

July 8, 2019

Mr. Mark Purple
Town Administrator
Town of Southborough, MA
Southborough Town House
17 Common Street
Southborough, MA 01772

RE: Agreed-Upon Procedures

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We are pleased to present our report to the Town of Southborough, MA (the Town) of the services provided related to the Town of Southborough Recreation Department (the Department).

Our engagement was conducted in accordance with attestation standards for agreed-upon procedures engagements of the American Institute of Certified Public Accountants. The Town is solely responsible for the sufficiency of the agreed-upon procedures. Therefore, we make no representations as to the sufficiency of the procedures as described in the following paragraph or for any other purpose. The agreed-upon procedures are not designed to constitute an audit of the financial statements of the Department in accordance with Generally Accepted Auditing Standards. Therefore, we do not express reasonable or limited assurance on the Department's financial statements.

We applied agreed-upon procedures by viewing daily accounting of cash receipts and cash disbursements, walk-through testing to trace step-by-step transactions from inception to final disposition, interviewing the Department staff, Recreation Commission members, certain Town administrators and multiple Board of Selectmen members, and reviewing and analyzing current policies and procedures.

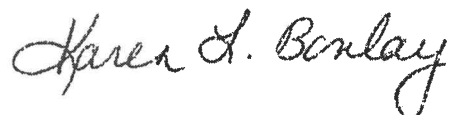
Procedures were performed at the Recreation Department Building, Southborough Town Hall, and over the phone.

Our report and recommendations are contained in the following pages.

Thank you,
Melanson Heath



Scott McIntire, CPA, Principal



Karen Boulay, CPA, CVA, CFE

Background

The Town of Southborough, Massachusetts through Mr. Mark Purple, Town Administrator, engaged us to perform an agreed-upon procedures examination as described in the following "Approach" section. The Accounting Department of Southborough, Massachusetts discovered that a department credit card was being used by an employee for personal purposes. The employee paid funds back to the Town and is no longer employed with the Town. The incident brought about concerns over lack of proper internal controls, revolving specifically around the Department. Our report outlines the relevant parties, the procedures taken, the findings we have noted, and our recommendations for implementing an improved internal control system.

Parties

The Recreation Department consists of a full time Recreation Director, a full time Program Coordinator, and a part time Administrative Assistant. The Recreation Director retired at the end of June 2019, the Program Coordinator was relieved of duties, and the position is currently in the process of being filled. The Department conducts programming for four schools which have sports and other recreational programming such as after school programs, including the following four schools:

- Albert S. Woodward School
- Finn School
- Margaret A. Neary Elementary School
- P. Brent Trottier Middle School

The Recreation Commission consists of 5 Commissioners. The Commissioners are appointed by the Board of Selectmen for 3-year terms.

The Board of Selectmen consists of five elected officials.

The Advisory Committee, appointed by the Town Moderator, is charged with considering all matters included within the articles of any warrant for a Town Meeting. The Committee, per the Town's Website¹, has the authority at any time to investigate the books, accounts, and management of any department of the Town. There are nine committee members.

Mark Purple is the Town Administrator who is the lead in charge of this examination of the Southborough Recreation Department. We interviewed Mark as well as the current Town Accountant and Assistant Town Administrator.

¹ <https://www.southboroughtown.com/advisory-committee>

Approach

To assess the internal controls in the Department, we conducted a site visit and met with Mr. Purple at Town Hall and the Recreation Director at the Department. We walked through the daily procedures and traced select transactions through the accounting process. After the site visit, we conducted telephone interviews with each Recreation Commissioner, all but one Selectman, the Town Accountant, and the Assistant Town Administrator. We also reviewed specific pertinent Massachusetts regulations regarding Municipal Revolving Funds.

Daily Accounting Process

The Department has four main accounts including the 9/11 Field Revolving account, the Recreation Revolving account, and a Gift account. Deposits are made manually once residents mail in or physically hand the Department checks to sign up for programs. Each deposit is recorded with the payer's name on the check, identified as a money order or cash, then given to the Treasurer with the money and a report summarizing the deposits. Once the report and deposits are received, the Treasurer will deliver the deposits to the bank.

Revenue in and expenses out are tracked for each program in the Department but not on the Town's general ledger. According to the Recreation Director, revenue ties out to the number of children in each program. The reconciliation is done through the Department's database, Stripe Software, to verify accuracy. Expenses are not easily reconciled due to the lack of differentiation of expenses between programs. For example, pencils may be purchased and used for multiple programs.

