

**TOWN OF WINCHESTER, MASSACHUSETTS**

**MANAGEMENT LETTER**

**JUNE 30, 2013**



*Certified Public Accountants*

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To the Honorable Board of Selectmen  
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, 2013, 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 our auditing procedures 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 several matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and recommendations regarding those matters. This letter does not affect our report dated December 10, 2013, on the financial statements of the Town.

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 organization and should not be used by anyone other than these specified parties.

*Sullivan, Rogers & Company, LLC*

December 10, 2013

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## Comments and Recommendations

### Tax-Exempt Properties

#### Comment

During our testing and internal controls evaluation of tax-exempt properties, we identified that a State Tax Form 3ABC (Form 3ABC) could not be located for one (1) of the twenty-five (25) exempt properties tested. Form 3ABC should be kept on file for all tax-exempt properties to provide evidence supporting each property's tax-exempt status.

#### Recommendation

We recommend the Town implement policies and procedures requiring Form 3ABC be obtained and filed for all tax-exempt properties.

#### Management's Response

The Christopher Columbus Society (CC Society) did not file their form and each year the Town sends out another form with a similar request to file with the Assessor's Office. The CC Society is a very small club with little direction and management and the Town's request usually goes unnoticed. The Assessor's Office will take a more active role in securing the form and in contacting the club.

## **Recreation Department**

### Comment

As identified in prior years' Management Letters, the Recreation Department (Department) has not completed and implemented a formal financial policies and procedures manual documenting the system of internal control surrounding the Department's operations.

### Recommendation

We recommend the development and implementation of a formal financial policies and procedures manual for the operations of the Department.

### Management's Response

Town Management agrees with this recommendation and has already established a finance team to work with the Recreation Department to accomplish this important task. The Recreation Director, the Town Treasurer and the Town Comptroller have scheduled the first phase of this process which is to review, understand and document the cash receipts policies and procedures in place at the Recreation Department. Internal control efficiencies will be recommended and changes to existing informal policies and procedures may be made. Additional phases of this project include the review, understanding and documentation of other financial aspects of the Recreation Department and will be scheduled as time allows.

The Town aims to have the financial policies and procedures of the Recreation Department completed by the end of fiscal year 2014.

## Risk Assessment and Monitoring

### Comment

During fiscal year 2009, the Town implemented the following risk assessment and monitoring policies and procedures:

- A new MUNIS report was developed to assist department heads in managing their budgets
- All vendor payments over \$3,000 are required to be formally approved by the Town Manager, Assistant Town Manager and Comptroller
- The Recreation Department underwent a cash procedures review by the Treasurer/Collector
- Fraud Prevention and Detection and Financial Policies and Procedures manuals were finalized

While these policies and procedures relate to risk assessment and monitoring, more extensive measures must be taken to fully establish a comprehensive risk assessment and monitoring program.

Consistent with other Massachusetts municipalities, the Town does not have a formal risk assessment and monitoring program. The Town should periodically perform a risk assessment to anticipate, identify, analyze and manage the risk of asset misappropriation. Risk assessment (which includes fraud risk assessment), is one element of internal control.

The risk assessment should be performed by management-level employees who have extensive knowledge of the Town's operations. Ordinarily, the management-level employees would conduct interviews or lead group discussions with personnel who have knowledge of the Town's operations, its environment, and its processes. 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. When conducting the assessment, the following questions should be considered:

- What assets are susceptible to misappropriation?
- What departments receive cash receipts?
- What departments have movable inventory?
- What operations are the most complex?
- How could assets be stolen?
- Are there any known internal control weaknesses that would allow misappropriation of assets to occur and remain undetected?
- How could potential misappropriation of assets be concealed?
- What prior internal control issues could still continue to be problematic?

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 financial policies and procedures manual.

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 is in the process of establishing the appropriate financial team to develop and implement a risk assessment and monitoring program. The program 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 program will also incorporate monitoring procedures to periodically evaluate internal control effectiveness in each department as processes, technology and other factors change.