Any changes in activities adopted to conform to the provisions of GASB Statement No. 84 will require a restatement of beginning net position/fund balance.

The Town's required implementation date is fiscal year 2020.

Recommendation

We recommend management familiarize itself with the requirements of GASB Statement No. 84 and prepare for its implementation.

Management's Response

Town Management will review the requirements of GASB Statement No. 84 with the auditors to prepare for its implementation.

Lease Accounting and Financial Reporting (Informational Only)

Comment

In June of 2017, the Governmental Accounting Standards Board (GASB) issued Statement No. 87, *Leases*, which establish new financial reporting requirements for governments that enter into lease contracts.

The implementation of this Statement will represent a significant change in the accounting and financial reporting of leased assets, as well as lease liabilities. The implementation of this statement requires:

- Leases previously classified as operating leases to be recognized as lease assets or lease liabilities.
- Lessees to recognize a lease liability and an intangible right-to-use lease asset.
- Lessors to recognize a lease receivable and a deferred inflow of resources.
- Expanded note disclosures.

The Town's required implementation date is fiscal year 2021.

Recommendation

We recommend management familiarize itself with the requirements of GASB Statement No. 87 and prepare for its implementation.

Management's Response

Town Management will review the requirements of GASB Statement No. 87 with the auditors to prepare for its implementation.

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