

**TOWN OF WINCHENDON, MASSACHUSETTS**

MANAGEMENT LETTER

YEAR ENDED JUNE 30, 2016

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**Table of Contents**

Transmittal letter .....	1
Overview .....	2
Status of Prior Year Items .....	3 - 5
Departmental Review – Transfer Station .....	6
School .....	7 - 9
Informational Items .....	10 - 12



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Board of Selectmen  
Town of Winchendon  
Winchendon, Massachusetts

In planning and performing our audit of the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Winchendon, Massachusetts, (the "Town") as of and for the year ended June 30, 2016, in accordance with auditing standards generally accepted in the United States of America, 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.

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 entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be control deficiencies, significant deficiencies, or material weaknesses. We identified deficiencies that we have considered significant deficiencies. Those are identified as such in the body of this report.

*The Town has provided responses entitled Management Response for each of the comments in this report. Many of these responses discuss the action Management has taken to address the comments and relate to activity subsequent to the year under audit. We have not audited these Management Responses and provide no assurance on Management's action thereto.*

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

*Roselli, Clark & Associates*

Roselli, Clark & Associates  
Certified Public Accountants  
Woburn, Massachusetts  
October 25, 2016

## **I. OVERVIEW**

On January 6, 2015, the Massachusetts State Legislature adopted into law *Chapter 448 of the Acts of 2014; An Act Relative to the Financial Condition of the Town of Winchendon*.

This was followed in May, 2015 by the election of five new members to the Board of Selectmen. This made fiscal year 2016 critical as this was the first year that new policies and processes were put in place to attempt to bring the Town out of its historical financial crisis.

With the assistance of a financial consultant, an interim Town Manager, a new Town Manager and a new Superintendent, the Town and its financial staff responded well to the challenges that were placed before them.

The following highlight the achievements reached during fiscal year 2016:

1. Lines of communication between the School Department and Town Hall, which had been under pressure since at least 2012 were improved dramatically. Individuals on both ends understood the end goal and in unison brought much synergy and energy to a previously broken process. Given that the School is the largest department, the entire turn-around would be for naught without this accomplishment.
2. All material weaknesses reported in the prior year management reports were eliminated.
3. The Town increased its fund balance by almost \$1.4 million and in doing so increased its free cash to almost \$1.7 million. (Free cash was negative from 2013 – 2015).
4. With an additional \$1.1 million in stabilization, the Town now has almost \$3 million in reserves.
5. Accurate balance sheets were submitted timely.
6. Balanced budgets were completed for both 2016 and 2017.
7. The tax recap was certified timely.
8. Deficit legislation debt is being paid down without any issues and the Town is due to make an accelerated payment during fiscal 2017.

Effective July 1, 2016 the Town also appointed a new Town Accountant and a new School Business Manager. The new Town Accountant closed the 2016 records with the assistance of the Town's financial consultant and we believe the individual can replicate the process moving forward. The School close proved more challenging as no consultant was offered and the new School Business Manager, who is not experienced, also had the added challenge of having to navigate through records that were not his own creation. (See comments under School). In order to continue on the path to success it is important that the Town provide support to these and all individuals involved in the process.

The remainder of the report is dedicated to reporting the status of prior year findings, remaining findings, new findings and informational items.

We expect the Town, with the assistance of its Audit Committee, will continue to address the remaining outstanding items and establish a game plan to address these in an efficient manner.

## **II. STATUS OF PRIOR YEAR ITEMS**

### **A. Prior Year Material Weaknesses**

#### **Cash Reconciliation Process**

Cash reconciliations are prepared in the Treasurer's Office on a monthly basis. Prior to the end of the month end close these cash reconciliations are compared to the Town General Ledger. The Town seldom falls more than 1 month behind and thus this material weakness has been resolved.

#### **Payroll System**

The payroll reconciliation process is no longer faced with the issues that plagued it during fiscal year 2015 and early 2016. Payrolls are being entered in the general ledger in a timely manner; with the correct posting dates for each payroll. No longer is the school duplicating its payrolls by entering the payroll in two different software applications. Both the Town and School are in agreement with using only Harpers payroll for all entries; and then importing the Harpers payroll journal to the general ledger through a MUNIS bridge. This material weakness has been satisfactorily resolved.

