

FOTHERGILL SEGALE & VALLEY

Certified Public Accountants



John E. (Jeff) Fothergill, CPA
Michael L. Segale, CPA
Sheila R. Valley, CPA
Teresa H. Kajenski, CPA
Jane M. Burroughs, CPA
Donald J. Murray, CPA

September 21, 2009

To the Selectboard
Town of East Montpelier
P.O. Box 157
East Montpelier, VT 05651

Dear Selectboard,

In planning and performing our audit of the modified cash basis financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of East Montpelier as of and for the year ended June 30, 2009, in accordance with auditing standards generally accepted in the United States of America, we considered the Town of East Montpelier'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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies and other deficiencies that we consider to be material weaknesses.

A *control deficiency* 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 misstatements on a timely basis.

A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified cash basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe that the following deficiencies constitute material weaknesses:

- Lack of controls to ensure property taxes billed, collected and uncollected are reconciled on a regular basis.
- Lack of controls to ensure proper documentation and approval are done on journal entries entered in the accounting system.

Below we describe each of the above noted significant deficiencies and material weaknesses along with other matters we noted during the audit. We believe that the implementation of the recommendations will provide the Town with a stronger system of internal control while also making its operations more efficient.

Material Weaknesses

We consider the following to be material weaknesses:

Lack of controls to ensure property taxes billed, collected and uncollected are reconciled on a regular basis.

During our audit, we noted that the Treasurer had not done an overall reconciliation of the property taxes billed, property taxes collected and property taxes uncollected between the Tax Administration System and the General Ledger accounting system during the fiscal year. This overall reconciliation is a necessary step to ensure that all taxes collected are correctly reported on the individual taxpayers' accounts and on the overall Town's accounts.

We strongly recommend that this overall property tax reconciliation be done on a quarterly basis. During our review of the Selectboard minutes, we noted that the Selectboard and Treasurer have acknowledged this finding and believe further training would improve the accuracy and timing of this reconciliation.

Lack of controls to ensure proper documentation and approval are done on journal entries entered in the accounting system.

During our audit we noted various journal entries (changes made to the accounting records) were made. Some entries had very clear documentation and other entries did not. It is important that all activity posted to the accounting system have back up to support the activity. This will provide the back up support for management when reviewing the Town's financial status, when more detailed explanation on financial information is needed.

We strongly recommend that procedures and/or oversight be implemented to ensure that all journal entries posted to the accounting system have clear documentation to support the reason/purpose of the entry.

We also noted that no one other than the person involved in creating and posting these entries, reviewed these entries.

We recommend, to ensure the accuracy, allowability and sufficient documentation of the change in the accounting records (journal entry), that someone other than the person creating and posting the entry review and approve the entry.

Prior Year Findings Status

Prior year findings still an issue:

Lack of controls to ensure property taxes billed, collected and uncollected are reconciled on a regular basis.

Finding: During our audit, we noted that the Treasurer was unable to do an overall reconciliation of the property taxes billed, property taxes collected and property taxes uncollected between the Tax Administration System and the General Ledger accounting system. This overall reconciliation is a necessary step to ensure that all taxes collected are correctly reported on the individual taxpayers' accounts and on the overall Town's accounts. This reconciliation as of June 30, 2008 was eventually done by the Town Administrator.

Status: Un-reconciled property tax revenue is still an issue. See further detail in the current year material weakness section above.

Lack of controls to ensure proper documentation and approval are done on journal entries entered in the accounting system.

During our audit we noted various journal entries (changes made to the accounting records) were made. Some entries had documentation and other entries did not. It is important that all activity posted to the accounting system have back up to support the activity. This will provide the back up support for management when reviewing the Town's financial status, when more detailed explanation on financial information is needed.

We strongly recommend that procedures and/or oversight be implemented to ensure that all journal entries posted to the accounting system have clear documentation to support the reason/purpose of the entry.

We also noted that no one other than the person involved in creating and posting these entries, reviewed these entries.

Status: This is still an issue. See further detail in the current year material weakness section above.

Corrected prior year findings:

Lack of segregation of duties and oversight.

Finding: The Treasurer's duties, as changed as of May 2008, lack segregation of duties. To maintain a good internal control system, an entity should have the following functions/duties segregated (have different individuals handling these functions):

- Authorization
- Recordkeeping
- Custodialship

The Treasurer duties overlap in all three areas.

Status: Although segregation of duties issues still exists, the Town has implemented various procedures that provided oversight of these functions/duties which has substantially improved the controls.

Lack of controls to ensure transfers between Town cash accounts are made timely.

Finding: A check was cut from the Town's General Fund checking account to the Town's Cemetery cash account on June 30, 2007. The Treasurer did not deposit this check until October 1, 2007 into the Cemetery cash account. For internal control purposes, all checks received should be deposited on a regular timely basis.

