

(DATE)

Selectboard
Town of Charlotte
P.O. Box 119
Charlotte, VT 05445

We have audited the financial statements of the Town of Charlotte, Vermont as of and for the year ended June 30, 2014 and have issued our report thereon dated (DATE). We conducted our audit 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

In planning and performing our audit, we considered the Town of Charlotte, Vermont’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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of Charlotte, Vermont’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Town of Charlotte, Vermont’s 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 material weaknesses or significant deficiencies and therefore material weaknesses or significant deficiencies may exist that were not identified. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. However, as discussed as follows, we identified a certain deficiency in internal control that we consider to be a material weakness and other deficiencies that we consider to be significant deficiencies.

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 a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the Town of Charlotte, Vermont’s financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency described in the accompanying Schedule of Deficiencies in Internal Control and Other Recommendations as Item 14-1 to be a material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Deficiencies in Internal Control and Other Recommendations as Items 14-2 and 14-3 to be significant deficiencies.

We have also noted other matters during our audit as indicated in the accompanying Schedule of Deficiencies in Internal Control and Other Recommendations that are opportunities for strengthening internal control and operating efficiency. We have discussed the recommendations with the staff during the course of fieldwork and some of the recommendations may have already been implemented.

This communication is intended solely for the information and use of management, the Selectboard, and others within the Town of Charlotte, Vermont, and is not intended to be, and should not be, used by anyone other than these specified parties. If you would like to discuss any of the recommendations further, please feel free to contact us.

We would like to take this opportunity to thank the staff of the Town of Charlotte, Vermont for their assistance and cooperativeness throughout our audit. It has been a pleasure working with you.

Respectfully submitted,

SULLIVAN, POWERS & CO.
Certified Public Accountants

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SCHEDULE OF DEFICIENCIES IN INTERNAL CONTROL
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Deficiencies in Internal Control:

Material Weaknesses:

14-1 Segregation of Duties - Cash

Criteria:

An important factor in developing good internal control procedures is to divide responsibilities so that no individual can both perpetrate and conceal errors or irregularities. One of the most common division of duties is the division between the check signing and bank reconciliation functions.

Condition:

The same person that reconciles the bank statements for the Town is also a check signer. Each of those duties are considered incompatible functions for accounting control purposes.

Cause:

The limited staff available provides little opportunity to achieve an optimum separation of duties and responsibilities.

Effect:

The Town has inadvertently made its assets susceptible to misappropriation.

Recommendation:

We recommend that the Town revise their procedures to ensure that the bank reconciliation function is delegated to an individual who does not have check signing authority. Otherwise, we recommend that, at a minimum, someone other than a check signer review all bank reconciliations, cancelled checks and any debit memos.

Significant Deficiencies:

14-2 Authorization of General Journal Entries

Criteria:

Internal controls should be in place that requires appropriate officials to authorize and review all adjustments to the books of original entry.

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Condition:

The Town does not have a policy in place to require authorization or review of adjustments to the books of original entry.

Cause:

Unknown.

Effect:

This deficiency in the internal control structure could allow other working control policies to be circumvented.

Recommendation:

We recommend that the Town enact a policy that requires appropriate officials to authorize and review all general journal entries so as not to circumvent the original approval process.

14-3 Accounting and Procedures Manual

Criteria:

An accounting and procedures manual should be in place. This manual should define duties and responsibilities for current personnel so as to prevent or reduce misunderstandings, errors, inefficient or wasted effort, duplicated or omitted procedures, and other situations that can result in inaccurate or untimely accounting records. It will also help to ensure that all similar transactions or treated consistently, that accounting principles used are proper, and that records are produced in the form desired by management. A good accounting manual should aid in the training of new employees and possibly allow for delegation to other employees.

Condition:

The Town does not have an accounting and procedures manual in place.

Cause:

This has not been considered a priority as the small staff is busy recording the activity of the Town.

Effect:

The Town staff does not have a manual to turn to when questions arise about the scope of their duties and responsibilities.

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Recommendation:

We recommend that the Town develop this document for all accounting procedures as soon as possible. Each individual should document their duties and how to perform them. The manual should include examples of forms with descriptions of their use. Once developed, only changes in procedures or forms will require changes in the manual.

We believe this time will be more than offset by time saved later in training and supervising accounting personnel. Also, in the process of the comprehensive review of existing accounting procedures for the purpose of developing the manual, management might discover procedures that can be eliminated or improved to make the system more efficient and effective.

We also recommend that the Town make sure that there are no jobs related to accounting and finance that only one person knows how to perform. The procedures manual would also be useful in determining whether this situation exists.

Other Recommendations:

Fraud Risk Assessment

The Town has not performed a fraud risk assessment. A fraud risk assessment is important because it identifies the Town's vulnerabilities to fraudulent activities and whether those vulnerabilities could result in material misstatement of the financial statements. The fraud risk assessment would also identify processes, controls, and other procedures used to mitigate the identified fraud risks.

We recommend the Town perform a fraud risk assessment to reduce the possibility of fraudulent activities.