#### **Reconciliation of Withholding Accounts**

Hand in hand with the payroll issues and cash reconciliation issues was the discovery of numerous errors in the withholding accounts. This is a process that is now conducted at least quarterly; streamlining payroll and cash reconciliation (see above) has helped facilitate an accurate withholding reconciliation. As a result, this material weakness has been resolved.

#### **Operating System**

One of the most significant issues that contributed to the Town's inefficiencies in all areas, was the Town's operating system. While MUNIS is often considered the most powerful municipal operating system on the market, the manner in which it was set up at the Town has historically required a work around approach to efficiently analyze data and available fund balance amounts.

This was exacerbated by an upgrade made in fiscal 2013 that resulted in the functionality of MUNIS being adversely impacted and causing incorrect data anomalies regarding carryover funds and their proper carryover balances. Compounding the issue is the Collector modules are administered through a completely segregated stand-alone operating system and the Treasurer modules did not integrate automatically; thus requiring numerous manual entries to MUNIS to complete.

This is still a work in process for the Town however the Town has been making some progress. Bridges have been built to facilitate more efficient reporting and work arounds are being used, including side Excel spreadsheets; while this is still considered a finding, it is no longer considered a material weakness.

### **Water and Sewer Usage Receivables**

This comment related to the water and sewer liens and manner of processing the transaction. The water and sewer liens occur once a year, usually in the month of March. It was previously assumed that the receivables were adjusted automatically in the operating system, as water and sewer receivables do not have manual journal entries to the receivables, as those in the general fund have. This was another flaw in the operating system that requires a manual receivable adjustment. Now that the Treasurer and Accountant are aware of this, they have discussed the need to make the adjustment to the receivables after the lien occurs and this was done properly during fiscal year 2016. We no longer consider this a material weakness and are also hopeful that the bridge between the Treasurer and Accountant will facilitate the recording of this entry automatically in the future.

## **B. Prior Year General Findings and Recommendations**

### **Tax Collection Process**

In prior years we discussed the need for the Town to be more aggressive on the collection front; given the Town's dire cash position it was important to address all means for collecting taxes including foreclosure and assignment.

One of the major obstacles was the lack of funding for the legal consultation on liens. For three years (2012 – 2014) the Town failed to appropriate money toward lien administration (essentially penny wise and pound foolish).

In both 2015 and 2016 improvements in the process began to take place. Accounts are being placed in lien much earlier in the process. Outstanding non-lien property taxes dropped from almost \$900,000 outstanding to less than \$500,000 outstanding; however the outstanding lien amount increased by over \$400,000; so essentially, there was a shift from non-lien outstanding to lien outstanding but totals of all taxes remained fairly consistent.

The actual amount of tax title collected was about \$90,000 in 2016 vs about \$50,000 in 2015. The hope is that the shift is the beginning of what will be a timing situation on the receipt of revenue but the Town should monitor this closely.

So while the process is better, if the resultant cash flow is not dramatically better, the Town should evaluate the assignment route as a path to improved liquidity and collection.

### **Title V Betterments**

This issue is similar to the Water and Sewer issue previously discussed only on a much smaller scale. This has also been satisfactorily resolved.

### **Retiree Health Insurance Withholdings**

This comment related to the deficit in the retiree health insurance withholding accounts. The deficit ended up being an accounting error that was corrected as part of the financial consultant's process at the end of fiscal year 2015; while there is a lag in some of the retiree withholding payments, this is planned as the Town tries to work with retirees on fixed incomes. No retirees are in default or more than a quarter in arrears. This finding has been satisfied.

### **Special Revenue Funds**

In the prior year we identified the significant amount of stale special revenue accounts. We made a recommendation that the Town begin to investigate these accounts as some are in deficit and others have surpluses that have not had activity in numerous years. We understand the Town has begun this housekeeping process but since this is a very laborious task, it has yet to be fully completed. We continue to suggest that the Town continue this process of housekeeping.