The Department payroll is completed every two weeks. Program Instructors are paid hourly and are not required to fill out a time sheet. The Recreation Director will determine how many hours each instructor has worked based on the number of classes taught and the length of each class. Occasionally, the Recreation Director will contact Instructors via email to confirm the hours the Instructor has worked. For Department employees, salary rates are set by the personnel board, as outlined in a Personnel Salary Administration Plan. From this schedule, each employee's rate is determined during the interview process based on their qualifications and available appropriation. When a new person is hired, the Recreation Director will file the appropriate paperwork then the employee will sign a letter sent by the Recreation Director to confirm that they have acknowledged the Department's procedures. Upon completion, the Recreation Director will send the signed paperwork to the Payroll Department along with an updated excel spreadsheet outlining the hours worked by each employee.

Payables were processed electronically by the Program Coordinator. Upon her departure, the Recreation Director was entering them manually and then sending them to Accounting to process payment. In the past, the Recreation Commission was required to sign off on invoices as well, however, the Commission decided to delegate the responsibility to both the Recreation Director and the Program Coordinator, removing a layer of internal controls.

Southborough, MA Recreation Audit
Examination Report

We found no formal reconciliation between the Department and the general ledger. The Department inconsistently prepares a recreation revolving account report. The Director uses a template provided by the Town Accountant to complete this report. The Director stated that once complete, she would send the report to the Finance Committee to review for budgets and that the Board of Selectmen also get a copy of the report. The Town Administrator states that the Selectmen have not received a copy of the report in at least 7 years.

The Recreation Director stated that the Department offers scholarships to residents to attend programming at reduced or no cost. There are policies in place on who is eligible for the scholarships. When scholarship applications are received, the Director will review all applications and tax information then discuss the applicants with the School and Youth and Family Services Department before making a final decision on whether to award a scholarship.

We traced the following transactions through the accounting process:

Payables

We selected the schedule of departmental bills payable paid out of the recreation revolving fund for the week ending May 13, 2019. We reviewed the schedule of departmental bills payable (the schedule) and supporting documents that were received from the Recreation Director. We verified the total amount payable on the schedule agreed to the invoices provided. We requested all of the Town Accountant's records for the schedule paid out of the recreation's revolving fund for the week ending May 13, 2019.

Revenue

Revenue is reported from the Department to the Town Treasurer via a report titled "Schedule of Departmental Payments To Treasurer" (Schedule of DP). We tested the report for revolving deposits dated May 13, 2019 for the amount of \$942. When reviewing the Schedule of DP, we noted the purpose for collections is not listed. When reviewing the Town Accountant's records, we determined that the information agreed to the Department's records.

Payroll

We selected payroll for hourly recreation employees for the week ending May 22, 2019. The Recreation Director provided the payroll timesheet Excel report for all hourly employees paid out of the recreation revolving fund. The Recreation Director or Program Coordinator fills out one timesheet for all employees, signs off on the time sheet, and sends it to the Town Treasurer for processing.

We requested all of the Town Accountant's records for the hourly recreation pay period paid out of the recreation revolving fund ending on May 22, 2019. When reviewing the Town Accountant's information, we were provided with the same timesheet that the Recreation Director provided. On the timesheet, there were red marks next to each employee's rate along with the Town Accountant's initials signing off in red indicating that she confirmed all employees' rates. We were not provided with any additional information to support the accuracy of each employee's rate or hours worked.

Review and Analysis of Current Policies and Procedures

The current policies and procedures are not documented.

Recreation Commission Interviews

The Recreation Commission has five voluntary Commissioners who have been involved for a variation of years. The commission currently meets every two weeks and will have additional meetings when necessary.

Melanson Heath interviewed each Recreation Commissioner individually via phone call. When discussing the Commission's role with the Department we observed that the Commissioners main focus has been on capital projects and improvements for the Department. The Commission does not oversee day-to-day purchases made by the Recreation Director. For a majority of larger purchases made for the Department, the Commissioners will meet to discuss the potential purchase and vote to authorize as long as it is within the yearly spending cap. The approval or denial of such expenditure is by majority vote. We were informed by a Commissioner that the vote has been unanimous for the past two years. If the Department needs an increase in the funding cap, then the Commissioners will go to the Selectmen to seek approval. Prior to attending the Town Meeting, the Department will seek support from the Board of Selectmen and Town Advisory Committee. Aside from seeking support for large capital project funding, the Commissioners do not typically interact with the Board of Selectmen.

When discussing processes and procedures, one Commissioner noted that the only policies they had ever received revolved around ethics. Overall, each Commissioner noted that they have not seen any formal processes or procedures from the Town or the Department. It was requested that if the Town or the Department has formal processes and procedures that they make them readily available.

