

**TOWN OF SHREWSBURY, MASSACHUSETTS**

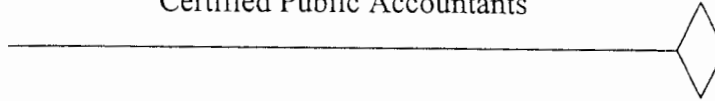
**MANAGEMENT LETTER**

**FOR THE YEAR ENDED JUNE 30, 2005**

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To the Board of Selectmen  
Town of Shrewsbury  
Shrewsbury, Massachusetts

Dear Members of the Board:

As part of our examination of the financial statements of the Town of Shrewsbury for the year ended June 30, 2005, we reviewed the town's accounting procedures and internal control structure. Our examination was conducted primarily to enable us to formulate an opinion on the financial statements of the town and, accordingly, would not necessarily disclose all weaknesses in the internal control structure that may exist. Our review disclosed certain areas in which we believe more effective internal control or increased efficiency may be achieved.

This letter is intended to summarize our overall conclusions and recommendations resulting from our review of the accounting procedures and systems. Management letters are used to communicate suggestions and by their nature appear to highlight only negative aspects. Many positive features and functions will not receive comment since it is only those circumstances that are felt to require management attention and evaluation which are generally outlined in formal recommendations.

This report is intended for the information of management and the Board of Selectmen. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Very truly yours,



Thomas J. Scanlon,  
Certified Public Accountant

March 3, 2006

## MANAGEMENT FINDINGS

### STATUS OF PRIOR MANAGEMENT FINDINGS AND RECOMMENDATIONS

*The following prior year management findings have not been rectified.*

#### SUBDIVISION ACCOUNTS

An extensive review of the subdivisions was completed during the prior audit and a follow up during the current audit disclosed numerous inconsistencies found among the subdivision accounts.

The review indicated that the Town Accountant has one amount, the Town Treasurer has another amount and the engineering department has still another amount. Most of the subdivisions did not match to any of the records.

As of June 30, 2005 the treasurer's records are in agreement with the town accountant's general ledger. However, the engineering department's records still do not reconcile to the town accountant's and treasurer's records.

It was previously recommended that a log be maintained on the purpose of the subdivision, the date submitted, partial releases, the type of instrument given by the developer and the current balance. Custody of the actual instrument should be with the Town Treasurer. It was also recommended that reconciliations be done between the Town Accountant's office, the Town Treasurer's office and the engineering department on a periodic basis. Also, the amounts recorded on the general ledger and treasurer records should be only cash and cash equivalents not letters of credit or surety bonds. The letters of credit and surety bonds should be monitored by the engineering department.

#### Status and Recommendation

It is again recommended the engineering department maintain a log on its subdivision instruments and periodically reconcile them to the Town Treasurer and Town Accountant

#### **GASB STATEMENT NO. 45, ACCOUNTING AND FINANCIAL REPORTING BY EMPLOYERS FOR POSTEMPLOYMENT BENEFITS OTHER THAN PENSION PLANS**

Recently the GASB issued a statement on post employment benefit plans that will affect the Town in the future. As a result of this issuance, the Town will be required to implement this new GASB.

Generally, the statement requires the Town to calculate the amount of the annual post employment benefit costs, such as healthcare benefits and other types of post employment healthcare benefits, such as life insurance. Once determined, the cost will then be presented and recognized on the financial statements of the Town, similar to the requirement for compensated absences.

The number of plan members will determine the method of calculation. For plans with more than 200 members, an actuarial valuation should be performed at least biennially and for plans with fewer than 200 members, an actuarial valuation should be performed at least triennially. For plans that have less than 100 members, the Town has the option to calculate the liability by an alternative measurement method, in lieu of an actuarial valuation.

The effective dates for implementation of this statement will parallel GASB Statement No. 34. Since the Town is a Phase 2 community, the implementation date for the Town is June 30, 2008.

### **Recommendation**

Although the GASB Statement is not required at the present time, we want to make the Town aware, as we have with all of our other clients, that they keep abreast with this future requirement. In this way, the Town will be familiar with the statement and should have little difficulty implementing it when the time comes.

Additionally, there will be more GASB Statements in the future that will affect the Town. We again want the Town to be aware of these statements to ease with the implementation process.

## **INFRASTRUCTURE**

The Town has complied with the financial reporting model that is required at the present time. The one remaining requirement that will be required for fiscal years beginning after June 15, 2006, is the retroactive reporting of infrastructure assets. This requirement requires the reporting of roads, bridges, dams, etc. that were acquired, significantly reconstructed, or that received significant improvement from June 30, 1980.

### **Recommendation**

It is recommended that the Town begin to compile a list of the prior infrastructure capital assets as described above.

## **INVENTORIES**

As a part of our audit we test a sample of equipment purchases. Currently, the Town does not maintain an inventory of small items that do not qualify for fixed assets.

### **Recommendation**

In order for the Town to control and protect its assets, it is recommended that an inventory of the items mentioned above be established for each Town department. The inventory should be maintained on a perpetual basis. At a minimum the place where the equipment is located should be indicated.

## CURRENT YEAR'S FINDINGS AND RECOMMENDATIONS

### FRAUD RISK ASSESSMENT

This finding is a general finding for all of our municipal clients and is not specific to the Town of Shrewsbury.

When internal controls are initially implemented, they are usually designed to adequately safeguard assets. However, over time, these controls can become ineffective due to changes in technology, operations, etc. As a result, all municipalities should periodically perform a risk assessment to identify, analyze and manage the risk of asset misappropriation. Risk assessment, including fraud risk assessment, is one element of internal control. The Town, like most Massachusetts municipal organizations, does not adequately perform this assessment.

The fraud risk assessment can be informal and should be performed by a management-level employee who has extensive knowledge of the Town's operations. Ordinarily, the management-level employee would conduct interviews or lead group discussions with personnel who have extensive knowledge of the Town's operations, its environment, and its processes. The fraud risk assessment process should consider the Town's vulnerability to misappropriation of assets. 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?
- How could assets be stolen?
- Are there any known internal control weaknesses that would allow misappropriations of assets to occur and remain undetected?
- How could potential misappropriation of assets be concealed?

Once the areas vulnerable to fraud 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 the risk of fraud.

#### Recommendation

It is recommended that management develop and implement a fraud risk assessment program to identify, analyze, and manage the risk of asset misappropriation.