### **Compensated Absences Calculation Procedures**

Compensated absence monitoring has been an issue with both the Town and the School for a number of years. The Town is consistently unable to provide an accurate listing of hours of vacation owed to its employees. Not only is this important from a GAAP reporting standpoint but even more important from an operating standpoint as the Town is never sure exactly how much time is owed to its employees which could become a budget issue. We continue to suggest that the Town and School work towards administering and monitoring this area more efficiently.

### **Ambulance Receivable Monitoring and Write-Off Policy**

The Town uses a well-established, third-party billing company to administer the general ambulance billing and collection duties so we believe the billing process is sound. However, 3 years ago we began to observe a trend of outstanding balances increasing in the 180 day category. At the end of fiscal year 2016 the amount exceeded \$400,000 which is much higher than it was in 2013. In prior years we recommended that the Town develop an abatement policy in conjunction with the Board of Selectmen, but turnover has slowed this process down. We suggest this is revisited with the new Fire Chief.

### **III. DEPARTMENTAL REVIEW – TRANSFER STATION**

Beginning with the fiscal year 2016 audit, we suggested the Town incorporate a departmental review of a specific area as part of the annual audit. Given the deficits that have existed in the Town's Transfer Station operations over the past 4 or 5 years, the Town elected to have a review of this area conducted in the current year.

The Transfer Station falls under the Department of Public Works which is administered by a Public Works Director. The Public Works Director is new to the Town since the former director resigned. Throughout our review we found that the new Director and staff were very co-operative and Director in particular brought an entrepreneurial spirit to the overall administration of the Transfer Station. The approach was both refreshing and impressive.

The largest transaction type is stickers; these cost \$50 prior to March 1 and \$25 after March 1; and they expire on June 30. A replacement sticker is \$5. A sticker is required to enter area. In addition, bags are sold at both the Transfer Station and the office.

The following are the controls that are in place followed by our recommendations:

#### **Controls**

- Does not accept any cash at the Transfer Station; checks only
- Checks are turned over every Monday from the Transfer Station
- Cash and checks are turned over every Thursday from the office
- Funds are kept in a secure location and the door is under video surveillance
- A manual log of stickers is maintained at the counter
- The manual log is posted to excel weekly after it is reconciled to the turnover
- Bag inventory is stored at the Transfer Station
- The bag inventory is monitored by the Office Clerk
- Monthly bag inventory is reconciled to the amount on hand by the Office Clerk
- The Director monitors trash in and trash out by ton using vendor receipts and reports
- Found that shrinkage is about \$1,000 per month from highway trash which is weighed separately and essentially accounts for most of the annual deficit

#### **Recommendations**

- Suggestion to include dates and amounts on excel log for better tracking
- Suggestion to reconcile excel log quarterly with accounting
- Suggestion to reconcile bags back to the turnover
- Suggestion to reconcile amount of bags sold back to accounting
- Suggestion to conduct independent actual count of inventory at least quarterly

We believe that the operation of the Transfer Station under the new Director is efficient and the process has many controls not typical for such an operation. The Director indicated that he has implemented numerous cost saving measures which will hopefully be apparent during 2017 and identified the major reason for the deficit is normal highway trash that is currently being measured and technically should be a burden of the taxpayer not the Transfer Station.



#### **IV. SCHOOL**

##### **Introduction**

The School Committee recently appointed a new School Business Manager; the individual appointed is an extremely motivated person who, along with the new Superintendent, has helped streamline the communication issues that existed in prior years between School and Town. However the individual lacks the experience to perform the job functions of the School Business Office in an adequate manner at the present time. We urge the School Committee to provide this individual with the education and training to be successful in this position as without training, the process may be destined to fail. The Town has pledged its support to the learning process and together, this could be a successful situation in the long-term however in the near term it is important that this training process begin immediately.

##### **Grant Reconciliation Process – Significant Deficiency**

Allowable costs of federal and state grants should be separately identified, charged and reconciled to the Town's general ledger.

Several education grants had activity that was charged against the incorrect grant year accounts in the general ledger. These transactions were not corrected in a timely manner and a portion of these expenditures were not included in final financial reporting filed with the pass-through agency. Prior year grant surpluses and deficits exist on the Town's general ledger for grants that have been closed out with the pass-through agency.