Fraud Policy

The Town does not have a fraud policy in place. A fraud policy outlines the Town's position on fraudulent activities and dishonest conduct and sets out procedures for employees to report suspected fraud or misconduct to the appropriate personnel within the Town. This policy should further outline the responsibilities of different positions within the Town in regards to reporting and investigating these claims. It should also discuss the actions that will be taken to investigate the claim and the protection that will be afforded to the person making the claim against retaliation from the accused.

We recommend that the Town implement a fraud policy.

Cash Register

The Town does not use a cash register. A cash register serves as a good control over cash. Cash should be reconciled to the register tape as the daily receipts are being deposited.

We recommend that the Town consider the purchase of a cash register so better control over cash can be achieved.

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Investment and Banking Policy

The Town does not have a formal investment and banking policy. This policy is extremely important in establishing and maintaining cash management in accordance with Selectboard directives. This policy should include general guidance for the Treasurer in the areas of bank selection, types of investments and policies for minimizing the risk of losses.

We recommend that the Selectboard and the Treasurer work together to establish guidelines for the Treasurer in the areas of cash management and investing.

Incomplete Accounting System

Each fund is a separate accounting entity and should employ a general ledger to summarize operating activity during the year and record corresponding increases or decreases in the individual asset and liability account balances. The general ledger is a primary control device in any double entry accounting system. If properly and regularly maintained, the account balances will facilitate prompt and complete financial reporting at the end of any operating period. The individual accounts, particularly the asset and liability accounts, will provide control for reconciliation with other data from internal or external sources. The Town currently maintains one general ledger for several of their Special Revenue Funds and Capital Projects Funds. In addition, the Trustee of Public Funds Fund is not under general ledger control. The Trustee of Public Funds Fund financial statements are compiled at year end from summary data.

We recommend that the Town maintain these funds in their general ledger separately and implement reconciliation procedures for all key accounts on a regular basis.

Weekly Payroll

The Town currently pays all of their employees weekly. The Town could save time and money if they switched to a bi-weekly or semi-monthly method of paying employees.

We recommend that the Town consider switching to a different frequency of paying employees to save time and money. The Town may need to consider allowing advances to employees in order to prevent cash flow difficulties during the transition.

Cash Receipts Module

The Town does not utilize the NEMRC cash receipts module to record cash receipts. When money is collected, the Town uses spreadsheets to summarize the collections and uses general journal entries to record the revenue in the accounting software.

We recommend the Town use the NEMRC cash receipts module to record cash receipts.

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Thompson's Point Billings

The Town currently uses a spreadsheet to track the Thompson's Point billings. This is much more time consuming and errors are more likely to occur rather than utilizing software specifically developed for this purpose.

We recommend that the Town consider utilizing billing software to track the Thompson's Point billings so as to eliminate the possibility of errors that could occur in a manual system as well as being more efficient.

Agreement with Charlotte Fire and Rescue Services, Inc.

The Town has an agreement with the Charlotte Fire and Rescue Services, Inc. for fire and rescue services provided to the Town in exchange for a Town appropriation. The agreement indicates that Town funds appropriated but not expended in the same fiscal year shall become the property of the Charlotte Volunteer Fire and Rescue Services, Inc. There is no indication in the agreement, however, of the order of how Town versus Fire and Rescue Services raised funds will be spent.

We recommend that the town clarify in what order funds will be spent.

Documentation of Internal Control System

A solid understanding of internal control is essential to a well run organization. An organization must continually assess their internal control systems to evaluate financial health, ensure accurate financial reporting and comply with laws and regulations. As part of this process, management should formally document its control systems.

This will provide management with an understanding of the systems related to financial reporting and the controls over relevant assertions related to all significant accounts, disclosures in the financial statements, antifraud programs and controls over selection and application of accounting policies.

We recommend that the Town document the internal control process. This should break out the internal control process into the following five areas:

1. Control Environment – Sets the tone of an organization and is the foundation for all other components.
2. Risk Assessment – Identification and analysis of relevant risks to achieve its objectives, forming a basis for how risks should be managed.
3. Control Activities – The policies and procedures that help ensure management directives are carried out.

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4. Information and Communication – The identification, capture and exchange of information in a form and timeframe that enables people to carry out their responsibilities.
5. Monitoring – The process that assesses the quality of internal control performance over time.

Fixed Asset Schedule

The Town has not maintained an accurate schedule of its fixed assets at historical cost. Complete and accurate records are vital to the effective safeguarding of fixed assets owned by a government. They are needed to maintain individual accountability for resources, to develop the insurable value of government-owned property and equipment, and to document proof of loss for claims. In addition, fixed asset records are essential for effective long-range management planning for replacement of existing property and equipment.

We recommend that the Town implement controls to accurately account for and record fixed assets at historical cost in accordance with generally accepted accounting principles.

Unbilled Revenue

The Town bills for wastewater usage once per year in April for the usage in the prior year. This billing crosses fiscal years and should be allocated accordingly.

We recommend the Town record an estimated receivable for wastewater usage in the current fiscal year that has not been billed yet.