Status: Procedures were changed and oversight was implemented during the fiscal year to ensure all deposits are being made on a regular and timely basis.

Lack of controls to ensure vendor payments are approved by the Board before payment is released.

Finding: Based on our inquiry with the Board during the fiscal year 6/30/08 audit, we noted that some vendor payments were being mailed out by the Treasurer before the Board approved such payment. For better internal controls and for management purposes, it is important that no payments be released without the Board's approval.

Status: Oversight procedures were implemented during the fiscal year to reduce the risk of vendor payments being released without the Selectboards' review and approval.

Lack of controls to ensure pre-authorization of vendor invoices obtained.

Finding: During the 6/30/08 audit we found many instances where the Treasurer processed invoices for payment without getting the (pre-authorization) verification from the appropriate Town personnel to ensure the service/item was received and that the terms agreed upon were correctly stated.

Status: Two instances were found to have occurred early in the fiscal year 6/30/09. Subsequent to those instances, oversight procedures were implemented during the fiscal year 6/30/09 to reduce the risk of invoices being processed for payment without the pre-authorization approval.

Lack of controls to ensure the various cash accounts with minimal activity are reconciled on a timely basis.

Finding: During our audit we noted that many of the cash accounts, except the General Fund operating account, held by the Town were not reconciled by the Treasurer from the bank statements to accounting system records for June 30, 2008. This subsequently was done by the Treasurer and appropriate posting to the accounting system was done to bring the records up to date through June 30, 2008. To ensure the accuracy of the internally prepared financial statement, these cash account reconciliations should be done monthly and on a timely basis. The Board relies on the accuracy of these internally prepared financial statements to make various management decisions.

Status: Procedures and oversight have been implemented to ensure all cash accounts are being reconciled on a monthly basis.

OTHER RECOMMENDATIONS

The Town has approximately 20 various checking/savings accounts held at various banks. Many of these accounts have no or very minimal activity throughout the year. Most of these special funds can be tracked separately within the Towns computerized accounting system versus trying to account for these funds by holding a different bank account for each. We recommend most of these various checking/savings accounts be combined into one and utilize the computerized accounting system to track the separate purposes for these funds.

During our audit, the revenue posted to some of the various special revenue accounts were posted to “interest income” when some of the revenue was not interest income. We recommend that additional revenue accounts be set up to better reflect the type of income received (ie: “transfer from General Fund”, “lot sales”, etc.).

OTHER MATTERS – FINANCIAL PERFORMANCE

Financial Reporting Model and Performance

The financial statement format under GASB 34 is presented in two separate types of reporting, 1) the “Government-Wide” Reporting and 2) the “Governmental Fund” reporting. In the audited financial statements issued for 6/30/09, page 3 of the Management’s Discussion and Analysis under “Financial Highlights” provides an overview of the financial outcome under each reporting statement; pages 4 - 8 provide a more detailed analysis.

For budgetary purposes, the Board uses the “Governmental Fund” reporting statements. The Town ended with an unreserved General Fund fund balance of \$146,176; a reserved General Fund fund balance of \$43,836 which is budgeted to use for fiscal year 2010 expenditures. Also reserved in the other various other governmental funds is \$500,216 for other special purposes, of which \$50,157 is from permanent funds.

In the audited financial statements issued for June 30, 2009, the Governmental Fund statements are shown in Exhibit C and Exhibit E with Exhibit G providing a detailed budget to actual analysis of revenues and expenditures for the fiscal year ended June 30, 2009. Additionally Schedules 1 and 2 of these financial statements provide further detail on the Non-major Funds.

Some of the larger variances are as follows:

	Budget	Actual	Variance Favorable (Unfavorable)
Revenues and other sources:			
Property Taxes	\$ 1,128,675	\$ 1,144,585	\$ 15,910
Current use hold harmless taxes	75,051	62,494	(12,557)
FEMA grant	0	23,667	23,667
Muddy Brook Road grant	0	94,932	94,932
Paving Towne Hill grant	110,000	0	(110,000)
Investment interest	20,000	2,315	(17,685)
Loan proceeds	0	102,569	102,569

:

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Expenditures:			
Town officers	127,448	137,797	(10,349)
Accounting and legal fees	24,000	78,350	(54,350)
Highway & roads operations	324,240	278,733	45,507
Muddy Brook grant project	0	10,682	(10,682)
Paving Towne Hill grant	115,000	0	115,000
2008 Volvo Wheel Loader	0	105,769	(105,769)

We would like to take this opportunity to thank the Town's personnel and elected officials for their effort during our process. We also thank you for the opportunity to perform the audit. If you have any questions please call us.

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

Respectfully submitted,

Fothergill Segale & Valley, CPAs
 FOTHERGILL SEGALE & VALLEY, CPAs
 Vermont Public Accountancy License #110