The lack of reconciliation and review process for grants has led to the late filing of final financial reports and grant balances on the ledger for grants that are closed.

Formal reconciliation procedures should be implemented to reconcile grant activity to all grant accounts on the Town general ledger.

##### **Ineligible Payroll Costs – Significant Deficiency**

Grant administrators should periodically review supporting documentation to determine if allowable costs are charged to federal grants.

An employee that did not work on the Title I grant was charged against grant funds for the entire year and was not discovered. Another employee, with a higher salary, that was should have been charged to the grant was instead charged to the School operating budget and therefore, the grant was not over charged.

Due to the lack of reviewing payroll records against a list of Title I teachers, unallowable costs could be charged against the grant and not be detected.

We recommend that the School implement procedures to compare payroll charges to all federal grants against an active list of employees working on each grant.

##### **Timely Filing of Financial Reports – Significant Deficiency**

Required grant financial reporting should be submitted to the pass-through agency in an accurate and timely manner.

One Title I and five Special education cluster final financial reports due in fiscal year 2016 were filed late. Several final financial reports were filed before the grant was fully expended which required the grant reporting to be re-opened by the State. One Title I and four special education cluster final financial reports for the 2016 grant year due in the first quarter of fiscal year 2017 were filed late or not at all. Furthermore, on all seven final financial reports filed in fiscal year 2016 the amounts reported did not agree to the amounts as recorded in the Town's general ledger. Due to the lack of reconciling grant activity to the general ledger, final financial reports were not filed timely with the pass-through agency and the amounts reported cannot be supported with the amounts recorded in the Town's general ledger.

We recommend that all information contained in the grant final financial reports be reconciled to the general ledger on a monthly basis. This will facilitate the timely completion and accuracy of the final financial reports.

### **Time and Effort Records**

The Uniform Guidance requires all employees paid in full from federal grant funds to furnish semi-annual certifications that they have been engaged solely in activities supported by the grant. These certifications must be signed by the employee or supervisor with knowledge of the work performed. In addition, the Uniform Guidance requires employers to document the portion of time worked on the grant and portion of time worked in areas not related to the grant, if not solely charged to the federal grant.

We discovered that for at least the sixth straight year, the required time and effort certifications were not maintained. Without proper certifications of time charged to specific activities, it is not possible to verify proper payroll grant compliance.

The individual grant administrators or school principals have direct knowledge of the work performed by their staff whose wages are paid utilizing federal grant funds. We suggest that the grant administrators or school principals semi-annually compile a documented list of such individuals solely paid through that date utilizing federal grant funds and certify that their work related to program activities under that specific grant. These certifications should be filed and available for review as part of any compliance testing performed by the pass-through agency or auditors. For employees that are charged to multiple grants or funding sources, the grant administrators should maintain and certify an accounting of the time the employee spent on each grant or activity and maintain them with the payroll certifications.

### **Publication of School Progress**

Title I grant compliance requires the grant recipient publicize and disseminate the results of its annual progress review to parents, teachers, principals, schools and the community. The results should include the number, names and percentage of schools identified for improvement and should be disseminated using broad means of communication, such as the internet and publicly available media.

We determined that the results of the schools yearly progress and schools identified as in need of improvement are not made widely available to the entire community on its internet site. This limits the community including those without students in the school system to adequately gauge the school's yearly progress.

The School Department should include the information regarding yearly progress and schools identified for improvement on its website or include a link to similar information that is available on the state Department of Elementary and Secondary

### **Student Activities**

In the prior year, an audit of the Student Activities was conducted. Many procedural issues arose as a result of the audit. These included lack of compliance with new student activity mandates issued by DESE and more importantly the lack of a reconciliation process between the School Business Office, Town Treasurer and Town Accountant. Variances in the accounts were as high as almost \$20,000. It was agreed that the Town Accountant, Town Treasurer and School Business Manager would work together to reach an amicable solution regarding the proper amount, adjust the accounts and reconcile moving forward. This seemed like a logical solution given the errors most likely originated many years ago and it would not be cost beneficial to track down. However, both the School Business Office and Town Accountant had turnover so this solution was never put in place and the same issues existed at the end of 2016. We suggest a follow-up audit is conducted to determine exactly where this situation stands, both from a procedural and reconciliation standpoint; and as part of this audit include the Treasurer, Accountant and School Business Manager in the process; the goal at the end of the process is to have balances that equal the general ledger, school ledger and the bank account. The ultimate goal is to establish a monthly or quarterly reconciliation process.