Board of Selectmen Interviews

Melanson Heath conducted a phone interview with four of the Selectmen regarding their level of interaction and knowledge of the Department's processes and procedures.

The Board of Selectmen receive a proposed budget from the Department on an annual basis for review and identification of any discrepancies. Aside from reviewing and approving the budget, the Board of Selectmen do not have any day-to-day involvement with the Recreation Commission and will only get involved if there is an issue or request for additional funds. However, the Board of Selectmen do have the authority to receive updated financials. Some Selectmen did note that they will request financials sporadically for review.

The Board of Selectmen believe that there is a lack of processes and procedures. One Selectman specifically expressed that this may be an issue across many departments. A

suggestion was made that the Town establishes internal control processes and procedures that must be implemented throughout the Town's departments.

Town Administration

The Town Administration that we interviewed consisted of the Town Administrator, the Assistant Town Administrator, and the Town Accountant.

During our interviews, the Town Administrator and the Assistant Town Administrator expressed that the Department has always been isolated from other departments, working in a silo. The Town Administration is eager to have the new Recreation Director and Program Coordinator in place to help implement enhanced controls and new policies and procedures.

The Town Accountant expressed concern with how the Department uses their revolving fund. When the Accountant began with the Town, she realized that the revolving fund was quite large even though the intent was to bring in program revenue and use the funds for program expenses. The Accountant expressed concern that the Department and Commission appeared to have been building up the revolving fund to use for renovations and capital improvements instead of asking the Town to approve warrant articles for these appropriations. For example, a new playground was approved at Town Meeting. When the expenditures ran over budget, the Recreation Commissioners used the recreation revolving money to cover the balance.

The Town Accountant believes that there should be more budgetary control with the Department, reconciling Recreation records to the general ledger as well as the Commissioners reviewing financial reports. The Town Accountant typically sends quarterly reports to all departments; however, the departments also have the ability to run reports and check their balance at any time.

The Town Accountant's main role with the Department is to review and approve payments that need to be processed. During the interview, the Town Accountant noted that the reduction in internal controls regarding invoice approval began about 5-7 years ago when the Recreation Commission delegated authority to the Recreation Director and the Program Coordinator without any additional guidelines. The Town Accountant has meeting notes and a letter of authorization regarding the delegation of signing authority from the Recreation Commission.

Findings

A-1 The Department does not consistently reconcile its Department records with the Town's general ledger.

- a. The Department did not provide us with a final Fiscal 2018 Recreation Revolving Report that could be reconciled with Vadar, the Town's accounting system. We were provided only a "forecasted" report from the Department.

Southborough, MA Recreation Audit
Examination Report

- B-1** The Recreation Commission does not approve invoices, as that responsibility has been delegated to the Recreation Director and the Program Coordinator. This delegation essentially removes an important layer of internal controls. Additional findings regarding these controls include:
- a. The Department has access to one credit card which can be used to purchase supplies for recreational programs and events. The Director and the Program Coordinator both have access to the credit card, and additional expenditure authorization is not required.
 - b. Individual invoices are not signed (indicating approval) by the Department, only the summary of bills payable is approved by the Department.
- C-1** Recreation Department receipts turnover to the Treasurer lack specificity for which the money was received.
- D-1** Hourly employees do not fill out a timesheet. The Recreation Director notes on an Excel sheet when employees work then the Recreation Director will fill out one timesheet for all employees, sign off on the time sheet, and send it to the Town Treasurer.

Recommended Internal Controls and Procedures

- A-2** The Department must reconcile its records with the Town's general ledger. A reconciliation report (with minimal timing issues) should be signed by the Town Accountant and Recreation Director indicating approval and acceptance that the Department records reconcile to the general ledger.
- a. The Department should share the report annually with the Board of Selectmen
- B-2** For optimal internal controls, the Recreation Director and/or Recreation Commission Chair should approve invoices for payment. Other controls related to payables should be implemented, including:
- a. For each purchase made, the Department must identify what program the purchase will go towards with an itemized receipt to present to the Recreation Director and Town Accountant. If a purchase is to benefit more than one program, than a reasonable estimate of the percentage that will be used for each program is to be provided.
 - b. Require Recreation Director authorization on all invoices submitted to accounts payable.
 - c. Policies should be modified so that the person using the Department credit card does not sign off on the payable of the credit card.

Southborough, MA Recreation Audit
Examination Report

C-2 The Department should specify purpose of cash receipts (the type of program) in addition to the individual party(ies) from which the money was received.

D-2 All employees should be required to fill out and sign timesheets.