### **End of Year Report**

The End of Year Report is a document created by the School Department that is submitted to the DESE on an annual basis; it assists the DESE in determining if a school district meets State mandated net school spending deadlines.

In our review of the report we discovered numerous errors in its preparation; these included 9 items that had understatement errors of over \$575,000 and 6 items that had overstatement errors of over \$650,000; one that was duplicated for about \$180,000.

The preparation of this document is a critical component of the School Business Manager's duties. It is very important that amounts included on the report are accurate when submitted to the DESE; errors could have an impact on net school spending and in turn the Town's education budget. In the current year, the report was prepared by the new School Business Manager with no training at all and no prior experience. This is a complicated document so the results were as expected. As we previously discussed, we suggest that the School provide the current School Business Manager with the necessary training to develop the adequate skill set to complete these tasks accurately.

### **School Comment**

Recently, at the advice of the audit firm and after the year had closed, we engaged an individual who has significant experience in school finances and the regulations of DESE and DOR. With the assistance of this individual, who is within close geographic proximity, we are confident that we will be able to provide the guidance needed to our new School Business Manager in order for him to be successful. The findings are as expected and we will endeavor to resolve these before the close of 2017.

## **V. INFORMATIONAL ITEMS**

### **Statement on Auditing Standards No. 115 – Audit Communications**

The American Institute of Certified Public Accountants (“AICPA”) in 2009 issued Statement on Auditing Standards No. 115, *Communicating Internal Control Related Matters Identified in an Audit* (“SAS 115”).

SAS 115 establishes standards and provides guidance on communicating matters related to an entity’s internal control over financial reporting identified in an audit of financial statements. In particular, SAS 115 provides guidance on evaluating the severity of deficiencies in internal control identified in an audit of financial statements in the following order:

1. Deficiency in internal control
2. Significant deficiency
3. Material weakness

Deficiencies identified as *significant deficiencies* or *material weaknesses* are required to be communicated to those charged with governance. *Deficiencies in internal control* are not required to be communicated; however, we have chosen to also report that type of deficiency in this report.

We determined that three of the findings in this report should be categorized as significant deficiencies and are happy to report that all material weaknesses identified in the prior year have been satisfactorily resolved.

### **New Accounting Principal – OPEB**

The Governmental Accounting Standards Board, or GASB, has issued a new pronouncement related to other postemployment benefits, or OPEB, that is substantially similar to the pension standard described above. OPEB typically includes health and welfare plans and other similar benefits provided to Town retirees exclusive of pension benefits. The Town presently contributes 60% of the cost of retirees’ comprehensive medical insurance offered through Blue Cross Blue Shield of Massachusetts.

Currently, the Town reports a net OPEB obligation in its government-wide financial statements. However, the proposed new accounting standards will require that the net OPEB liability, which can be substantially larger than the net OPEB obligation, be reported in the government-wide financial statements. Adoption of this new accounting standard is two years away for the Town.

While this proposed accounting standard will likely materially affect the Town’s government-wide financial statements, the Commonwealth has not passed legislation requiring municipalities to begin setting aside monies for this unfunded obligation like it has with pensions.

Currently the Town has set aside approximately \$10,000 into an OPEB Trust while the unfunded obligation is over \$28 million. So the Town has really not begun to address this obligation. We understand that given the financial crisis in Town that this has not been given top priority but caution management to keep this obligation in its long term financial plans.

### **Changes to Single Audit Requirements**

The Office of Management and Budget, or OMB, raised the threshold for OMB A-133 compliance audits (i.e., single audits) from \$500,000 to \$750,000. This new threshold is expected to continue apply to the Town.

Also included in the new audit requirements is a requirement that the Town's internal control structure should be in compliance with recognized internal control framework such as the Green Book or COSO.

Adopting a formal internal control framework is new to municipalities and will likely require a good deal of evaluation, documentation, remediation and ongoing monitoring. We recommend that the Town commence this process by taking a common sense approach and tackle the areas in which the Town is most susceptible to an internal control deficiency. Over a period of time, the Town should complete the formal adoption of an internal control framework.

### **Municipal Modernization Act**

In August 2016, the Municipal Modernization Act was signed into law in Massachusetts. This law streamlined many of the financial legislations used throughout the cities and towns in the Commonwealth. At least two portions of this Act that will likely affect the Town include:

1. Creating a single overlay reserve to cover the costs of potential abatements or exemptions granted by assessors or ordered by the ATB versus having to maintain individual overlay reserves by fiscal year. This portion of the Act became effective on November 7, 2016.
2. Changing the statutory treatment of premiums received when issuing debt. Prior to the Act, premiums (net of issuance costs) were general fund revenue. Effective November 7, 2016, premiums (net of issuance costs) are: (a) used to pay project costs and to reduce the amount of borrowings authorization by the same amount when the borrowing vote so authorizes; or (b) reserved for appropriation for capital projects for which a loan has been, or may be, authorized for an equal or longer period of time than the loan for this the premiums were received.

There are many other sections that will impact the Town and suggest the Town review the Act in its entirety to determine which sections apply to the Town.

### **Policies and Procedures Manual**

While the Town attempts to follow standard policies as delineated by the Department of Revenue and MGLs, and formalizes some policies through interoffice memorandum, the Town does not formally document policies, procedures and controls for key financial transactions in one comprehensive manual. As a result, these transactions are at risk of being performed in an inconsistent and inefficient manner by the Town's departments.

The Town should endeavor to create a policy and procedure manual that would establish consistency in financial policies between departments.

### **Risk Assessment and Fraud Identification Measures**

As discussed in prior years we continue to caution our municipal clients regarding the risks of fraud and theft. In these trying economic times, it is reasonable to expect that the frequency of fraud and theft by employees, customers and vendors may increase. The Town should be well aware of this increased risk, and accordingly should evaluate and enhance measures to better safeguard the Town's cash and other assets. Fraud can include theft, the misappropriation of assets such as cash or easily marketable equipment like computers, the execution of transactions with related parties that are not disclosed and not completed "at arm's length," or the modification or fabrication of financial records to protect job security. The Town must increase its focus and awareness of fraud risks throughout all areas of local government. Suspicious or unusual activity, particularly in cash handling areas, should be promptly investigated.

The Board of Selectmen took a significant step a few years ago by adopting a Town government Fraud Policy. This is important because it establishes a baseline as to what the Town will define as fraud, and how the Town will approach potential fraud incidents brought to the attention of management.

In addition, we further suggest the Town consider implementing the following:

*Establish a Limited Internal Audit Process* – The Town does not have sufficient, existing personnel resources to dedicate to an autonomous, internal audit function. However, under Chapter 41 of Massachusetts General Law ("MGL"), the Town Accountant or equivalent position has the ability to examine books and records of any department on a periodic basis, and at least on an annual basis.

We suggest that the Accounting office cycle audit the cash handling departments. A different department should be chosen each month, and the cash handling for that month should be reconciled independently. Such a process would provide an excellent deterrent against risk of fraud and would not take long to complete. We have previously advised the Town towards implementing this recommendation.

Additionally, due to timing and staffing constraints within the accounting offices, some communities are instead engaging their external auditor to perform additional, departmental review procedures as part of the audit process. Generally, one or two departments are selected by Town management annually for such a review.

The ultimate goal is that over a period of a few years, all cash handling departments could be reviewed, and a report issued citing areas of needed improvement that can be used as document for evaluating corrective action implementation.

The Town should be aware that our audit procedures are designed to provide reasonable assurance that the financial statements are fairly presented and free of material misstatement. Our audit includes considerations for fraud; however, no assurances can be given that we would detect fraud through our audit. Our audit cannot be relied upon to detect fraud or illegal acts that may exist.